ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

HEARINGS

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

PART 10B—PENSION ASPECTS

WASHINGTON, D.C.

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(Pension Aspects)

WEDNESDAY, FEBRUARY 18, 1970

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

The special committee met at 9:40 a.m., pursuant to recess, in the Whittall Pavilion, Library of Congress, Senator Harrison A. Williams, Jr., presiding.

Present: Senator Harrison A. Williams, Jr.

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 visiting lecturer, Florence Heller School for Advanced Studies in Social Welfare, Brandeis University.

The CHAIRMAN. We will get underway with the continuation of the hearing on Private Pension Aspects of the Economics of Aging. This is the second day of hearings on this very important part of the whole hearing process we are having in this subject matter.

I was not here yesterday. Were you in Whittall yesterday?

Mr. ORIOL. Yes.

The CHAIRMAN. I don't know if it is a congressional first, it is for me. I like the arrangements.

It is a pleasure, indeed, to have with us Mr. Clinton Fair from the department of legislation, chairman of the department of legislation of the AFL–CIO panel that we are going to have first off.

Mr. Fair.

Mr. MEIKLEJOHN. Senator, I am Kenneth Meiklejohn, representative of the AFL–CIO. Mr. Fair unavoidably is not able to be here, so I am taking his place.

The CHAIRMAN. All right. Would you come up and introduce the rest of your colleagues.

STATEMENT OF KENNETH MEIKLEJOHN, DEPARTMENT OF LEGISLATION; ACCOMPANIED BY RICHARD SHOEMAKER, ASSISTANT DIRECTOR, DEPARTMENT OF SOCIAL SECURITY; AND PENSION PLAN REPRESENTATIVES, LOUIS ROLNICK, ADMINISTRATOR, INTERNATIONAL LADIES' GARMENT WORKERS UNION NATIONAL RETIREMENT FUND; JOHN F. TOMAYKO, DIRECTOR INSURANCE, PENSION AND UNEMPLOYMENT BENEFITS DEPARTMENT, UNITED STEELWORKERS OF AMERICA; AND REESE HAMMOND, DIRECTOR, RESEARCH AND EDUCATION, INTERNATIONAL UNION OF OPERATING ENGINEERS

Mr. MEIKLEJOHN. My function here, Senator, is primarily to introduce the pension plan representatives appearing for the AFL-CIO.

With me is Mr. Richard Shoemaker, who is the assistant director, department of social security of the AFL-CIO.

Our representatives here are Mr. Louis Rolnick, who is the administrator of the International Ladies' Garment Workers Union National Retirement Fund.

Mr. John F. Tomayko, director of the insurance, pension and unemployment benefits department of the United Steelworkers of America.

Mr. Reese Hammond, director of research and education of the International Union of Operating Engineers.

When Mr. Epstein comes, we will introduce him, too.

They will speak in the order in which they are listed here. If it is agreeable to you, we will start off with Mr. Rolnick.

The CHAIRMAN. That will be fine.

STATEMENT OF MR. ROLNICK

Mr. ROLNICK. Senator, I first would like the opportunity to express the appreciation of my organization for the opportunity to participate in these hearings. We have long recognized and responded accordingly to the notion that our ability to serve and make better the lives of our membership is indeed closely related to efforts made by the community at large to improve the lives of the total community.

We recognize that the subject under discussion here, the problem of providing for our older citizens an economic base at least for a recent life in retirement, is one of the very important matters on the agenda for social progress in this country.

Now, Senator, in response to the request of your staff I sent to you a prepared statement. Mindful of the admonishment that I take only 5 minutes, which I will try to be responsive to, it seems to be wasteful of your time that I read that prepared statement. Instead may I place it in the record with your consent.

I would like to take out a few salient points and at the same time try to be responsive at least indirectly to the points and issues that were raised in that very interesting paper that was prepared for your committee by Professor Schulz.

The ILGWU National Fund is probably the largest collectively bargaining bilateral self-insured fund in the country, at least in terms of a private pension fund. We cover 400,000 workers throughout the United States and Puerto Rico. It is a totally national fund.

The fund and its predecessor, and I will try to explain what I mean by predecessor as I go along, has been in existence since 1946. Since that time the fund has retired some 73,000 workers. At present we have over 50,000 workers on the rolls as against the membership of 400,000 members, and we anticipate as we project ahead that in about 15 years we will have 100,000 workers on the rolls, retire about 5,000 a year, and with deaths, our net increment is about 3,500 workers.

So we are talking about a fund in some 15 years which will have a ratio of 25 percent of retired workers to the number of workers which are covered.

This is a multiemployer fund obviously, if we are covering workers across the country, and we estimate that there are probably between 7,500 and 10,000 individual employers with workers covered by the fund.

Perhaps most significant, being responsive to Professor Schulz' paper, these employers for the most part are small employers. I would say that the average employer employs less than 50 people.

The national fund that I speak of really came into existence in 1965. Prior to that time, we had some 50 separate retirement funds regionally located responsive to different phases of the women's garment industry.

In recognition of some of the issues raised by Professor Schulz, although we never had any individual employer funds, in recognition of some of the issues we merged these fifty funds into this totally national fund in 1965.

What that meant most significantly to me was that we therefore provided complete portability for every single worker in the industry. A worker is completely mobile, both for voluntary and involuntary reasons; may work in California a part of his period, take with him the credit he has earned in California and go to Puerto Rico or New Mexico, as the case may be.

We have gone further than that and we have established reciprocal arrangements with our affiliates in Canada. Those Canadian workers are not part of this fund, they have their own fund. We have reciprocity between the Canadian funds and this fund.

You will be amazed to find there are many workers who spend part of their working lives in Canada and are now working here and will retire here.

We achieved centralization in response to the issues raised by Professor Schulz, but we were mindful of the problem of making sure that we did not depersonalize this fund and its operations. We are mindful of the fact that it is difficult for workers to be thoroughly acquainted and to understand the operations and the rules and the eligibility requirements.

So, although we centralize in terms of providing constant standards, providing the maximum opportunity for investment, providing the maximum security by the centralization of resources, we went to great lengths to insure a local breakdown with respect to operations.

We have some 50 different offices throughout the country to which the worker in that particular area will apply for retirement. At that point it is not simply signing a piece of paper and waiting for a piece of paper in answer, he will be counseled, advised, aided, and abetted in preparing his application for retirement.

Further, we have established local committees comprised, incidentally, equally of employers and representatives of the union who pass upon the application. The applications are then sent to a central headquarters where the administrator will check the application for conformity with the rules, and if he agrees with the decision of the local committee, the application stands approved. If he disagrees, there is an automatic appeal from his decision made again to a local appeals committee and comprised again of workers and employers at which the applicant is given the opportunity to appear personally again to make sure that nothing has been passed over which could possibly help this applicant to be approved.

I have to tell you, and I think you would guess, that these are not adversary proceedings. You have to go to one of these meetings to see the worker and the committee jointly making an effort to find the basis for approving the application to understand what I mean.

"A Widow's Industry"

Senator, this is essentially a woman's industry. I would say that 85 percent of the workers in the industry are women, and we have as a consequence of that probably much more turnover than is associated with the work in other industries.

Particularly, we have a great deal of turnover at an early age. The young girl coming out of high school may enter the industry, work for 5, 7, 8 years, and leave the industry to be married. She may continue working for some time in order to help support her growing young family. There is a great withdrawal from the industry as it is regarded by many workers as in a sense a casual employment situation. Early beginning and early withdrawal.

This has great consequences in terms of Professor Schulz's reaction to the problems of vesting and the number of people who retire in a given industry.

One of the interesting things about this industry and the fund, again coming back to Professor Schulz, is that traditionally it has been the home of immigrant groups. Every immigrant group that has come to this country seeking bread and justice, a substantial portion of them have passed through or remained in the garment industry in their search, and today this is equally true for the new underprivileged minority groups. A substantial portion of our membership is Puerto Ricans and Blacks, and in the rural areas the daughters of low income groups.

So this fund through its program provides retirement benefits for a group in the population with a very definite need for such protection and such assistance.

I venture to say to you that a huge majority of the people in our industry who have worked and retired from that industry would require public assistance certainly without the assistance provided by the benefits of the fund.

I am saying to you that in addition to providing assistance to our membership through this fund, I would have to say that it is definitely in terms of the present level at least of a national Government security system very much a matter of public interest that our fund operates and continues to operate.

Thank you.

(The prepared statement follows:)

PREPARED STATEMENT OF LOUIS ROLNICK

The ILGWU National Retirement Fund is an industry wide structure covering over 420,000 workers in all areas of the United States and Puerto Rico. It is a self-insured trust fund paying out $40,000,000 a year in benefits with assets of over $293,077,000 as of December 31, 1969. It is administered by a Board of Trustees of 60 persons equally divided among employer and union representatives. The union trustees are designated by the various organizational subdivisions of the Union, and the employer trustees, in the main, by the major employer organizations in contractual relations with the I.L.G.W.U. or its branches. The Board is genuinely national, including representation from all sections of the country and representative as well of the various products found in the woman's garment industry.

The Board is required by the By-Laws to meet at least once a year and, in fact, meets more often when necessary. At the annual meeting, general policy is established and detailed reports of the Funds activities, including a comprehensive financial report prepared by an independent auditor, are presented and discussed. This is truly a bipartisan enterprise. In every respect the division of responsibility and control between the employers and the union is equal.

There are four elected Board officers; it is required that two be union trustees and the other two be chosen from among the employer trustees. If action is required between plenary meetings of the Board, the Executive Committee is vested with power to act. That Committee consists of the Officers and ten additional trustees, again equally divided between management and the union.

The theme of joint administration, and an equal member number of employer and union representatives is continued in the composition of the various standing committees, namely the numerous local retirement committees and the regional appeals committees.

In anticipation of possible deadlocks the organizational structure includes an impartial chairman who is empowered to break deadlocks, (which incidentally have yet to occur) and a chief appeals officer who is empowered to break deadlocks in the appeals committees.

Day to day administration has been entrusted to the union by the trustees at a total cost of 3.1% of income. This has been the pattern of administration since the inception of retirement funds in this industry, and for some very pragmatic reasons. The industry is composed, with minor exceptions, of thousands of small units scattered through the width and breadth of the land. Established lines of communications already exist between these units and the local union offices. Procedures for the payment to the union offices of contributions by the employers for other benefit funds and the corresponding accounting records and collection techniques already exist at the union offices. In addition, the union maintains records, which although necessary for its own purposes, also assist in establishing the eligibility of individual applicants.

To duplicate the facilities, the records, and the personnel involved; to set up a parallel organization would be a tremendous undertaking; wasteful and extremely costly.

Basic eligibility requirements are a minimum age of 62 for women, 65 for men, and 20 years of attachment to the industry. The minimum age requirement is waived for permanently disabled applicants.

The benefit amount for normal retirement is $75 a month for most of the industry and $85 a month for one branch of the industry. Benefits are actuarially reduced for early retirement. Benefits also include a lump-sum death benefit of $500.

The Fund and its predecessors have retired over 73,000 workers since the inception of the program, and as of December 31, 1969 has approximately 51,000 retirees on the rolls. During the past few years, new retirees average over five thousand each year.

Although the Fund is centrally controlled, the trustees are proud of the successful efforts that have been made to retain local and regional participation. This has been accomplished at a measured and programmed cost, and has resulted in establishing the interest and involvement in the operation of the Fund of literally hundreds of union and management representatives.

It has also met the objective of the trustees to personalize the administrative apparatus; and provide every opportunity for face to face contact with applicants for and recipients of benefits.

In short, considerable attention has been paid to meeting the twin objectives of realizing the advantages of the stability and combined financial resources achieved through centralization, and the humanization achieved through decentralization.

The trustees are vitally concerned with insuring the rights of the applicants. Applications are handled at local offices scattered throughout the country, where the applicant is counseled and assisted. The local retirement committee then reviews the application and forwards its conclusions to the National Administrator. He in turn reviews each application, thus insuring consistency in the application of the Rules and Regulations. If he concurs with a favorable decision of a local retirement committee the application stands approved. If he finds it necessary to dissent, the application is automatically placed before the appropriate regional Appeals Committee.

Each applicant is notified in writing of the action of the Administrator. Where the local committee and the Administrator concurred in an adverse decision, the applicant is notified of his right to appeal to the Appeals Committee and appear personally before the Committee.

The work of the Appeals Committee is under the general supervision of the Chief Appeals Officer. This separate structure has been deliberately designed to insulate the appellate procedure from the office of the Administrator.

The Appeals Committees are vitally concerned with maintaining the integrity of the Rules and the administration of equal justice to all applicants. The Committees are equally concerned with uncovering every last shred of information which may have been overlooked and which would enable the Committee to reach a favorable decision. As might be anticipated from the previous observations made with respect to the operation of the Fund, the Appeals Committee meetings are far from an adversary proceeding between the committee members and the applicants.

Of particular interest is the complete portability of retirement credits from plant to plant in the industry throughout the United States and Puerto Rico. The specter of plant failure before retirement and the consequent potential loss of benefits is avoided by the multi-employer nature of the Fund which embraces over ten thousand production units. Similarly, voluntary or involuntary job separation from a particular employer offers little threat to retirement benefits for those who wish to continue in the industry. The financial stability of the Fund is considerably enhanced as well by the multi-employer character of the Fund as individual plant stability in no way can adversely affect the Funds financial position.

The International Ladies' Garment Workers' Union is understandably proud of the role it has played in creating this great socially productive enterprise. The woman's garment industry has traditionally been the industrial home for the vast multitudes who have emigrated to our shores seeking bread and justice for themselves and opportunity for their children. Additionally, the industry has in the past, and will continue to provide employment for the new underprivileged minority groups who restlessly seek full participation in our Great Society.

The retirement program of the I.L.G.W.U. continues to play a significant role in helping to provide a life of dignity and security for the men and women in the industry, who during their working lives have made a meaningful contribution to the development of our American community.

The CHAIRMAN. Thank you, Mr. Rolnick.

I wonder, without of course having the opportunity to read your statement, what is the period of fullest eligibility?

Mr. ROLNICK. Requirements are age and years of service.

The CHAIRMAN. What are the years of service?

Mr. ROLNICK. The years of service are 20 years of service, 65 age, for a normal retirement, 62 for actuarily reduced retirement.

The CHAIRMAN. When did your retirement fund start?

Mr. ROLNICK. Senator, the first of the predecessors to the national fund started in 1946, and others came along later on. I would say most of them were in existence by 1950, 1951.

The CHAIRMAN. Is this totally an employer contribution fund?

Mr. ROLNICK. This is totally employer contributed. This is a self-insured fund, Senator, jointly administered by the employers and the workers.

I would like to make one point if I may which I neglected to make which should be of interest to you, and that is that we are cognizant of the opportunity, with the resources of this fund, to do something about—for want of better language I would call social investment.

You will find that this fund has made a great effort to use its resources, for example, for low-cost housing. We have sponsored and made possible a large number of low-cost housing units primarily for workers and we are very much involved in support of federally guaranteed mortgage programs for farmers, et cetera.

I think that is an interesting byproduct of the existence of these private funds.

The CHAIRMAN. These funds are invested in low-cost housing with the—well, the subsidized Government rate for interest rate?

Mr. ROLNICK. Yes; they are secured, of course. I am not about to tell you that we are not aware of the necessity of achieving a reasonable return upon our money, but we are also, amid the choices open to us, thinking of the social consequences of our investment.

The CHAIRMAN. Are you moving in the direction of reducing the eligibility period from 20 years down to 15 or 10, in that direction?

Mr. ROLNICK. Senator, we are constantly reviewing our eligibility requirements. When I say there are 20 years required, I am talking about 20 years attached to this industry. This is a highly seasonable industry, and 20 years does not mean 20 years of solid work.

For example, if we have had employment in two quarters of a year, we will credit that worker with the entire year. We also will credit at least 2 years of absence from employment for inability to find work, for illness, et cetera. I suppose if you broke it down to its administrative details, we are talking about a fund that requires actually 18 years of active activity.

Yes, we are constantly worried about the problem of trying to reduce the eligibility period required for the pension benefit. I think you know the answer to that question. The problem is one of balancing equities, of establishing priorities.

I am not about to tell you that we think our pension benefit is as high as we would like it to be, so we have to wrestle in terms of reducing the requirements with our desire to achieve a better benefit than we are now paying.

The CHAIRMAN. Well, yours is very important testimony, and I would like to continue talking with you. I have conflict of time problems. We want to certainly have as full a statement as we can from the rest of you gentlemen here on this panel. So we will move on, Ken.

Thank you.

Mr. MEIKLEJOHN. Our next participant here is Mr. John Tomayko, the Director of the Insurance, Pension, and Unemployment Benefits Department of the United Steelworkers of America.

STATEMENT OF MR. TOMAYKO

Mr. TOMAYKO. Senator, before I came down here I talked to you off the record and I said that perhaps it would be foolish to read the statement that I had prepared.

The CHAIRMAN. I will say this, gentlemen; if you don't, you have promised me a lot of very interesting nighttime reading which I will commit myself to.

Mr. MEIKLEJOHN. Senator, perhaps we could arrange to have the statements printed in the record.

The CHAIRMAN. Yes; of course they will be.

This is going to be a very important record. This committee had its rule considered before the Senate Monday, and one of the Senators particularly will be back again next year to inquire what we did. I will point with particular pride to yesterday and today of what this committee has done because it is going to make a great contribution.

Mr. TOMAYKO. However, in addition to the assignment that was given me and in line with some of your questions, perhaps I can make a synopsis of the circumstances just off the cuff, so to speak.

Our union is composed of approximately 1,200,000 members, and perhaps as many as 900,000 or a little more are covered by pension benefits at this time. We have in excess of 2,700 local unions and perhaps collective bargaining agreements which may be with as many as 2,000 separate employers. Our problem exists chiefly among the smaller employers.

I want to talk about two things this morning, things that are uppermost in my mind. Perhaps they have not been called to the attention of the Senator, perhaps they have. But it is a concern of a twofold nature.

My chief concern is the fact that I am a member of the advisory council under the Welfare Pension Disclosure Act—perhaps that is not the correct title. It was an act of Congress in 1958 and provided for a committee to advise the Secretary of Labor. I had a very disappointing meeting yesterday, and I think it relates somewhat to the concerns that you have at this time.

Perhaps it is a little late to say this, but my union certainly is appreciative of your action in showing attention in calling this kind of a special committee meeting on the problems of aging. I want the record to show we admire your record and your concern and look with hope for your help in solving our problem.

For a year and a half, serving on this committee, we have been talking to the Labor Department about further necessities Congress might consider, itself, in taking the responsibility of assisting unions and providing for them the kind of protection that in spite of our so-called great strength we have not been able to achieve through the collective bargaining mechanism, and it should be a concern of the Congress in our opinion.

It deals primarily with questions such as vesting, funding the pensions, portability and reinsurance of the unfunded portion so that there can be a true reality to the man who gives a lifetime of effort and a considerable portion of his lifetime to his employer and can be assured a pension benefit should there come about a termination of that employment through no fault of his own.

So, called for a hurried meeting was a coalition of representatives of the Labor Department called under the sponsorship of the Labor Department. Present were representatives of the Treasury Department and the Commerce Department. We were given, even though this was not the advisory council, certain selected public representatives and certain labor representatives exclusive of management representatives who they met with separately in developing an administration position on amendments to this act which was passed in 1958—which I probably improperly described—concerned with reporting features under this procedure.

This act's name will be changed and it will be called the Employee Benefit Protection Act, and this in itself is a misnomer because the amendments deal only with the problems of fiduciary responsibility.

The CHAIRMAN. What is that name again?

Mr. TOMAYKO. Employee Protection Benefit Act, and you have to rely on my memory because I was given 45 minutes to read the new act and to make comment on, and I was not permitted to take a copy of the draft, and I had to return it when I left the room.

The labor representatives of the committee were not cooperative in the sense of their actions yesterday. We felt that in order to properly advise the Government in the kinds of amendments that we were interested in we should have been given more ample time to have looked at the act and further that we should have had time to consult with our people such as our legal staff and our actuarial consultant people so that we could properly respond to such important administrative development of legislation.

I understand also that the rush in having this type of conference was the pending hearings that will commence on February 26 by Congressman Dent. I merely mention this so that your staff might be interested. I don't know if our union would have an opportunity to appear before Congressman Dent. He does come from my area; I am from Pittsburgh, Pa. We do know Congressman Dent and we have similar admiration for his efforts of concern.

So, to make a long story short, I call this matter to your attention so that I can speak to a member of the Senate so that you, too, will be cognizant of what is happening. Sooner or later I am sure someone in the Senate will be given a draft of whatever comes out by final administrative paper.

If I may, I digressed from my assignment, and I want to read what I hurriedly scribbled down, a statement on what I think funding should be, which is a great problem in our union.

Our benefits are completely noncontributory. I think we have perhaps the highest benefits currently. I hope Walter Reuther and the United Automobile Workers will be able to give us a larger target to shoot at because they came up this year and we don't come up until next year.

Right now a man with 35 years of service in the basic skill industries has a possibility with 35 years of service of receiving $227.50 a month in addition to his entire social security. We have various modes of retirements to fit the problems that exist in the steel industry. We permit a man to retire at 65. Retirement is voluntary, it is not required. He has an actuarially reduced pension at age 60.

We have a magic number kind of formula that permits a man to retire. Should his plant be terminated and he loses his employment, a simple formula, if he has 15 years of service and has achieved 55 years of age. Or if his combined age and service equals 80, he still has the basic $6.50 formula times his years of service, plus a $75 amount supplement to what would have been his social security if he had achieved age 65, and it continues until that moment.

Then we also have a voluntary retirement for any reason, a quit, so to speak, it does not prevent him from seeking employment in any other area of employment after 30 years of service.

That is a very brief synopsis of the benefits.

I would like to take time just to read a few notes, first on funding and then secondly on the problem of reinsurance.

I notice that we have an actuary here and that is the only reason I want to take that opportunity.

A pension plan is considered to be fully funded when the assets in the pension trust are sufficient to pay for every employee his pension when he becomes eligible for it, even though no further contributions were made in the trust. This condition can come about only if regular contributions usually not less frequently than annually are made to cover each employee's accrual of service each year and to amortize the unfunded past service liabilities of the plan prior to the date on which contributions are discontinued.

Safeguards for Full Benefits

Unfortunately it sometimes happens that a company will discontinue its operations and terminate its contributions to the pension fund prior to the date that full funding is achieved. Unless safeguards are taken in advance in such cases, only a fractional part of the pension plan's total obligation can be fulfilled from the pension fund. The remaining obligations are either forfeited or will have to be met from the assets of the company.

Under the pension agreement between the United States Steel Corp. and the United Steelworkers of America, the company is free to determine the manner and means of making provision for funding and paying the benefits of the agreement. However, the same agreement has two very important provisions which affect the extent of U.S. Steel's obligation to provide pensions.

First, the agreement provides that any benefit properly payable pursuant to this agreement shall continue to be payable notwithstanding the termination of this agreement.

Second, the agreement provides that without any limitation, after Internal Revenue Service and corporate approvals have been obtained, the benefits under the agreement shall be provided by the company or cause to be provided by the company for the employees and beneficiaries of the pension plan.

Although not contractually compelled to do so under the foregoing provisions, the U.S. Steel Corp. has amassed a vast pension fund. The value of the U.S. Steel Pension Fund as of the end of last year has not yet been published, but we do have information from the annual report of U.S. Steel for 1968. According to the 1968 annual report, the U.S. Steel Pension Trust Fund has a year-end balance of $1,965,000,000.

In 1968 total employment in U.S. Steel was 201,017 employees. In addition, total pensioners and copensioners equalled 53,895 for a grand total of both active and pensioners of 254,912 people.

At the end of 1968, therefore, the average amount per participants in the pension plan trust fund was $7,700.

As we have seen, the U.S. Steel Corp. has not used the permissive language in the pension agreement to avoid funding of accrued and accruing pension obligations. Some other employers have, however, used the language which says the company is free to determine the manner and means of providing for the payment of pensions to either not fund or underfund their pension liabilities.

When a company which has not been adequately funded gets a pension obligation and goes out of business, the promise of pensions, both those owing immediately and those vested but payable in the future, may prove to be an illusion. Pension funding over the active employee's working life not only assures the benefits will be paid when due in the long run, it also is the least expensive way of providing pensions. The reason for this is that the earnings of accrued pension trusts are not subject to taxation, and the untaxed pension trust fund earning will pay a substantial part of the benefits to which pensioners, widows, and copensioners are entitled.

It has long been the policy of the United Steelworkers of America that the U.S. Steel pension trust provision is not suitable for any other employer. New pension plans should as far as possible provide for the guarantees contained in the U.S. Steel pension plan and should always provide for the funding of accruing pensions and the unfunded liability for accrued rights.

Where plans have existed for some time and the accrued pension liabilities have been underfunded, funding should be provided for but without the sacrifice of previous contractual provisions which may have placed no limitation on the obligation of the company to provide or cause to be provided the benefits of the pension agreement.

If the Senator had remained, I was then going to make the last addition that I read, the supplement that I had made to my testimony in regards to the very problem that deals with this issue on what we think is the most imperative conclusion.

I just can't use the proper adjective to say how important our members and our union feel that if we are going to do something to protect the private pension benefits through contractual collective bargaining agreements that Congress now, before it is too late, at this opportune moment, when this prosperity is in this country, Congress must concern itself with assisting not only the free labor movement in this United States but the members that it represents and the families of those members by interesting itself in passing intelligent systems of reinsurance modeled after other acts of Congress that have guaranteed savings in banks, et cetera, et cetera, et cetera.

Since I have made that statement and since time, I am sure, is of the essence today, I will not bother to read it because it will be in the record.

I would like to show this supplement preceding my statement or anytime you see fit, so that there will be a proper perspective to our thoughts and our need on the problem of reinsurance.

Since you are concerned with the abundance of the aging and the part private pensions plans might play, I would like to include the concern that our union has on the current absolute need for some system of reinsurance of the unfunded portion of the pension funds of the employers throughout the Nation.

Thank you.

(The prepared statement follows:)

PREPARED STATEMENT OF JOHN F. TOMAYKO

Approximately 900,000 Steelworkers today are working under a collective bargaining agreement under which they expect to receive some form of pension upon retirement, provided they have met certain age and service requirements.

For the purposes of this presentation, it would be impractical, if not impossible, to review even the highlights of the wide variety of pension plans which are currently in effect throughout the several industries organized by our great Union. Therefore, I wil confine most of my remarks to the pension agreements which have been negotiated in the Basic Steel, Aluminum and Can Industries.

By far the most prevalent pension plan is that which has been negotiated with the eleven Basic Steel companies and which in turn has been adopted by many other employers to the extent that it now covers more than two-thirds (2/3) of all employees under pension plans.

Since the first Basic Steel Pension Agreement was negotiated over 20 years ago, the Union has not only liberalized and added benefits and retirement options, but also these improvements reflect a significant change in the philosophy of the Union towards the role of pensions in providing post retirement economic security.

Over the past 20 years, the Union has been able to add several retirement options to the normal (age 65) and disability provisions which characterized the first agreement. While service requirement has remained at 15 years, an employee may elect an actuarially reduced early retirement anytime after attaining age 60. In addition, he may retire on full pension any time after accumulating 30 years of service, regardless of age. These two options reflect the Union's strong desire to permit an employee with long service to enjoy more years of retirement without incurring substantial economic sacrifices.

Realizing the great need to provide adequate income for Steelworkers who, because of circumstances beyond their control, are deprived of their jobs (because of long layoff, disability or plant shutdown), the Union has negotiated a so-called "magic numbers" pension. Under this option, an employee meeting the 15-year service requirement may retire if he is 55 years of age or if his combined age plus service equals the number 80.

If an employee who for similar reasons is deprived of his job but cannot qualify for a magic numbers or disability pension, he may still retire on a deferred vested pension. That is, he will receive a full pension at age 65 or a reduced pension after age 60, provided he was age 40 and met the service requirement before retiring.

The disability retirement provisions have also been greatly liberalized. Since 1966, an employee may qualify for a disability pension if he is permanently disabled to the extent that he cannot perform bargaining unit work.

One of the major breakthroughs of the 1968 pension settlement with the Basic Steel Industry was the establishment of a surviving spouse's benefit. Under the program, the eligible spouse of a deceased employee will receive the greater of $75 or 50% of what the employee would have received as a pension had he retired at age 65. Although the spouse's benefit is reduced upon attainment of eligibility for Social Security, her benefit will continue in reduced amount for life even if he or she remarries.

Under the current agreement, a retired employee receives a monthly benefit equal to 1% of his average gross earnings during his last 10 years of work, multiplied by all years of service. In no event, however, is his monthly benefit less than $6.50 for each year of service up to 35 years. To insure an adequate income for employees retiring prematurely under the disability or magic numbers options, the Agreement provides a $75 monthly supplement to the basic benefit until the employee is eligible for unreduced Social Security benefits.

As I had stated before, the evolution of the Basic Steel Pension Agreement reveals a significant change in the Union's attitude toward the role which a pension should play in providing economic security after retirement.

When the first pension agreement was consummated in 1949, an employee's pension was reduced by the full amount of his Social Security benefit. In effect, the pension was merely a supplement, since any increase in Social Security benefits reduced the amount of the Company pension.

Since then, the Union has entered negotiations with the view that a pension should not merely supplement Social Security, but instead it should be the *primary* source of an adequate post-retirement income.

As a result of the Union's efforts in this direction, employees now retiring in Basic Steel no longer have their pension benefit reduced because of attainment of eligibility for Social Security benefits. Whereas in the early 1950's the average Company pension was only about one-third (1/3) of a man's total retirement income, today the average pension benefit is about 60% of a retiree's income after 65.

Due to the necessary brevity of this presentation, I am not able to cover in any great detail the highlights of our pension agreements in the Can and Aluminum Industries. These Agreements which cover approximately 40,000 and 35,000 employees respectively, generally follow the Basic Steel pattern. There are a few notable exceptions however. The Alumnium Plan contains a ten (10) rather than fifteen (15) year service requirement for all benefits. Also, the disability and magic numbers retirement benefits are computed somewhat differently in that an employee is entitled to a $100 rather than $75 supplement before age 65. His disability retirement benefit is reduced by $60 if computed under the 1% formula. Finally, an employee in Aluminum may receive a special early retirement benefit if he is laid off due to plant shutdown, or is absent more than 3 years because of layoff or disability. To receive this benefit he must be 55 years of age and have 10 years of service.

The Can Industry Plan follows the Steel pattern except that an eligible surviving spouse receives a flat $100 monthly benefit less any mother's benefits. The benefit terminates once she dies, reaches age 62, or remarries. Finally, like the Aluminum Agreement, the Can Agreement provides a $100 supplement to employees who have retired under the disability or the magic numbers options but are not yet eligible for Social Security.

Unfortunately, although the great majority of our Union's membership is covered under these three Industry Pension Agreements, we have not yet been able to extend such coverage down into many smaller plants, especially in the Steel Fabricating Industry. While many employees are covered under some kind of pension plan and receive at least a minimal benefit, even today several thousands of Steelworkers work under collective agreements which have no pension plan. As Professor Schulz has pointed out, these employees are concentrated in small plants, where pension costs per employee become prohibitive. In 1964, 80% of those Steelworkers who had no pension coverage were employed in units of less than 300. One-half (½) of these worked in units of less than 100 employees.

To combat this serious problem, the Steelworkers have developed two (2) uniform pooled pension plans which the Union has successfully negotiated into contracts at several small plants. In addition, the International Union strongly encourages its field staff, whenever possible, to expand existing pooled plans into more of these plants rather than attempt to negotiate individual plans.

The United Steelworkers of America is optimistic that through the pooled pension plans, it will be able to expand those benefits, which are already enjoyed in Basic Steel, Can and Aluminum, to employees who presently cannot look forward to the economic security after retirement which they urgently need, but will not have if they are forced to depend solely on Social Security.

Our Union is cognizant of the relatively poor economic and competitive disadvantage of these smaller employers. We must choose between somewhat less than standard economic conditions of employment or pressing our strength and no employment for these members at all. So that even during their working lives, they suffer from sub-standard wages, vacations, insurance programs, no SUB, extended vacations, and—to repeat—pensions; with the final result, after a lifetime of effort, they and their families must rely completely on Social Security for any semblance of economic security.

Even though my particular assignment by this Committee was very limited in scope, I feel compelled to take advantage of this opportunity by concluding my remarks with a problem that besets not only our Union and its members, but, I believe, all working men and women who are covered by private pension plans. For the sake of brevity, I will limit my expression to what I believe is a description of the desires of the United Steelworkers of America.

Each year a small minority of old, established enterprises go out of business, almost invariably on an involuntary basis. Most of these defunct businesses are able to meet their outstanding obligations to their creditors and to their employees. Unfortunately, there is always a fractional part of the businesses that close permanently which either declare formal bankruptcy or, even if they are not bankrupt, are able to avoid paying in full their pension obligations which were built up by their employees over a lifetime of work.

How does it happen that businesses which have obligations to employees who have been in their employ for thirty, forty and even more years are unable to meet their pension obligations of these loyal, old timers?. There are usually only one of two possible reasons.

The Company may have irresponsibly failed to properly fund its accruing pension obligations on a continuous basis. Or, alternatively, the Company may have been funding on a sound basis but the interval between the inception of the plan and its termination may not have been long enough to permit the full funding of all the pension rights that vest upon the permanent shutdown of operations. Whenever an employer fails to meet his pension obligations, he creates a serious crisis for the employees who had assumed that they would have pension income in their old age.

Under no circumstances should workers who have earned private pension rights by a lifetime of labor lose these rights. When our nation correctly feels an obligation to support those who are incapable of working, its obligation to those who have spent their whole lives working should be clear and doubly urgent.

Two things need to be done to insure the payment of pensions:

1. The law must require that each year during a worker's active life his accruing and past service pension rights must be funded. The goal of pension funding must be to provide that the amounts put away each year during a worker's active life will equal the actuarial value of his pension by the time of his retirement.

2. A federal pension insurance fund must be established which will provide the deficient funds necessary to achieve the goal of full funding by the time of retirement, whenever a pension plan is permanently terminated prior to the date of full funding.

The taxes paid into the pension insurance fund should be determined on essentially the same basis as unemployment insurance taxes are in the main determined. That is, taxes should be related to the use of the fund by each employer. In the case of pension plan insurance, past experience cannot be used. Therefore, it would be appropriate to use a test which would represent the probability of the use of the insurance fund. The most reasonable guide to the probable use of the pension insurance fund is the extent to which the liabilities of the plan have been funded. Thus, a Company which is fully funded should pay only a minimal rate of taxes into the insurance fund, while a Company whose liabilities were only partially funded should be required to pay a proportionately greater rate of taxes into the insurance fund.

This country has been extremely fortunate not to have suffered a serious business reversal since pensions became a major factor in industrial life some 20 years ago. The social crisis that would suddenly arise if large numbers of workers were disappointed in their anticipations of lifetime pensions in their old age, is difficult to exaggerate. The Congress has the responsibility to anticipate and legislate preventive measures in this area which so vitally affects the welfare of millions of wage-earners. Now, when this burden is the easiest for businss to bear, is the time to initiate a federal pension insurance plan. Pension insurance is a social responsibility which all business should share. Private efforts to persuade all employers to behave responsibly have failed. The irresponsible or unfortunate minority of employers who might one day default on their solemn promises to their employees could initiate serious social conflict. Where private efforts have failed, Congress must act.

Thank you for this opportunity. I will be most happy to answer any questions you may have, or attempt to furnish you with a response if the information you desire is not readily available.

Mr. Oriol. Thank you, Mr. Tomayko.

Senator Williams was mentioning—as you know, he is also chairman of the Labor Subcommitee, and that subcommittee will have jurisdiction over at least part of the legislation in which you express an interest. So he was laying plans for future activity by that subcommittee and welcomed this very much.

We can't miss this opportunity to ask a member of the advisory committee for this welfare and pension plans disclosure act—do you have Professor Schulz' paper before you?

Mr. Tomayko. Yes, I do.

Mr. Oriol. If you will turn to page 30, at the bottom of the page in boldface this is Professor Schulz' comment:

> 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.

The Professor's conclusion is that this great wealth of information required to be filed under the act remains relatively unanalyzed.

I wonder whether the advisory committee has ever dealt with that problem or whether you have personal comments on it?

Mr. Tomayko. Well, the only comments I have are not as a result of our discussions of any great length on that subject. Since I have been a member of approximately 18 months, we have been pushing for amendments to the act.

I do have personal knowledge, however. In the steel industry they have developed a steel industry coordinating committee, and it consists of 11 major steel-producing companies of the United States basic steel-producing companies—blast furnaces, open hearths, finishing mills, et cetera, including ore mines.

They represent a little less than 500,000 of our members, and they generally are pattern-setting collective bargaining agreements.

In preparation for collective bargaining, since we have limited financial reporting from the basic steel industry, they give us benefit reporting as I have shown you examples in the supplements to my testimony. We use our actuarial consultant staff to examine the reports that might be available under the act to the public.

And it comes, I am sure, as no surprise to some of you that even top employers of the 11 major basic steel producers, sometimes they are as much as 2, 3 years late in submitting this. We wonder what happens all the way down the line on even examining whether or not they are complying with the act, I think if there were a thorough check of the enforcement of the act, it would almost be a public scandal, and yet through our own evidence we know that companies within the major 11 have been considerably delinquent in complying with the act itself.

Mr. ORIOL. Is this because the act imposes unreasonable demands, or is it simply because——

SHORTAGE OF "ESSENTIAL STAFF"

Mr. TOMAYKO. No, I think it is because the act does not provide the Labor Department with the essential staff to pursue the necessity of enforcement of the act. I think the best that they can do is to make an occasional spot-check, which we only hope that they do.

Since 1958, which is about 12 years, I have never heard of any astounding public revelation of failure or noncompliance with the act or even that the submissions were inaccurate that might have been submitted. Perhaps there have been statements that I have missed, but there is certainly, I think, sufficient evidence, if sought, that could name some rather important companies.

They may be well-funded, but the act is so little enforced at the present time because of lack of appropriations to provide a staff at the Labor Department to enforce the act that I think it is currently not taken very seriously by the private employers.

Mr. ORIOL. Do you have an estimate as to how many Department of Labor staff persons are involved in overseeing this act?

Mr. TOMAYKO. I have not pursued that, and I do not know. I just know that Frank Kleiler is the director in this area. I have respect for him. He is a conscientious man, and I have had personal conversations with him. I have not delved into the depth of his staff, but in conversations with Frank I think he is very disappointed with the fact that he does not have an adequate staff.

Mr. ORIOL. May I introduce the other people sitting here?

Professor Schulz, the author of the paper; Dorothy McCamman, consultant to the committee; and John Guy Miller, the minority staff director for this committee.

Thank you.

One reason Senator Williams had hoped to stay especially for your testimony is for a while he was a member of your union back in 1946.

Mr. TOMAYKO. I am aware of that.

Mr. MEIKLEJOHN. Our next spokesman, Mr. Oriol, is Mr. Reese Hammond, who is the director of research and education of the International Union of Operating Engineers.

STATEMENT OF MR. HAMMOND

Mr. HAMMOND. In addition to being the director of research and education for our international union, with responsibilities in the area of social insurance, I am also secretary of the central pension fund of the International Union of Operating Engineers and Participating Employers, which is the largest pension fund in our international union.

On behalf of our international union and the trustees of our fund, I am very pleased to have the opportunity to speak to the committee staff on what has become an increasingly important area of concern for all citizens.

In general, we would support the comments made here by the previous speakers. I also would like to emphasize our feeling of the inadequacy of public programs for income maintenance in old age and support Lou Rolnicks comment about the importance of a base for old-age income maintenance.

If the public program is inadequate, as it is, then there is a need for private pensions. In this country we believe an individual or groups of individuals have the right to make their own determination of income distribution, and if they wish to trade off current income in exchange for old age income, they should have the right to do that.

As a result of this feeling in our international union we have developed a number of different pension programs.

I would like to address my remarks today to that portion of our union working in the construction industry, some 315,000 of the 400,000 members in our international.

In the United States there are 76 local unions with construction jurisdiction. There are 30 jointly trusteed pension plans covering members of 75 of these local unions. Thirty-six of the locals covered by pension funds are participating in the Central Pension Fund.

Contributions to our pension funds vary from 5 cents an hour worked to 65 cents per hour worked. The general executive board of our union has adopted and recommended that the trustees of all local pension funds should adopt a resolution providing for all contributions made on behalf of an employee wherever he may work to be transferred to the fund covering the local union in which said employee is a member and in which he could reasonably expect to develop credits to draw a pension.

Reciprocity Agreements

To speak to some of the problems raised in the working paper here, our reciprocity agreements between local unions have actually developed along two lines, one of which is the concept of money following the man. That is that contributions are actually returned to the fund in which an individual is a member by virtue of his work in that area and/or his membership in that local union.

We have also taken the concept of mobility or portability of pensions one step further in that we have provided for pro rata pension funds where a member may have a substantial length of membership and therefore a substantial interest in several pension funds across the country but not have sufficient credits in any single fund to be eligible for a pension.

We have applied the concept of aggregate credited service to his total length of service under all pension funds. Very roughly speaking, if the aggregate credited service of an individual meets the requirements of the given fund, then each fund prorates his pensions by paying him that portion of a pension which his service in that fund represents to his total service.

For instance, if he had 30 years in three funds, 10 years in each fund, this would make him eligible for a benefit in all funds. He would get one-third of the normal pension in fund A and one-third in fund B and one-third in fund C.

We expect to have that reciprocal agreement in effect for people working at our craft under our contracts by the end of 1970. With the exception of probably twenty local unions we already have it in effect—either one or both of the reciprocity arrangements. Both of them make it possible for an individual working at our trade to be mobile and work anywhere in the country and maintain his eligibility for a pension benefit.

Speaking more directly to one or two of the questions that the Senator posed to other panel members before he had to leave, we have vesting with 10 years' service at any age, disability benefits available for those who are permanently disabled until they are able to return to work or until they are eligible for normal retirement.

The pension benefit formula is directly related to earnings in the sense that future service benefits are calculated on the basis of 2 percent per month of the total amount of money contributed on the employee's behalf.

If we are dealing only with future service—if an individual, for instance, has in the course of his service $15,000 contributed on his behalf, he would draw $300 a month pension.

In our pension fund a man is never dropped out of the fund; his records are always maintained. When he reaches age 60 with 10 years' service, he is eligible for early retirement actuarially reduced. He is eligible for normal retirement at age 65.

Mr. ORIOL. May I ask how many are taking advantage of this age 60 early retirement?

Mr. HAMMOND. In my own fund, very few. Most of our funds are relatively young. The large growth has been in the last 4 years, and the fellows who could take advantage of early retirement are obviously the fellows who were 60 years or older when the fund really had its large surge of growth. Those are guys who just like to work.

I think that is as concise a summary as I can give in terms of a general statement, Mr. Oriol.

Mr. ORIOL. I just have one question at this point. I think you said that if the public pension, social security, is inadequate, why, then, that private pensions should supplement. Is that what you said?

Mr. HAMMOND. We should have the right to supplement if we want to, yes.

Mr. ORIOL. Another way to look at it is that social security could supplement private pensions. I just want to be clear on what your approach is on that.

Mr. HAMMOND. I would say it depends on whether you look at the center from the left side or the right side. A citizen of this country could look essentially towards public policy to establish a minimum income maintenance program. If you moved over to the other side, you could say that it should be public policy to supplement the individual's ability to develop his own income maintenance program. We will take it either way, as long as the guy makes out okay.

Mr. ORIOL. I would like to address a question to you and to the other members of the panel. You have already mentioned in some way or another some legislative goals you would like to see. For the record, we appreciate any official declarations by any of the unions represented here on social security, specifically for income maintenance for the elderly in general. If there is anything along that line that you could provide, we would like to have it.

Mr. Meiklejohn.

Mr. SHOEMAKER. We would like to see a substantially improved social security benefit.

Mr. ORIOL. That is a good goal.

Mr. SHOEMAKER. Speaking for AFL–CIO, we are, of course, quite cognizant of some of the problems that are raised in Professor Schultz's paper and we have been attempting to deal with them, but it appears to us that the fundamental solution of the problems raised in Professor Schultz's paper is that older workers should be able to look forward to a substantially higher level of benefits under social security.

I don't see any easy way to resolve some of the problems where, at least in some industries workers, are retiring with better than half of their retirement income coming from the private sector if they are lucky. I think this is fundamental and most important. We recognize that many employees lose their pensions because of failure to meet the vesting standard or because the plan is underfunded. These deficiencies are more applicable to single employer plans than to multiemployer plans.

Quite obviously if the single employer goes out of business, or if the pension plan is not adequately funded, people may lose their benefits. Employees who change jobs before they acquire a vested right to a pension under a single employer plan lose their benefits, so we would like to see vesting and funding standards for single employers.

MULTI-EMPLOYER PROGRAMS

We do recognize that such multiemployer programs as my colleague Lou Rolnick described that they substitute in a sense for early vesting because employees in that industry can transfer within the industry almost ad infinitum and still maintain their eligibility within that particular plan. The problem of funding multiemployer plans is also not particularly acute.

I am sure, Lou, that a lot of your employers go out of business every year. This does not affect the plan or it does not hurt the employees one little bit.

So we feel for these reasons that the multiplan should be exempt from standards of vesting and funding.

Mr. ORIOL. What should be exempt?

Mr. SHOEMAKER. Multiemployer plans.

Mr. TOMAYKO. I might say that we have made various testimony on this by representatives of our union and the necessity of improving the act. Off the cuff I might take this opportunity, since you asked the question, to express a few problems.

Thousands of our members are not covered by any private pension plan. Any significant improvement in the economic return on social security is not only going to be gratefully accepted, it is almost urgent that they get it.

Now, I believe that there has to be some additional consideration to the trend in which private pension plans are developing and a recognition of problems that beset workers after giving their life to a company, and we have many examples that I am not prepared to give you at the moment, but they go into the hundreds of terminations of business and that throws people out perhaps at ages that keep them ineligible from receiving social security.

This is why we have developed the magic number formula that I had described. These people are just too old to get another job, and whenever you put your life into the steel industry, your skills are rather limited. When these plants close down, you can be in the United States Steel plant such as Donora, Pa.

As an example, you may be 55 years of age or you may be some place like 60 and you may have a right to transfer as we do have in our collective bargaining area throughout that corporation to seek other employment and have a right under the contract to obtain it.

The particular skill that you possessed—for instance, the zinc plant at Donora was closed down. There was only one zinc plant in the United States Steel Corp. There was not any place for these people to move in their own skills unless they were in the maintenance division. If they were in the actual smelting of the ore, there was not another smelting plant of zinc ore in the United States Steel Corp.

It would seem to me that if we are going to design a social security plan, it should be so constructed so that it would fit peaks and valleys of what happens in business.

Then we have hundreds of small employers that are going out of business every year with no place to move. If they don't have a pension plan and if they have to depend completely on social security and if they are over 50 years of age, you just have to believe that their opportunities of earning a living are greatly diminished.

If they do find employment, it is marginal employment that is merely above the starvation line.

I would like to emphasize that I like to see much consideration, since we are talking about social security, and coupled with that is Medicare. There is absolutely no basis for not providing Medicare to all social security recipients rather than permitting it only to become effective at age 65. There just is not any humane justification for that kind of bill that in a sense supplements the benefits of social security and enhances the abundance of the aged that you have previously been talking about with Professor Schulz.

I limit my comments to that.

Mr. MILLER. Mr. Tomayko, you make reference to the problems of getting employment after age 50 in these situations. Do you have any suggestions as to how we can improve the employment opportunities for these people recognizing the difficulties in bridging the gap in other ways?

Mr. TOMAYKO. Well, in 1961 I had a rather odd assignment; it was a combined assignment between Canada and the United States, and it was sponsored under the Kennedy administration. The assignment was primarily to go to Europe to examine the causes of full employment.

It seems to me that with a little bit of research and endeavor we could examine what is being done in the Netherlands, what is being done in England, what is being done in Sweden. Some of the countries that we visited had full employment. They had a steel plant above the Arctic Circle in Sweden take care of the Laplanders who had very seasonal employment and very originally lived off reindeer and whatever they could construct out of the hide of reindeer and then became loggers. There is a limited logging season when you have darkness a great portion of the year. They moved a steel mill and established a community of 30,000, 40,000 people provides some kind of employment throughout the year.

What I am saying is that the Government, whenever you have a community like Donora, Pa., and I was a staff man for our union in Donora in 1937, we had 5,000 steel workers there, and it was a one-company town. The Government should take some concern in directing in some fashion subsidy, if necessary, to entice employers to keep these kinds of communities alive so that they don't become ghost towns. There are a number of ways and I am sure that the Congress is sufficiently ingenious to assist people, elderly and young alike, to have employment because people want to work, they have a desire to work.

The Government must direct its efforts toward directing employment in some fashion to depressed communities as a result of failures of those companies, or the moving of those companies to some other location of the country.

It would take too long for me to expound on various methods I saw used in Europe to bring about full employment. This not only includes rehabilitating people and the job training, it is a concerted effort. They not only concerned themselves with aged people, but with handicapped people to provide them with employment and make them producers of this country.

It can be done if there is a willingness of the administration to pursue that kind of policy.

Mr. ORIOL. Mr. Tomayko, did a report come out of this visit? Was a summary made?

Mr. TOMAYKO. I am sure there was a report.

Mr. ORIOL. We will try to track that down.

Mr. TOMAYKO. Almost 10 years ago. There was a report filed.

Mr. ORIOL. On this matter of plant shutdowns, there was some discussion yesterday, and there has been at other hearings, on finding a way to give practical assistance to the employees who are going to lose their jobs well in advance of the actual shutdown in the form of possibly a Department of Labor task force being dispatched to the community when it is known that a shutdown is in the offing.

In fact, we discussed this at our hearings on employment aspects of the economics of aging. They could do much by sizing up the community or the region and giving advice on how new opportunities can be developed or even good use of retaining programs and so forth. They could have impact. At least that is what we think.

What is your reaction to that?

Mr. TOMAYKO. In our industry there have been massive technological improvements, and we now have two brand new steel mills, Burns Harbor in Indiana, and J and L in Hennepin, Ill., who have been gobbled up by one of the conglomerates. They have the modern technique of producing steel.

If the other major steel corporations want to stay on a competitive basis, they, too, I think, will be moving in this new direction of technology. I am really fearful of what might happen. Thousands of steelworkers in this Nation, unless we keep a prosperous Nation and have a continuous growth in this Nation to continuously increase the demand of steel—if these two plants are an example, they can produce, I believe, currently, if they wanted to, about 50 percent of the steel that is now currently produced throughout the Nation, and this would bring about massive unemployment in the steel industry.

I am certain that there are people in Commerce, in the Treasury, and in Labor who are aware of this pending threat that hangs over our head in the steelworkers union.

Just the other day, within the last week, 10,000 J and L steelworkers were personally sent a letter. They reside on the southside of Pittsburgh. They were personally sent a letter by the chairman of the board that their plant theoretically was not a plant that added to the profit of the overall corporation.

It would seem to me that there are actions not only of sending a Labor team in advance. There could be actions from the Government directly to make the improvements where the workers reside, the economic improvement where you live. As I said, I lived in Donora for a number of years. There are not any employment opportunities in that community, but because the company moved out and you have struggled to try to pay for a home and then try to sell it to move over into the Philadelphia area or the Gary area, because of the fact that there are not any employment opportunities, the value of your savings and the value of your real estate holdings, if any, drop completely. It is a disruption of people, the people don't like it. There can be actions on the part of the Government not only of retraining of people, bringing new industry in, but industry should be brought in to where the people are that are unemployed in my opinion.

Companies should be directed to make their improvements in technology where the people reside, but not move out into the prairie some place and cause massive dislocation of people in an attempt to find cheap labor.

Mr. ORIOL. That is a fascinating topic. I wish we could continue it.

Any questions?

Mr. Meiklejohn.

Mr. MEIKLEJOHN. Mr. Epstein was to have been here, but I take it he was unavoidably detained.

Mr. ORIOL. The record will be open for 30 days, and anytime we will be happy to do that.

Mr. MEIKLEJOHN. Unless any member of the panel here wishes to say anything else, I will just express our appreciation of the opportunity to be here.

Mr. ORIOL. We have one question.

Dr. SCHULZ. Could I ask Mr. Tomayko a question with regard to the pension advisory committee?

Did that committee, during the time that you were on it, ever discuss the question of the use of that data?

Mr. TOMAYKO. Now you are asking me for a search of my memory.

Dr. SCHULZ. I understand.

Mr. TOMAYKO. Perhaps it was my own motivation and because of my big mouth. I was so happy to become a member of this committee, I was aware for a number of years of the necessity of amending the act, that I did my level best to direct our conversations toward seeking new amendments because I felt that my knowledge on reporting was rather a meaningless kind of act. It was nice for the record. Nothing ever happened. Nothing could happen and it was a safe piece of legislation, to put it in a rather sarcastic fashion.

Maybe it was in the beginning; after 12 years, there certainly was not any improvement to it. I cannot recall any discussion in the committee of search as to the effectiveness of disclosure or the depth in which the Labor Department was able to enforce the very limited provisions of the act.

I do recall, however, having conversations with various staff members, and I merely mentioned one previously. I had others, some of them now have been gone or have gone or have been removed, I don't know which. Nevertheless, they all assured me that there was absolutely no staff provided which would adequately search and enforce the act as it was intended.

Mr. SCHULZ. I was interested in your earlier comment with regard to the fact that your actuaries make use or try to make use of the data. It occurred to me that since this committee has been unable to get information from the Department of Labor with regard to the usefulness and use of the data, that perhaps these gentlemen from the various unions, who have actuaries who apparently are using the data, might have some very valuable information which they could submit to the committee as to whether they have been able to use the information, how accessible it is, and things of that sort.

Mr. TOMAYKO. A critique on the availability of data and the type of data that is available. Is this what you want?

Dr. SCHULZ. Public information. Presumably, anyone can go to where the pension plan disclosure records are stored and use them. But then, since there are thousands upon thousands of records, your statements about the limitations of staff make me curious as to whether they are in a usable form for research purposes.

I would think it would be very valuable if the committee were made aware of the experiences that the actuaries have had.

Mr. TOMAYKO. Our actuarial consultant is Murray W. Latimer, and he goes through great pains. Sometimes we have a complete refusal on the part of companies to furnish us with this kind of information. There are procedures in which we can obtain it, but there are lengthy legal procedures, and it might prove meaningless by the time our contract expires. I understand from him that it requires great searching on the part of a member of his staff to dig out the data and they are not permitted to remove it, and they have to make extractions from the data.

When they come back with the data that they have extracted, it is quite limited in its nature of exposure of the actuarial condition of a fund. That proves sometimes of very little value to our actuary in providing us a proper analytical statement that we could use in collective bargaining procedures to really tackle this problem.

If the Senator is interested, I am sure either Mr. Latimer or members of his staff would make for you a critique on the availability of the data, the assistance received from the Labor Department in securing the data and the adequacy of the data that might be required under the act or the adequacy of the data that was never submitted voluntarily by the companies and inspected by the Labor Department to determine whether or not it is in compliance or whether it is adequate.

Mr. ORIOL. We will ask Senator Williams to make a request to you in writing for this so that you will have an official request.* Would that be all right?

Mr. MEIKLEJOHN. I was going to observe sometimes it is very easy to get drowned in data. I think one of the basic needs may be for an examination as to just what kinds of data it is essential to get, not just any data, because when you get any data, maybe 90 percent of it you might as well not have gotten. The important thing is that you get the data that you want and need. This is a problem that I think probably there was not paid sufficient attention to at the time the 1958 act was passed.

It is one that I hope more care will be taken with in regard to any amendments of that act.

Mr. ORIOL. You certainly have given us lots of ideas on amendments as well as many other things.

The record will contain the complete statement. We thank you for a very major addition.

Mr. MEIKLEJOHN. Thank you very much, Mr. Oriol. We thank Senator Williams for the opportunity to come here.

Thanks again.

Mr. ORIOL. Thank you.

So that our witnesses may have some idea of our schedule today, we have checked on their schedule, and it apears that it would be best to go through until about 12:30 or 1 o'clock or so in the following order: Mr. Hewitt, Mr. Jackson representing Mr. Griffin, and Mr. Greenough.

So would Mr. Hewitt be our next witness.

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*See appendix A, item 4, p. 1733.

STATEMENT OF EDWIN S. HEWITT, PARTNER, HEWITT ASSOCIATES, LIBERTYVILLE, ILL.: ACCOMPANIED BY THOMAS H. PAINE, PARTNER, AND MISS PEARL E. CHARLET, MANAGER OF RESEARCH

Mr. HEWITT. Thank you, Mr. Chairman.

Mr. ORIOL. We have your statement and it is a very good job; glad to get it.

Mr. HEWITT. I presume that statement will be entered in the record?

Mr. ORIOL. Yes.

(See appendix A, p. 1691.)

Mr. HEWITT. That will very greatly shorten the presentation we will make which is a highlight of the statement.

We have outlined it here on some charts, and with the expectation that those who might be sitting away from the committee might also be interested, there are double charts with the same thing appearing on the back as on the front. I am not sure we should not have made three dimensional for the people over here.

I am a partner in the firm of Hewitt Associates, which is a firm of consultants and actuaries.

Participating with me is my partner, Mr. Thomas Paine, from New York, and my associate, Miss Pearl E. Charlet, Manager of Research.

Prior to joining the organization in 1954, Mr. Paine was with the Bureau of Labor Statistics of the Department of Labor where he coauthored a series of reports on employee benefit plans under collective bargaining.

He was a member of the staff of the President's Committee on Retirement Policy, which prepared recommendations on amendments to Government retirement and insurance systems.

He served as a consultant to the Interagency Task Force on Private Pension plans in 1967 and 1968, as a member of the Labor Department's Committee on Disclosure Forms revision in 1964 and 1965, and as a member of the Secretary of the Treasury's Advisory Committee on Integration of Pension Plans and Social Security in 1967 and 1968.

Miss Charlet, in addition to participating in the preparation of materials presented to the Subcommittee on Retirement Income in 1961 and 1965, also prepared a paper for the compendium of papers published by the Joint Economic Committee of Congress in 1967, and served on the advisory committee assisting Dr. Schulz in the preparation of the background paper for these hearings.

She prepared materials in exhibit A and other sections of the working paper dealing with the potentials for expansion of coverage under the private pension system.

We sincerely appreciate the opportunity to appear here today and discuss the role of private pensions as an income source for our older citizens.

We appreciate the fact that this special committee has the foresight to review and to contemplate some of the broad basic issues involved in financing old age. Too often philosophic decisions which should be considered as part of a long-range policy are swept up in a current controversy over the merits of some specific piece of legislation, with the unhappy result that we must then live with any short-sighted decisions that may have been made.

I have read with great interest the working paper prepared for your special committee by Dr. Schulz. I should like to address a few comments to several specific points made in the paper concerning: (1) The role of private pension plans; (2) conflicts in plan purposes; (3) myths concerning pension plans; (4) private pension benefit levels; (5) private pension coverage—potentials for expansion.

The essence of the suggestions we would like to emphasize appears on the first chart.

"TOWARD A FULL SHARE IN ABUNDANCE"

1. Maintain dual system
2. Recognize "Price" of priorities
3. Private pension levels are rising rapidly
4. Encourage private pension expansion
5. Universal tax incentive for retirement income

HEWITT ASSOCIATES

Dr. Schulz' paper focuses attention on the three-way choice we face in assuring adequate income in old age. What, he asks, should be the respective roles of individuals through private savings, private industry through private pensions, and Government through public pensions?

I have asked Tom Paine to discuss this first point—the suggestion that we maintain our dual system.

Tom.

1. Maintain dual system

- Social Security as basic level
  - Compulsory
  - Universal
  - Uniform
  - Providing modest living standard
- Private plans as supplemental level
  - Voluntary
  - Flexible
  - Individually tailored
  - Responsive to changing needs

HEWITT ASSOCIATES

STATEMENT OF MR. PAINE

Mr. PAINE. We believe that the fundamental old-age income policy which this country should continue to follow is that of a dual system of protection. Federal social insurance is the basic layer—compulsory, universal, uniform and sufficient by itself to provide a modest living standard.

Private pensions should be supplemental, voluntary, flexible, individually tailored and responsive to changing needs.

Now let's look at these systems in detail to see what their different purposes are.

Social security's role is perhaps easily defined by looking at its fundamental characteristics. First, it is almost universal in coverage, and generally compulsory; because it is, it provides fully portable benefits as people move from job to job.

Second, social insurance is work-related in benefits and contributions. Entitlement is based on past employment and the amount is related to past earnings. There is no means test for entitlement to benefits.

Third, social insurance is contributory and financed through a payroll tax divided equally between covered employers and employees.

Fourth, it is not advance funded. Income through taxes is almost equally balanced by outgo through benefit payments.

The Federal social insurance program provides the basic level of retirement income for almost the entire work force.

I might define this as what is needed by an individual or elderly couple to maintain a modest standard of living even if this individual has no private pension benefit of any kind. We think this level should not be much higher from the public system since there comes a point beyond which it is uneconomic to allocate additional resources from the working population to transfer to the retired group.

So, the public system has to be appraised periodically to see if that keeps doing the job we assign to it.

We should expect that as inflation and prices and compensation rates continue upward there will have to be continued revision in social security levels and in the wage base. This might be done by periodic amendment by the Congress; it might be done by some automatic mechanism such as has been suggested in the current administration's social security bill; but, one way or another, the job should be done.

The public and social insurance system must be kept current with changing needs in the society.

If Federal social insurance does meet this goal, the role of private pension plans can be better defined. I think we should start with some suggestions as to what private plans are not supposed to be.

First, they are not universal. Nor is it practical to suggest that they ever will be. Nor is there any compulsion that they should be if social security is, by itself, sufficient to provide basic needs during retirement.

Second, they are not uniform. Since they result from decisions made in the employer/employee relationship, it is understandable that pension plans should differ just as much from one to another as other parts of compensation—wage levels, vacations, premium pay practices, et cetera. There is no "good" or "bad" label that can easily be applied.

Third, they are not public. They should not be judged by the extent to which they resemble social security in such characteristics as portability and minimum benefit guarantees.

Certainly anti-public behavior and illegal use of funds must be prevented; but beyond that, the private character of private plans should be recognized.

So, if these plans are not to be judged by the extent to which they are social insurance, what should we expect of them?

Goals for Private Retirement Plans

What can we count on private retirement plans to do?

Let's start by recognizing that contributions to a pension are a form of compensation. This compensation may be shared by all members of the group, such as would be true in a money-purchase pension or a fully-vested profit-sharing plan. Or the plan designers may establish a priority order as to who in the group is going to get the proceeds from the contributions.

By establishing different methods of allocation, private plans accomplish different goals. In fact, it is extraordinary how flexible an instrument for providing adequate security the private plan has proved to be.

There are two kinds of flexibility and perhaps this fact is underrated when we appraise what private plans are doing.

First, is their flexibility in terms of adapting to different needs.

Very real differences in security problems exist among different companies, different industries, different age groups.

Retirement at an earlier age than 65 may be necessary in some cases. Sometimes the risk of disability is higher than at others. An older work force may mean past service credits; a younger group may provide some kind of account accumulation. The variations are important and should not be understated.

The second dimension is the flexibility between periods of time. Private plans have exhibited amazing flexibility to make their provisions meet the different needs that a group may have at different times.

The initial job of most pension plans when first established is to concentrate on retirement income for the older worker, hence the importance of past service benefits.

As plans become better funded, they tend to branch into other areas. Variety increases as plans are able to spend more money and give attention to tailormade benefits to meet specific needs.

Currently, for example, many plans are wrestling with such problems as protecting the value of benefits against inflation, providing adequate survivors' income, getting supplemental arrangements for long-term savings.

So, these two elements of flexibility between plans and over time periods demonstrate the role that private plans should be expected to play in the provision of old-age income. They are compensation payments which allocate money to where it should do the most good.

It is not possible, in our judgment, for either the public system or the private plans to do the whole job in an efficient, economical manner. Private plans can't be universal and they cannot be a basic layer of protection. A public system cannot be as flexible and it cannot be as changeable over time as individual private plans.

So, we cannot judge the merits of one of these forms of protection by the standards that apply to the other.

Social insurance should not be criticized because it is not tailor-made to specific situations or because it is not fully funded. On the other hand, private plans should not be criticized because they are not universal and not fully portable.

We can develop a sensible policy towards retirement income arrangements only when we clearly understand the different purposes of public and private plans. Fundamental to this understanding is the recognition of the permanent value of a dual system for the assurance of old-age income in this country.

The second point we want——

Mr. Oriol. Mr. Paine, before you flip that flip card, one of the major elements or one of the major purposes you think social security or public pension should do is provide a modest living standard.

We have charts and other information showing that before the 15 percent increase the average level was far below the BLS moderate budget for retired couples.

Do you have any estimate at this point as to how far short, if you feel that is the case, social security levels are now from providing a modest living standard?

Mr. PAINE. I would say that I think the primary benefit is now about $180 a month, which means that an elderly couple would be having somewhere around $3,200 or $3,300 a year for the person currently retiring under Social Security.

Of course, those who have been retired for years are receiving lesser income for the most part. I am not sure how that level of about $3,300 compares to the BLS index.

Miss McCAMMAN. It is at least $400 below.

I had a related question, too.

Are you suggesting that it provide a modest living standard for all beneficiaries or for the average beneficiary or what?

Mr. HEWITT. I will take that.

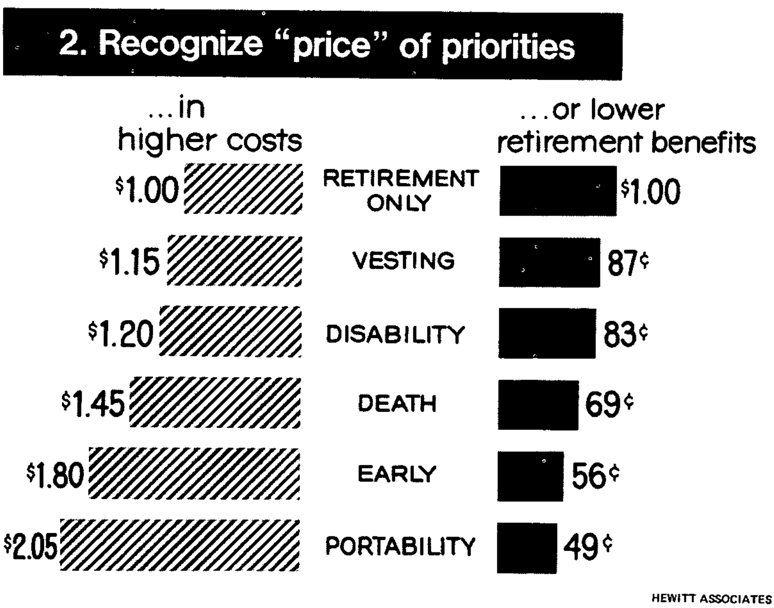
We represent the school of thought that feels that one of the deficiencies in social security is in constant improvement in the upper benefits without proper attention to increasing those at the lower end of the scale and that more emphasis should be put on increase at the lower end of the levels of income before we continue to increase the higher levels.

Now, does that possibly answer one of the questions that you are suggesting?

Miss McCAMMAN. Yes; it does.

Mr. ORIOL. Thank you.

Please continue.



Mr. PAINE. The second question I would like to comment on is the issue of the relative priorities that pension plan designers must undergo when they have to decide what to do.

Let's assume that an employer and a union are negotiating a plan where the financial commitment has been agreed upon and where we have various priorities to try to assign within the set dollar limit. The question is: Who gets what and when do they get it? The entire amount could be reserved to pay for retirement benefits at age 65.

On the other hand, we could make a decision that we will, in addition to providing retirement benefits, have vesting after 10 years. This would mean for each dollar of retirement benefits in a nonvested plan we could provide 87 cents if the plan were vested.

These illustrations, by the way, assume a particular work force and a particular set of characteristics in terms of age and service and turnover, et cetera. So, please don't look upon these numbers as unvarying from case to case.

If, in addition to providing 10-year vesting, we wanted to provide disability protection after 10 years of service, then that dollar benefit level would have to be reduced to 83 cents.

If, in addition to those, we wanted to provide a full death benefit for persons who die after age 55, then we would cut the benefit to 69 cents.

If the benefit were to be payable at age 60 with no reduction, then that dollar gets cut down to 56 cents.

Finally, if we provide fully portable benefits, then we must reduce our dollar down to 49 cents.

Different combinations, of course, will result in different steps along the way.

On the other hand, we could make the assumption that we have agreed to a retirement benefit level of a dollar and the issue is: How much more money will it take to provide these other things? This produces figures which are reciprocal of the other way of looking at it.

Decisions by Plan Designers

The main point that we would like to make is that there are some very real and practical decisions that have to be made by the plan designers and that the money attached to these decisions is quite considerable. We think that it is not only logical but quite proper that most private plans when they were first developed tended to concentrate the money that they did have on retirement benefits, to give the person who was nearing retirement, who had accumulated no income, adequate past service credit.

We also think it is entirely logical that as a plan has aged it has tended to go into more of these kinds of things.

So, we believe, then, that what you see as different priorities do not necessarily mean conflicts; they mean the tailoring of a certain amount of money to meet different purposes at different times.

Miss McCamman. May I interrupt to ask a question about your costs for vesting shown there as 15 cents?

I realize that this is a particular labor force and it would not fit Mr. Rolnick's labor force which he described this morning with the women leaving at an early stage.

However, when Professor Bernstein was making his presentation yesterday he said that the costs of vesting are usually exaggerated because there is no recognition of the possibility of bringing in credits from another plan such as you might have if you had a nationwide universal plan that he would suggest.

I assume that your vesting costs there do not include any credit for——

Mr. PAINE. Let us put it this way. This is the cost that is represented by the money which people would have forfeited had they left the plan after 10 years of service but before attaining retirement age, dying or becoming disabled.

I think what you are talking about is perhaps not something that reduces the cost of vesting but, instead, something that provides benefits from an earlier period of time.

Now, we could look at this as two stages, one as to cost of this 10-year vesting provision, the other as the added cost to add full portability.

Now, you will notice that the cost for the 10-year vesting is about 15 percent in this illustration, and the cost of going from the fully developed plan without portability to full portability, that is something like another 15 percent, it adds up to.

Miss McCAMMAN. What is shown on the chart as 25 percent.

Mr. PAINE. It is 205 over 180, so it would be about 15 again.

Dr. SCHULZ. Could I also ask a question?

You stated that you did not see any conflict with regard to various alternative plan provisions.

Now, let me ask here, if an employer takes his money package and does not put some of it into past service credits, could he not then put more into, say, earlier vesting or more liberal vesting provisions for the younger workers?

Mr. HEWITT. At the price of the benefit.

Dr. SCHULZ. Perhaps you don't see it as a conflict, but if older workers are to get higher pensions and if the employer has some fixed amount in his mind he is willing to put out, then the younger workers are going to lose something. They won't be able to get something that they could have had if there had been general agreement that the older workers were not entitled to past service credits.

Mr. PAINE. I think this is perhaps a semantic question of what is a conflict.

I think what we wanted to do was to make you aware of the quantitative price tag that may be involved in this and that the differing provisions between one plan and another don't reflect who has a good pension plan and who has a bad one. It is a merely reflection that different decisions were made to meet differing needs.

My own decision after participating in a decade and a half trying to design plans and sitting in collective bargaining sessions where companies and unions made decisions and trying to help trustees ot joint funds do it, my opinion is that both the companies and the unions are pretty darned responsive to the real needs that exist at that time in the particular group. An amazingly good job has been done, in my judgment, in most of these cases.

Mr. HEWITT. I think I would like to add to that that historically this is not a new idea. The TIAA plan started with the idea of money purchase plans, of only funding for the current service without funding for past service. In the academic field past service was provided by a Carnegie gift.

As Dr. Greenough I suspect will point out in his paper this kind of plan does eliminate many of the criticisms of the private pension plan today. In other words, the criticisms are all directed toward characteristics of the fixed-benefit plan as contrasted with a plan with benefits based upon the amount of contributions that go in.

This is the product of an attempt to develop a pension sytsem in private industry which could very well have gone that way, could very well have gone on the basis of benefits determined by contributions rather than contributions determined by benefits. But it was not acceptable and therefore to meet the needs not only I think of employers but primarily of employees for benefits which would be adequate to represent the full career of service of an individual and to enable the plan to be effective in achieving its retirement income goals, the fixed benefit system evolved and has been, I think by reason of choice, the preferred method for financing most industrial pension systems.

The fact is, you see, that this choice has been made in practice by the product of the multiple choice of all the people concerned with the development of private pensions and recognizing that there is still great merit in the type of plan which does do just as you are suggesting, as is true in certain plans, primarily the ones we have referred to and that Dr. Greenough will refer to in the educational field in TIAA.

The two have the characteristics that we think would be desirable in private pension systems but this has developed because it was a choice as to whether the adequacy of retirement benefits related to a period of service was preferable to just setting aside money for each year of service under a particular plan.

Now, this may throw some light, I think, on the choices that you have.

Mr. SCHULZ. I agree with much of what you say, but I think it is a very important point to make.

I think that Senator Williams and his staff are keenly aware of the problems that arise out of this conflict between youth and the older people.

One thing that it seems to me is coming out of what you are saying is that when you do things like this—that is, try to help the older people or the older workers, in this case, and give up better benefits for the younger workers who will eventually get old—you create a serious problem. Of course, younger workers do not necessarily get upset, for it is very difficult for them to see what the advantages of the pension plans are, to be appreciative of the retirement income problem that they may have in the future, and why, therefore, they should make contributions or contributions should be made for them.

It seems to me that this is a very serious problem that one has to be concerned about, not just the Government but private industry, also.

Mr. HEWITT. This is not a product of our current attitudes of youth; this has always been true. The young people don't get very excited about pension benefits. This is not new.

Mr. PAINE. There are many kinds of compensation that do not get paid proportionately to everybody in a group. Pensions are an example. Certainly the younger worker with the wife and four kids is going to do pretty well on the medical benefits that his employer pays for and perhaps there are other members of the work group who are not going to do as well.

We have our vacation schedules in most of American industry related to length of service; for the short service person is generally going to get a smaller portion of that vacation compensation than a longer service person.

I think really you are into something that is more than just the pension issue. You are talking about the relative way in which we divide compensation among the members of our working group.

If you wish, you could even go to the extent of questioning basic compensation policies, salary and wage rates and how they are determined, and is this equitable among members of the group. I don't think it is strictly a pension problem.

Mr. HEWITT. I would like to be sure to emphasize we are not trying to prove any particular point but trying to throw some insight upon the characteristics and the information that is available in reviewing these alternatives.

I also would want to be sure that we are not in any way saying things about the desirability of vested benefits. There is very little lack of agreement on desirability of vesting. We are saying this is a matter of choice; it is a matter of determining priorities as has been outlined in your paper from Dr. Schulz.

If we have any bias, it is that we would prefer to see the freedom of choice preserved for individuals and their representatives and their employers rather than having the choice made for them that may not correspond to what their choice would be as individuals or as groups.

So, it is not a question of the desirability of vesting. It may be a question of how we achieve it, but it is certainly not an objection to the desirability of vesting upon which I think almost all of us would agree.

Mr. MILLER. With reference to your raising the point of importance of individual choices as well as those by the employer and the representatives of the employees, is there any way to devise these plans so that the individual when he enters the plan may exercise a choice which reflects the points that you set forth in your list of priorities?

Mr. PAINE. I have two comments on that.

One is that you are beginning to see, and perhaps will have as a major development in the 1970's, this concept of individual choice. It is a logical time for it to come because the plans have now gotten big enough to take care of the basic needs and they can now begin to be concerned about choice.

I.R.S. REGULATIONS

The second comment I would make is that we are restricted in what we can do in that regard. There are regulations in the Internal Revenue Service that tell us what we can and cannot do.

It is very difficult, for example, to have a system under which one worker chooses to have pension benefits and another worker chooses instead to have medical benefits or death benefits or more pay. This could well be judged to be discriminatory and nonqualified under our present Internal Revenue rules.

We are hoping that, as the movement toward individual choice grows in the 1970's, we will be able to get some more flexibility from the Government so that these plans can more appropriately do what you are talking about.

Mr. ORIOL. May I ask—I have looked through and I don't find this particular chart in your presentation, and I wonder whether we may have a copy of that. I think we will need it in this discussion.

Mr. PAINE. It is a combination of illustrations on pages 14 and 16 of the prepared statement.*

Mr. ORIOL. This is so visually helpful.

Mr. PAINE. We can certainly provide them in that form; yes.

Mr. HEWITT. I think what we are reflecting here is that we are talking about a system which seems to be pretty well established but which is relatively a new system in our economy, this growing private pension system and the evolving adequacy of benefits for retired workers.

Now, the fact frequently not recognized is that the private pension is still a maturing institution. It has not fully matured; there are still constant changes. It is a very dynamic, fast-moving, growing, social and economic device of the economy.

Private pension plans are growing rapidly. Of course, the rate of maturation differs among individual companies and among different industries.

There is no question that private pension levels are far more than they were when we first appeared before this committee, certainly not too many years ago, and they are increasing constantly. Today they are producing more actual income than is assumed or reported by many of the critics of the system.

With the continuing growth of benefit levels and funding for benefits, they will approach a level of adequacy in the future as measured by the percentage of spendable working income replaced.

Now, the adequacy of pension benefit levels has been questioned by some students of private pensions, primarily because of the absence of meaningful data. The point has been made that many of the studies to date are either limited in scope or based on unrealistic assumptions. Admittedly, as was pointed out yesterday, we need more adequate information upon the actual circumstances as they exist today.

We would like to invite your attention to one additional source of information that I don't believe has previously been reported on pension levels that may shed some light on this question and on the rate of growth in the maturation of private pension levels. This has been the result of some digging out that Miss Charlet has done, and I would like her to report on it.

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*See illustrations 2 and 3, pp. 1704 and 1706.

3. Private pension levels are rising rapidly

Annual Pension Income of Older Taxpayers

	1967	1962	Increase
Number receiving pensions	2.3 mil.	1.5 mil.	57%
% of Age 65+ population	12.3%	8.5%	
Total pensions received	$3.8 bil.	$1.8 bil.	111%
Average per person age 65+	$1641	$1221	34%
Average per tax return	$2105	$1575	34%
Pensions as % of income	9.1%	6.5%	

HEWITT ASSOCIATES

STATEMENT OF MISS CHARLET

Miss CHARLET. The additional information that Mr. Hewitt refers to is pension and annuity amounts reported by individuals on their Federal income tax returns. This data source, which is published annually by the U.S. Treasury Department, is extensive and does not require the use of a number of assumptions for interpretation. All we need to know is what kinds of pensions and annuities are covered and what kinds are not.

The chart you are seeing is based on the amount of taxable pension income reported in 1962 and 1967 tax returns filed by taxpayers where at least one taxpayer was age 65 or over.

Now, since amounts reported on income tax returns represent only the taxable portions of pension and annuities, these amounts will include employer-paid pensions, employee-paid pensions—but only those amounts which are over and above actual employee contributions.

It will also include a certain amount of individually-purchased annuities, but again only those amounts which are over and above the actual cost of annuities.

The amounts reported as taxable pension and annuities will not include employee contributions to pension plans; it will not include lump-sum distributions from qualified retirement plans since these are reported elsewhere in income tax returns and do not get into this particular section.

It will not include, of course, the cost or investment in individually purchased annuities, nor does it include death-benefit exclusions under survivors' pensions if the employee dies prior to age 65.

Of course, there are no amounts included here for Social Security, veteran's pension, old-age assistance. These things are all outside the scope of this chart.

The amounts shown here and reported for income tax purposes do include both private and public employee pensions. While the actual numbers shown here may add somewhat to our knowledge about private pension levels, the most significant fact revealed is the amazing growth that occurred over just this short 5-year period.

The number of age 65-and-over taxpayers who reported income rose 57 percent, from one and a half million to 2.3 million. Stated another way, the proportion of the older population with taxable pension income increased from 8½ percent to 12.3 percent.

Total pensions reported more than doubled, going from $1.8 billion to $3.8 billion.

The average amount reported for each age 65 and over taxpayer increased 34 percent, from $1,221 to $1,641, while the average per tax return, or family spending unit if you would like to look at it that way, also rose 34 percent, going from $1,575 to $2,105.

Finally, pensions are an increasingly important source of income for older taxpayers. Where they represented only 6½ percent of the total income of all older taxpayers in 1962, they accounted for slightly over 9 percent in 1967.

Again, let me repeat that these figures do not measure the total retirement income produced by private and public pension plans. This is only the taxable portion of continuing income payments. The figures do not include income produced by lump-sum payments or from actual employee contributions.

3. Private pension levels are rising rapidly

Monthly Retirement Income in the Auto Industry
1960-1970

Year of Retirement	Benefit at Retirement S/S	Benefit at Retirement Pension	Benefit at Retirement Total	Benefit Today S/S*	Benefit Today Pension	Benefit Today Total
1960	$119	$ 84	$203	$166	$170	$336
1963	122	98	220	170	184	354
1966	133	149	282	173	184	357
1969	161	210	371	185	210	395

*Under 1969 Amendments

HEWITT ASSOCIATES

Leaving tax returns, which are a sad subject this time of the year, the rate at which private-pension plans are growing is also evident from the developments during the past decade among some of our pension leaders.

For example, the retirement-income pattern of hourly workers in the auto industry illustrates this progress towards maturity. The chart indicates a monthly income from pension and Social Security for a worker retiring at the beginning of 4 selected years in the past decade, together with the monthly income each such worker would be receiving today, including the Social Security increase passed in December.

The benefit amounts shown assume that each worker retired at age 65 after 35 years of service and that base pay was equal to or in excess of the Social Security wage base in effect. You can see that the total retirement benefit of an individual retiring in 1969 was almost double what a similar worker would have received at retirement in 1960.

Another interesting aspect here is the fact that a man who did retire in 1960 with a total of $203 a month now has an income that is $336, a fairly substantial increase, I think.

Auto industry plans have actually matured to the point where they are supplementing Social Security to provide a substantial portion of preretirement spendable income together with providing vesting, disability, early retirement and survivors' benefits.

Single hourly workers now have about 70 percent of their spendable earnings replaced and married workers with wives who are eligible for Social Security have about 77 percent of spendable earnings replaced.

These replacement levels of the combined company pensions and Social Security are for workers earning $4 an hour at the time of retirement and are related to that pay rather than to the final average during the last 5 or 10 years.

So, if the historical pattern of follow-the-leader in pension matters continues, we can expect many more plans to be generating income at this rate within the next few years.

We can further anticipate that benefit forms and eligibility conditions existing only among today's leaders will be adopted by the followers.

The prepared statement gives considerably more information in detail on this matter of rising pension levels. A few of these we would like to summarize very briefly.

3. Private pension levels are rising rapidly

- Increases between 1952 and 1967:

Number of persons	- quadrupled
Total pensions	- up ninefold
Average pension	- doubled

- Annual compound rate of increase, 1952-67:

Number of persons	- 9½%
Total pensions	- 15%
Average pension	- 5⅜%

- Portion of labor force covered by private plans:

  1950 - 22.5%
  1967 - 47.4%

- Pension leaders now supplement social security to 70% or more of spendable pay

HEWITT ASSOCIATES

Going back again to our taxpayers, if we look at all taxpayers in this country, whether they are under or over age 65, the number who reported taxable pension income has quadrupled in 15 years; the total amount of pension increased ninefold, and the average pension amount doubled.

The annual compound rates of increase required to accomplish this growth is indicated as nine and a half percent for the number of persons involved, 15 percent for total pensions, and 5⅜ percent for average pension amounts.

The portion of the labor force with private plan coverage more than doubled between 1950 and 1967, going from 22 and a half to somewhat over 47 percent.

Finally, today's pension leaders are supplementing Social Security to provide replacement of about 70 percent of spendable pay at retirement, a level we can expect the followers to reach within the next few years.

Mr. HEWITT. Are there any questions on this particular information?

Mr. ORIOL. Dr. Schulz, do you have questions?

Dr. SCHULZ. Are you finished?

Mr. HEWITT. On this particular section of it; yes, sir.

4. Encourage private pension expansion

- Continuation and improvement in growth rate of private pension system

- Extension to larger portion of working population

HEWITT ASSOCIATES

I think that this additional evidence of the rapid acceleration toward maturity that has occurred in the most recent decade is perhaps reason for use to question whether efforts to improve the private-pension system should not be directed toward devices that will extend coverage rather than to measures that risk disrupting the current growth pattern.

At the present rate of maturation, the private-pension system may outgrow the need for the present legislative changes that are being proposd and considered.

Our concern probably should not be with the private-pension system as it has developed to the present time, and is continuing to develop, in covering a substantial portion of the members of the work force. It is doing a good job and likely will continue to do so in the future if it maintains its present direction and momentum.

Our concern, rather, should be with the inapplicability of the present private-pension system to a large portion of the population who are not employed in industries and jobs where private pensions are being substantially developed.

Our attention should rather be focused on those areas where pensions are not an appropriate part of the employer-employee relationship and where we have no adequate tax incentives to encourage their development at the present time.

It would seem that a primary concern of long-range planning for the economic well-being of older citizens is in finding the means for increasing the portion of those who have pension income.

We know that pensions and other forms of retirement income resulting from work programs cannot produce income in old age if coverage does not exist during the working years. We also know that there are segments of the labor force where prospects for pension coverage, in our opinion, is minimal as outlined in considerable detail in the working paper for this hearing.

Now, we do consider that expansion of private-pension coverage is vital and we believe that the time is appropriate to consider new measures to accomplish the desired expansion.

5. A universal tax incentive for private retirement income accumulation

- Related to individual taxpayer
- Not dependent on employment relationship
- Coverage opportunity for those unlikely to come under present system
- Incentive through total expanded system for:

Flexibility	Vesting
Freedom of choice	Portability
Funding	Simplicity

HEWITT ASSOCIATES

We suggest consideration should be given to the encouragement of voluntary savings for retirement, either through individual saving or employee group saving, but with emphasis perhaps on the individual aspects of it that are not dependent necessarily on the employment relationship and are perhaps related to the individual taxpayer.

Such encouragement could be expressed by extending tax deferment to funds saved for retirement beyond the scope of the present deferment granted only to employer payment to qualified retirement plans.

Perhaps the criticism of the private pension system that has not been adequately emphasized is the inequity that is produced by reason of the limitation of these incentives to those workers who are in industries or companies where the excellent growth record of the private-pension system is applicable.

So, in effect, we are proposing a universal system for private-retirement accumulation which would permit every working taxpayer to exempt from current taxes a portion of his earned income if it is held or invested in a bona fide retirement-income arrangement.

I would like to say that this is the same proposal we made in our testimony before this committee in 1961, again in 1965, and again in our contribution to the compendium of papers for the Joint Economic Committee of Congress.

Miss McCAMMAN. May I ask, Mr. Hewitt, has there ever been draft legislation on this point?

Mr. HEWITT. Not to my knowledge at the present time.

Under this kind of a proposal, the portion of income exempt would take into account payments made on behalf of the taxpayer by his employer (as currently permitted), payments made by the taxpayer to employer-sponsored plans (not currently permitted), and payments made to any approved registered, certified, qualified retirement-income arrangement (not currently permitted except under tax-sheltered annuities available only to employees of certain tax-exempt organizations).

A universal private-retirement system would offer a solution to the major deficiency of the present system, namely, its apparent inability to achieve broad coverage and would provide the coverage opportunity for those unlikely, under our analysis, to come under the present system.

This is the group for whom the inequities exist. Adoption of a universal system with the tax privilege related to the individual taxpayer rather than limited to application through the employment relationship would appear to lead to the natural achievement of the goals of flexibility, of freedom of choice, of so-called portability, of vesting and of accelerated funding.

This will complete our intended review of our prepared statement at this hearing.

Mr. ORIOL. Thank you, Mr. Hewitt, and associates, for giving us a very responsive and helpful statement for our record and for this overall study.

You have shortened your prepared statement but, of course, it will be placed in the record in its entirety.

(See appendix A, p. 1691.)

Mr. Hewitt. We will be happy to answer any questions you may have.

Mr. Oriol. Dr. Schulz has some questions.

Dr. Schulz. With regard to the discussion in your paper and in your testimony this morning about the adequacy of social security benefits, you implied, although you don't state it explicitly, that you were defining adequacy by some absolute standard—some particular level that is adequate.

It has been my feeling that this is a very poor way of measuring adequacy given the fact that earnings are rising quite rapidly and that many people might find their pension income totally inadequate if it were significantly different from preretirement earnings.

My question is this: with regard to the role of social security do you think that perhaps consideration should be given to measuring adequacy of social security benefits in terms of some relative standard, for example, the amount of earnings replacement which takes place?

Mr. Paine. Yes, I think so. The fundamental point we were trying to make in our testimony is that we do not believe that the level of social security should ever be influenced by the number of people that have private pensions or by the size of those pensions.

Social security by itself must be adequate to do the job of providing whatever we decide meets this standard of adequacy. I don't feel competent to define precisely how this is met but I would suggest that some method, either periodic congressional review or by the adoption of some kind of automatic index for social security benefits, would help us get the job done.

If you look at the current proposal on social security you will notice that the proposal is to tie social security benefits to the cost of living index.

It also suggested that the wage level be tied to the average earnings taxed under the social security system, so that every time there is an increase of $50 a month in the earnings covered that the wage base under social security goes up again.

When this occurs the bill calls for an additional factor to be applied to all previously earned benefits. The result of this is that if we have price increases of around 2 or 3 percent a year, wage increases of around 4 or 5 percent a year which are consistent with the long term trends in this country, that after a worker has been covered for most of his working career under social security the benefit provided by social security will be about one-third of this final pay for himself and about one-half of his final pay if he has a wife who is also over age 65.

So I think some of the things that you are looking for may be part of this current bill.

Mr. Oriol. Is this the administration bill that you are referring to?

Mr. Paine. Yes it is.

Dr. Schulz. Another question I have is with regard to the Federal Tax data which you presented. Would you comment on the bias that exists in that data in representing average pension levels because of the fact that the "average" excludes the pensions received by people who do not pay federal income taxes, typically the very low income people who would have very low pensions?

Mr. HEWITT. I would like to start comment. This illustration was intended primarily to arrive at some reliable figure as to the rate of growth and increase in levels of benefit rather than to be the absolute study that I think you are seeking as to what benefits would be based upon all incomes and also to point out that while there is certainly a bias people have to be having a certain amount of income before they are paying taxes. Also excluded from this data, as Miss Charlet pointed out, are lump-sum payments which are frequently elected by higher-bracket taxpayers and which are taxed at capital gain rates at the present time and reported elsewhere in published tax data.

I think Pearl you might want to comment on exactly this question as to the analysis of the data and the question as to whether though it does not distort the growth rates, it might distort the absolute amount of benefits.

Miss CHARLET. Dr. Schulz, these averages have been taken over the entire population filing income tax returns and include both those taxpayers who actually pay income tax and those who end up with no tax to pay.

So the only area of pension income that might not get into this particular set of data is that which is below the amount which would require the individual to file an income tax return.

Mr. HEWITT. Taking into consideration the special exemptions and all.

Miss CHARLET. No.

Mr. HEWITT. They still file but it would not be represented in the taxable income.

Miss CHARLET. That is right.

Mr. HEWITT. But they are in the data.

Dr. SCHULZ. I am not sure. I think that this is an important point. I agree with you as long as you're using that data to indicate changes and rates of change. I think it is very useful data, but if you use it to indicate the *average* size of a private pension benefit today, I think it misrepresents the true picture.

Miss CHARLET. Yes, it is an imperfect vehicle for precise measurement of an "average" benefit amount since it tends to exclude very low pensions and some of the higher pensions, as Mr. Hewitt pointed out.

Mr. HEWITT. We will qualify this to that extent. Data such as you are seeking is probably not available as yet.

Dr. SCHULZ. There is a sizeable proportion, as I understand it, of older persons not filing any income tax form.

Statistics are available on this; I have forgotten just what the proportion is. But there *are* a sizable portion of older people who don't have to file income tax, especially given the recent liberalization of the tax laws for low income recipients.

Now, with regard to your data for the automobile industry, you recognize, of course, that this industry is a leader in the pension field. I just want to emphasize once again that your data should not be taken as indicating the typical pension benefit in industry.

You would agree with that, would you not?

Mr. HEWITT. We would agree with this certainly. Certainly we appreciate all of the efforts of the UAW, for example as reported yesterday, in behalf of incerasing levels of benefits.

I also think I should say that probably it is appropriate for us to comment a good deal on this since I suspect the man who will follow us and testify later today is the man who is the actuary on many of these programs.

We were using it merely as a common illustration of what the pattern program is. Now being in the business of dealing with many employees, and employers, we are very well aware of the impact of the pattern and of the leaders in the field.

There is no question whether there is an impact from these patterns. There is no question that employers tend, either through their own decision making or through the pressures of collective bargaining, to build constantly toward the pattern of leaders in the industry. So there is significance in these levels because historically you could probably trace that there has been a follow-the-leader pattern and that the efforts in certain industries had a great impact upon what has been done generally throughout the private pension movement.

In our position of seeing the effect of this upon employers, generally I think it is important to recognize that this does not necessarily discount the importance or the significance of taking into consideration what the leaders are doing and what the benefit results may be.

We are not saying that these are the levels of all of the private pension programs. There are some that are more than this but this particular industry has a significant impact upon the decisionmaking of all employer groups and employee groups.

Dr. SCHULZ. If I can follow up on that question. Yesterday Professor Bernstein accused me of being rather optimistic about public and private pension trends. It seems to me on page 30 of your prepared statement you have gone far beyond my optimism——

Mr. HEWITT. May we help to defend you, because we made an analysis of what your earlier projections were in comparison to what these figures came out.

Do you recall any of that, Pearl?

Miss CHARLET. Of course the recent rate of increase we showed from tax data was rather astounding.

Mr. HEWITT. But in comparison, your projections were modest.

Miss MCCAMMAN. Perhaps the fact that Professor Bernstein calls him overly optimistic and you think he is pessimistic or at least modest, then it suggests he has struck an admirable balance.

Mr. HEWITT. Yes.

Dr. SCHULZ. You say in your statement that:

> If the historical pattern of follow the leader in pension matters continues, we can expect many more planc to be generating income that will supplement social security at 70 percent levels within the next few years.

I presume you are referring to 70 percent levels of earnings replacement?

Mr. HEWITT. Spendable income. In other words, the amount of earnings after taxes.

Dr. SCHULZ. I think we are at the heart of the matter. If this statement or prediction proves true and thus, in the next few years we are going to reach these high levels, then I don't see where there is any income maintenance problem for the vast proportion of the elderly population that will be retiring.

Mr. HEWITT. This is what we are trying to emphasize, however, pointing out this is not anywhere near the full 100 percent of the working population.

This is why we are emphasizing that we must direct our efforts toward ways in which we can extend coverage to those who are not currently likely to be covered under these kinds of programs.

Dr. SCHULZ. But do you really believe that in the next few years this earnings replacement level will be achieved? I do not.

Mr. PAINE. In the large collective bargaining plans, it is already. You heard Mr. Tomayko earlier this morning talk about the steel industry. They are at a higher level than automobile. And when auto finishes bargaining this fall, I think it is reasonable to expect they will be at a higher level than these figures show.

The car industry is higher. I have even seen benefits up to $15 a month for every year of service. Certainly the large pattern-setting companies are achieving this 70 percent level.

Dr. SCHULZ. Yes, it is very easy to argue the point by looking at the leaders. Beyond doubt there are a certain number of pension plans in this country which have very high levels of benefits.

The question is whether these high levels will be rapidly extended to the overwhelming proportion of plants.

Of course my frustration in attempting to gather information on this point was reflected in the background paper.

I have the feeling that if the Department of Labor were to give serious attention to this question, they might be able to document this trend that you talk about but document by looking at only a few plans.

Mr. HEWITT. Yes.

Dr. SCHULZ. We need to look at a broad spectrum of plans.

Mr. HEWITT. I think we have to qualify our statement to the effect it is based largely on our experience and involvement with private pensions and our own guesses as to what is likely to happen.

We cannot say it is going to be true with all private plans but we see the rate of increase and we see the rate of maturation and improvement in plans after they are in effect for a long period of time.

I must admit that we cannot substantiate that. As I said we would like to have the same kind of information that you want to have for analysis. We are only one firm. Since Mr. Jackson is following us and represents a firm of great size and coverage of experience, I hope you will ask him that question to see whether he may or may not differ with us in our guesses. I do not think we are trying to speak for all of the people in the private pension field in making this guess but it would be our observation that this is a likely continuing trend.

Dr. SCHULZ. If this trend is taking place and it is moving as rapidly as your figures suggest, I think it would probably be reflected in the private plus public pension levels of "new beneficiaries" as currently surveyed by the Social Security Administration. It might be well to inquire and attempt to make as part of this record any evidence Social Security has in this regard. Their surveys, of course, are for a broad spectrum of workers.

Mr. HEWITT. The important thing to watch in the current survey you mention will be the rates of growth that have occurred and how they compare with those we have reported here today. The levels of income may differ substantially from those we have reported for two reasons: first, the populations studied are different and second, the pressures on individuals to make a full disclosure of income are different.

Another point is that there are two ways of viewing current pension levels. One is based on what is actually being received, which is the kind of information that will result from the social security survey of retired people. The other way is to look at what pension plans are currently generating for people who will retire in the future. The Labor Department study you mention might possibly provide such information.

In terms of comparability, the social security survey is comparable to the data we have illustrated from income tax returns, in that they both show what is being received today as the result of past pension provisions. On the other hand, our projection of 70 percent of spendable pay replacement shows what is currently being earned in the auto industry for retirement now and in the near future.

Dr. SCHULZ. My understanding, however, of the social security surveys is that they are getting information on the pensions that are being paid now to workers who are newly retired. I think this information would provide, in some sense, a better indication of what is happening than going to the plan formulas. Sometimes the plan formulas have been updated, but the pension that the employee gets is often based on a series of plan formulas over his work experience and is much lower than the benefit he would get under the newest plan formula.

Mr. HEWITT. In which case the validity of the data will probably relate to the accuracy and reliability of the sample.

Mr. PAINE. I think you also should recognize that the benefit increases must be very significant if we look at the increase in the level of contributions to qualified plans and the reserves.

We are now at a point where employer contributions are about $10 billion a year for private plans, the amount the employee contributes is about $1.5 billion a year, total private plan assets are somewhere around $120 billion.

We are obviously coming to the point where per capita benefits are increasing more rapidly.

Certainly we are seeing a faster rise in the number of beneficiaries than we are in the spread of coverage. This obviously must reflect a very significant increase in the pensions being paid per person.

Mr. ORIOL. Are there any other questions?

Miss MCCAMMAN. I have one question. If we were to achieve a—what do we call it now, universal——

Mr. HEWITT. Universal tax incentive.

Miss MCCAMMAN. Now that would not be a fixed-benefit type of payment, would it?

Mr. HEWITT. It could be or it might not be. It likely would not be all fixed benefit if it resulted in new plans for small employers mostly because of the complexities of the fixed-benefit type of plan and the difficulty for small employers to deal with those complexities and to pay the costs resulting from them for a small employee group.

That would be the reason that I would agree with you that the more likely addition might be fixed-contribution type plans.

I think I would like to add just one concluding remark. While there appears to be a great deal of controversy and conflict or possibly criticism, and while it is all very healthy and part of our process which we should welcome, I think we also could observe that the conflict and the controversy is not in the objectives that are being sought by everyone.

There is a very amazing kind of universality or desirability of certain kinds of things. So there seems to be a strong agreement upon common objectives and upon mutuality of preferences.

Any differences that come up probably are in ways at which we arrive at the fulfillment of those objectives.

So I suspect that we have to constantly search for new ways of solving problems. In other words, where we have differences of opinion as to ways of getting there, we have to constantly search for alternatives as to how we might achieve these common objectives.

The fact that we still have some differences of opinion and some controversy may be related to the fact that we perhaps have not searched hard enough and have not come up with enough alternatives on which we might find more common agreement.

I suspect it is in this spirit we have proposed this extension of coverage through tying it in with the individual and putting more emphasis on the individual rather than on the employer–employee relationship.

Thank you.

Mr. ORIOL. And it is in that spirit that this economic aging study has been begun and is being conducted.

Mr. HEWITT. Yes.

Mr. ORIOL. Once again, Mr. Hewitt, Mr. Paine, and Miss Charlet—and Mr. Hewitt, our special thanks for sitting through the entire 2 days.

Mr. HEWITT. Thank you, Mr. Oriol. We appreciate your efforts.

Mr. ORIOL. We have checked with our two final witnesses. We have such excellent witnesses that the last thing we want to do is rush them to do this, so we will resume here at 2 o'clock for the final two witnesses.

That is agreeable to both witnesses, I believe.

(Whereupon, at 12:20 p.m., the committee recessed, to reconvene at 2 p.m.)

AFTERNOON SESSION

Mr. ORIOL (presiding). Dr. Greenough has a time problem, so we will go right into his statement.

STATEMENT OF DR. WILLIAM C. GREENOUGH, CHAIRMAN, TEACHERS INSURANCE AND ANNUITY ASSOCIATION AND COLLEGE RETIREMENT EQUITIES FUND

Dr. GREENOUGH. I do appreciate it.

Mr. Oriol, Professor Schulz, Dorothy McCamman, and Mr. Miller:

I would like to brief my testimony, as the others have done, to save your time. I will hit the highlights of it and then be glad to respond, if you want.

For the record, I am William C. Greenough, chairman, Teachers Insurance and Annuity Association and College Retirement Equities Fund—usually called TIAA–CREF. I am honored by your invitation to appear at this hearing. The report to your committee prepared by Professor James Schulz comments most favorably on the TIAA–CREF pension system, and I am certain that the college world will be pleased to know that your committee thinks so highly of its retirement plan as developed over the last half century.

You have asked me to discuss TIAA–CREF and its relevance to the larger picture, and I shall gladly do so. This is certainly not to suggest that TIAA–CREF is the best or the only way to provide pensions under all employment conditions. But I do hope to confirm that strong, useful pension systems, answering all of the frequently voiced criticisms of such systems, can exist in coordination with social security and can serve the American public very well indeed.

Congressional attention is centering on what is potentially the largest combined public service and private enterprise in America: providing adequate retirement income for all our people. In recent years, there have been several reports at the Federal level on pensions. Dr. Schulz's on your committee is the most recent and is a very interesting and challenging one.

Major Criticisms: Private Pensions

These reports have two common characteristics. They pay tribute to private pension programs, yet end up criticizing these same programs. Most of the criticism centers around: (1) the lack of, or limits on, vesting; (2) the lack of funding or full funding in some plans; (3) the lack of portability in many pension plans. An example of this criticism is given in the 1965 Cabinet level report which states:

> Because protection will always be far from complete, private pension plans cannot be a substitute for public programs. But public policy can encourage developments which will provide supplementary retirement benefits to a growing proportion of the Nation's workers, and will provide greater assurance that the promised benefits will be paid.

The recent report of your committee summarized as follows:

> 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.

In most things, governments play primarily a direct or an indirect role. In the area of old age and retirement income, they play both roles. Both Federal and State governments have accepted huge responsibilities for the welfare of all our people. Much of this responsibility they discharge through the direct action of OASDHI, one of the truly great developments of the last generation.

Another major function of Government can be to set an appropriate climate to encourage the private sector to accomplish as much as it possibly can in the benefit area. And then, to fill in the gaps around OASDHI and private pension systems, governments should and do have many programs of assistance in income maintenance with necessarily heavy emphasis on benefits for those not in the employment market and therefore not covered by OASDHI or private plans.

What I would like to do in my time is touch briefly on the three most significant and serious criticisms of private pension plans and, using the example of TIAA-CREF, show how the colleges have avoided these problems. The purpose of this is not to draw attention to those weaknesses. Plenty of attention has been drawn to them already. The point is to show that none of these problems are unsolvable in the private sector. All of them can be solved. As Mr. Hewitt has shown, we are making progress toward solving them.

And I do not suggest that the TIAA-CREF way is the way to do it or the only way. Quite the contrary, the important thing in the private sector is that you can have diversity. There is unanimous agreement in the report that the lack of early enough vesting in pension plans is one of their most serious defects. Vesting has improved rapidly in the last 10 to 15 years in both industrial and governmental pension programs.

The key point is that it is both possible and feasible to solve this problem within the private sector. It was done starting 50 years ago in the college world, two decades before social security. It is moving rapidly in that direction elsewhere, in both industrial and governmental pension programs.

On funding, that great automobile company in my old State of Indiana, Studebaker, did a fine job drawing the attention of the pension world and the American public to the problem of adequate funding of pensions. That incident brought home to a good many people the dangers of not having money there to pay the benefits. Since then, there have been a good many demands for guarantees of one sort or another, or reinsurance schemes for pension programs, or efforts to get the plans fully funded.

I agree absolutely that all pensions, governmental and private, of course exclusive of federal social security—this is a different kind of plan, so exclusive of that—all others should be fully funded as soon as possible.

Once again, to prove that such funding is practical, the experience of TIAA-CREF is relevant. Over 2,100 educational organizations of all kinds and types of support participate in the TIAA-CREF system. There are many public colleges, universities and community colleges. There are great private universities and small private colleges. And all of them support fully-funded pension benefits, without outside guarantees or Government mandates. Since it has already been done in higher education and in much of the pension world, it certainly is possible and practical for the rest of industry and Government. It can't be said that it is impossible.

Dr. Schulz's study, I believe, was the first one to draw primary attention to the problems of the small employer, and I think it provides a real service in that.

He notes, "excessive cost of establishing and administering a plan" is offered as a reason—and it certainly is one—for less than impressive representation of pension plans among smaller employer groups. Again, interestingly, this is not true of TIAA-CREF. More than

1,150 of the colleges and schools with TIAA-CREF plans have less than 200 participants; 815 have fewer than 50 participants; and 543 colleges and schools have fewer than 25 participants in their retirement plans. Yet the benefits per person and the cost per person are precisely the same, whether it is the University of Michigan, the State University of New York, or Hillsdale College. So it can be done.

But it is a fundamental reason why congressional action is now called for to continue the nationwide availability of TIAA-CREF to higher education, so that this problem of many small pension arrangements will not affect the world of higher education.

Portability is one of the other very significant things that your committee and Professor Schulz have drawn attention to. It is a social objective that can be met in the pension programs, and should. There are 2,100 institutions in the TIAA-CREF system. Professors can move from one to another, even to institutions without a TIAA-CREF plan, back into one with it, all the while with fully vested and portable benefits from the institutions that do have it.

In your previous hearing, you gave some attention and I gave special attention to pensions, capital and productivity. Here, I will put it in the record but skip much of it. However, it may be one of the few places where I am puzzled by the report before your committee. I think it is very puzzling to have the conclusions of two governmental reports on private pensions come out saying that we have an oversaving economy.

I suspect quite the contrary is so, as indicated by other studies, including the recent Budget of the President, the Council of Economic Advisers' Economic Report, the present prevailing high interest rates and shortage of money, and so on. I believe very strongly that we need pension savings to generate the next great capital goods revolution in this country.

Investment: A Half-Trillion Dollars

The total investment needs in the next 5 to 6 years will be about half a trillion dollars, and unless we obtain a fair amount of that from pension savings, we may have a substantial curtailment of growth.

Now, shifting to the question of correcting and strengthening those defects that are considered to be present in private pension plans, how you do it. A good many people suggest legislative mandates of specific provisions for vesting, funding, portability, and the like. An example would be, all plans must vest by 10 years of service, or whatever * * * specific provisions. There are a couple of troubles involved. One of them is, that we have a fair amount of experience showing that legislative minimums sometimes turn into maximums; certainly they do freeze into a certain pattern the provision of plans for various people. And what looks like social policy that is very good under one set of circumstances may not be good for all sets of circumstances.

There was a diversity of people testifying this morning in connection with the needs of their people and their corporations. So, if we can someway or another devise a system that will encourage all of the correct trends that are spoken of in your studies, without mandating specific solutions, that would be good. I was exceedingly interested to hear the Hewitt proposals this morning on taxes, because they follow so very closely some of my own thinking on this matter. This is an effort to get an alternative approach to achieving what we recognize as desirable social objectives.

The power of the Federal Government to tax and regulate could be placed squarely on the line by establishing a proper climate to promote maximum improvement in pension programs. May I have permission to read into the record a lecture that I gave a couple of years ago at the Huebner Foundation? It gives precise details on the whole thing, and I believe would be completely consistent with what Mr. Hewitt was recommending in more general terms.

We called it at that time ERITD, earned retirement income tax deferral system. It is based on a new priority. The priority is very simple: Pensions are for people! Perhaps this seems very obvious, but our regulatory and tax structure in this country, our competitive approach to talking about private pensions, the type of pensions generally used, and the attitude of many people toward pensions, are much more company-oriented than people-oriented. And they are frequently one-company-oriented. The important thing under these plans is the one-company unit rather than the people, the persons, the American public that is moving around from plant to plant, moving around from company to company, from employment to employment.

So, I think that, while that approach served very well in the early days—I am talking about the early days of 1945 to the present, this last quarter of a century—in solving the problems of the people close to retirement during that period, it no longer is the best way to do the thing. It is time to reorient our thinking and acting more toward the individual.

Shifts in Tax Treatment

The present tax treatment of pensions has been helpful in encouraging corporations to set up plans, but it also needs a shift in emphasis toward the individual. It could be accomplished by such systems as ERITD, that provides tax-exemption for employer contributions to pension plans at the time those contributions become vested in the individual. When individual's rights were set for him, at that point the corporation would get tax exemption.

We in this country should also consider giving deferral of tax on an individual's contribution during the time that he and his employer or the individual alone is saving for his own old age. Benefits will be taxable when received.

If we now put the individual's protection uppermost and set our tax laws to encourage this priority, I think we can make a breakthrough to a higher level of pension usefulness and retirement security, and begin to fill some of the gaps that now exist. Making tax benefits available to a corporation only when the individual is actually protected would, I believe, achieve the full funding and other desirable objectives mentioned in the Schulz report without specifically telling you that you have to do this today and that tomorrow.

Furthermore, the effort would retain the strength of those pension plans that are currently fully funded and socially well oriented, while encouraging movement toward even better funding and vesting of pensions in general.

In summary on that point, I think that Congress can now, as it has in so many other areas, set a healthy climate for pension plan development by the reordering of priorities to and for the individual in our society.

There is one other thing that Congress can do, and it is an urgent need. Congress certainly has a major stake in encouraging those pension plans which have incorporated what its own studies show as desirable pension trends. I therefore bring to your attention one item on which action is urgent and that has to do with the higher education's nationwide retirement system so highly and gratifyingly praised in your committee report. Higher education's pension system has been providing fully-funded, immediately vested portable pensions for over 50 years. It is efficient, it works for both the large and small employer. It is equally appropriate for employees at all salary levels.

Why the problem after 50 years? A shift in the construction of state insurance laws threatens the essential uniformtiy of the pension system at this point. An impairment of the nationwide system would impair the portability of one multiemployer plan that has met this desirable social objective so well, and it would impair the crucial continuance of low-cost, efficient pension plans for hundreds and hundreds of small colleges that, in the absence of CREF and TIAA, would have to contend with the problems of small size, as brought out in your report.

S. 1290 and H.R. 9010 are the bills which would provide a Federal charter but keep these plans under State insurance supervision, and at the same time meet the objectives of your report—full funding, immediate vesting, and portability. The proposed bill is supported by all the educational institutions and associations, and it gives Congress an appropriate opportunity to establish a positive climate for good social policy and pension programs for the entire college world, both public and private, and this without adding to any financial burden of the Federal Government or State and local governments because they do not have to contribute to it.

I hope members of the committee will support this effort for higher education.

I am pleased to have met with you. I guess I have pressed on a little fast and less than formally. I hope that these deliberations, and I am very much encouraged by some of the trends that they have shown—can strengthen Congress's ability to help set a good climate for the whole private sector.

I have not said much about social security. I agree with everything that has been said about its great importance and the basic necessity of keeping it up to date, keeping it strong, and to coordinate the private and the public plans.

(The prepared statement follows:)

PREPARED STATEMENT OF DR. WILLIAM C. GREENOUGH

Gentlemen, I am William C. Greenough, Chairman, Teachers Insurance and Annuity Association and College Retirement Equities Fund (usually called TIAA-CREF). I am honored by your invitation to appear at this hearing.

The report to your committee prepared by Professor James Schulz comments most favorably on the TIAA–CREF pension system, and I am certain that the college world will be pleased to know that your committee thinks so highly of its retirement plan as developed over the last half century. You have asked me to discuss TIAA–CREF and its relevance to the larger picture, and I shall gladly do so. This is certainly not to suggest that TIAA–CREF is the best or the only way to provide pensions under all employment conditions. But I do hope to confirm that strong, useful pension systems, answering all of the frequently voiced criticisms of such systems, can exist in coordination with Social Security and can serve the American public very well indeed.

Congressional attention is centering on what is potentially the largest combined public service and private enterprise in America: providing adequate retirement income for all our people. In recent years, there have been several reports at the federal level on pensions. They include: *Public Policy and Private Pension Programs*, a Cabinet-level study; *Old-Age Income Assurance: An Outline of Issues and Alternatives*, a report to the Joint Economic Committee; and the interesting and well thought out report, *Pension Aspects of the Economics of Aging*, prepared by Dr. Schulz under the sponsorship of your committee.

These reports have two common characteristics. They pay tribute to private pension programs, yet end up criticizing these same programs. Most of the criticism centers around: (1) the lack of, or limits on, vesting; (2) the lack of funding or full funding in some plans; (3) the lack of portability in many pension plans. All three reports conclude in one way or another that pension systems cannot do very much of the job of caring for the older segment of our population. Let me quote examples of these critical conclusions:

The report, *Old-Age Income Assurance*, states: "May not pension plans in too many instances generate expectations which cannot or will not be fulfilled, interfere unnecessarily with the exercise of free choice in employment and in saving, induce an excessive rate of saving, create enclaves of economic power which are not subject to effective supervision, and hinder the productive deployment of wealth?"

The 1965 Cabinet-level report is more positive in suggesting that: "In view of . . . social purposes, public policy should continue to provide appropriate incentives to private plan growth, and by improving the basic soundness and equitable character of such plans, set a firmer foundation for their future development." But it goes on to state: "Because protection will always be far from complete, private pension plans cannot be a substitute for public programs, but public policy can encourage developments which will provide supplementary retirement benefits to a growing proportion of the Nation's workers and will provide greater assurance that the promised benefits will be paid."

The recent report of your committee summarized as follows: "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."

Each report implies that pension plans either won't or can't solve their share of the basic problems of old-age income assurance. I am well aware of the developing clamor for increased public regulation and control over the provisions of pension plans in order to achieve certain social objectives. I recognize that America is an impatient nation. I am sensitive to the concerns of this committee in achieving a decent level of income for our older people. But I am among the many people who believe that the job of helping all our citizens be secure in their old age is one that very well can and should be shared between the government sector and the private sector.

In most things, governments play primarily a direct *or* an indirect role. In the area of old age retirement income, they play both. Federal and state governments have accepted huge responsibilities for the welfare of all our people. Much of this responsibility they discharge through direct action of OASDHI benefit programs. Another major function of government can be to set an appropriate climate to encourage the private sector to accomplish as much as it possibly can in the benefit area. And then, to fill in the gaps around OASDHI and private pension systems, governments should and do have many programs of assistance and income maintenance, with necessarily heavy emphasis on benefits for those not in the employment market.

I will return later to the question of how government can improve the climate for desirable pension programs. However, let me now take a case study to show that all of the internal objectives recommended by the Schulz report, the McClung report, and *Public Policy and Private Pension Programs*, can be met in pension plans coordinating with Social Security. I propose to do this by taking each of the major pension criticisms in turn and showing how the TIAA–CREF system meets them.

VESTING

There is unanimous agreement in the reports that the lack of "early enough" vesting in present pension plans is one of their most serious defects. The criticism is valid, but it does not represent an unsolvable problem. It must be noted that vesting has improved rapidly in the last ten to fifteen years in both industrial and governmental pension programs.

In the college world, of course, there has been immediate full vesting of pension benefits ever since the establishment of TIAA in 1918. The colleges have been able to provide, through contributory pension systems with their staff members, an adequate level of benefits and full immediate vesting. It is idle chatter to say that our industries, banks, and other employers (including state, local and the Federal Government as employers) would find it forever too costly to finance immediate full vesting of pension benefits. This "too costly" argument is frequently heard. But what of the cost (in terms of lost benefits) to the individual who does not achieve vesting. Surely, a poverty-ridden old age *is* too costly for him. Or what of the cost of legislatively dictated uniform vesting provisions; or of acceding to demands that Social Security fill this vacuum by taking over the whole job of providing old age benefits?

The key point here is that it is both possible and feasible to solve this problem within the private sector. It was so done starting fifty years ago in the college world, two decades before Social Security; it is moving rapidly in that direction elsewhere in both industrial and governmental pension programs.

FUNDING

The often-mentioned failure of Studebaker as an automobile manufacturer a few years ago brought home to the American public the dangers of pension plans that are not fully funded. Since then, there have been a good many demands for guarantees of one sort or another, or reinsurance schemes for pension programs, or efforts to get the plans fully funded. I agree absolutely that all pensions (exclusive of federal Social Security) should be fully funded as soon as possible.

Certain comments in your committee report raise a particular question. The general record of funding is now a good deal better in pension plans covering persons in private employment than it is in pension plans covering federal, state and local government employees. These latter programs should also be fully funded. Therefore, if there is to be legislation dealing with required or mandatory funding for private pensions, shouldn't it include these governmental units?

Once again, to prove that such funding is practical, the experience of TIAA–CREF is relevant. Over 2,100 educational organizations of all kinds and types of support participate in the TIAA–CREF system. There are many public colleges, universities and community colleges. There are great private universities and small private colleges. And all of them support fully-funded pension benefits, without outside guarantees or government mandates. Since it has already been done in higher education and in much of the pension world, it certainly is possible and practical for the rest of industry and government.

HIGH COST OF SMALL PLANS

Dr. Schulz notes in the report that the cost of administering a plan 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. This "Excessive cost of establishing and administering a plan" is offered as a reason for less than impressive representation of pension plans among small employer groups.

Interestingly, this is not true of the TIAA–CREF system. More than 1,150 of the colleges and schools with TIAA–CREF retirement plans have less than 200 participants. Eight hundred and fifteen of these have fewer than 50 participants, while 542 colleges and schools have fewer than 25 participants in their TIAA–CREF program. This is a fundamental reason why Congressional action is now called for to continue the nationwide availability of TIAA–CREF to higher education, so that this problem of many pension arrangements will not afflict the small colleges.

PORTABILITY

Here again the experience of the college world shows that a social objective can be met in pension programs. TIAA–CREF participants are free to move among the more than 2,100 educational institutions that have TIAA plans, all the while accumulating benefits. Even if a participant moves to a college having no TIAA plan or leaves the educational world, he takes his pension with him. Portability is feasible, can be financed, and is furthermore the only socially acceptable way of providing meaningful pension benefits.

PENSIONS, CAPITAL AND PRODUCTIVITY

Pension programs currently have assets of some $150 billion. These billions of dollars represent actual savings for retirement available for investment in productive enterprise and thereby capable of enriching the lives of workers as well as retired people. I commented on this in testimony before this committee last year:

The active workers in our labor force benefit through higher wages reflecting their increased productivity from modern, up-to-date plants and equipment and the power to run them. Pension plan savings provide a large and increasing part of the many thousands of dollars of plant and equipment available to each worker to increase his production and to finance the house he lives in.

The retired worker benefits directly from *his* share in the increasing productivity made possible by his own savings. This is especially true if invested in equities under a pension plan permitting flow-through to the retired person. And he and the worker both benefit without detracting from the relative economic position of the other, that is, without transfer payments or other drains on either side.

I suggested at that time that pension savings represented the most impressive source for generating the next great capital goods revolution in this country. The recent report to this committee, I think, overlooked this importance. Instead, it presented figures showing the retained earnings of industry, missing the fact that it is savers in various categories that make possible the actual retention of the earnings.

I also question the soundness of the conclusion, reached by the report under discussion and the earlier report to the Joint Economic Committee, that there are adequate or superfluous savings in our economy relative to investment propensities. President Nixon's budget and economic report did not support this conclusion, nor does the Council of Economic Advisers. And as the recent National Planning Association report concluded:

Rising investment will require higher savings out of current income somewhere in the economy. If consumers and businesses are unable or unwilling to save more and attempt to finance their investment needs by greater borrowing, then one or two things must happen—and probably both: capital markets will remain under pressure, with higher average interest rates than we have been used to in the past decade, or the Federal Government must become a net saver and supply funds to capital markets by running substantial budget surpluses.

A SUGGESTION

The recent government reports mentioned earlier have performed a service in isolating and emphasizing various weaknesses in many current pension programs. But we must not become preoccupied with weaknesses. We must not satisfy ourselves with claims that these weaknesses cannot be overcome in pension programs—claims that sometimes come from pension experts themselves. We must recognize the tremendous present and potential strength of pension programs. The time has come to consider how government can help, how it can best set the *climate* for the next development in the pension world.

A good many suggestions have been made that the Federal Government should mandate specific provisions for pension programs. For example, it has been suggested that all pension benefits be fully vested after ten years of service. It has also been suggested that the financial stability of pension programs be insured by taxing the strong, solvent ones in order to support the weaker ones.

These recommendations involve a strong governmental approach, but within that strength is a readily apparent weakness. It is a fact of human life and of political history that prescribed minimums all too often become, in fact, prescribed maximums. And they apply one set of values to differing conditions, thereby tending to destroy one of the strengths of pension systems—their diversity and capacity to experiment and innovate.

Perhaps there are alternative ways of achieving these desirable social objectives. I have suggested elsewhere that the power of the Federal Government to tax and regulate could be placed squarely on the line of establishing a proper climate to promote maximum improvement in pension programs. These suggestions were made two years ago in a lecture given for the Huebner Foundation at the Wharton School of Economics, University of Pennsylvania. (Mr. Chairman, I would appreciate having your permission to have that material, "Pensions Are For People, The ERITD (Earned Retirement Income Tax Deferral) Approach to Federal Regulation of Pensions," read into the record.)

ERITD is based on a new priority: PENSIONS ARE FOR PEOPLE. Perhaps this seems obvious, but our regulatory and tax structure, our competitive approach, the type of pensions generally used and the attitude of many people toward pensions, are more company-oriented than people-oriented. And, almost always, one-company-oriented. It is time for a change in emphasis. Perhaps it is now time for us to reorient our thinking and acting more toward the individual. In order to emphasize the "people" element in pensions, we should now work toward tax and regulatory approaches that will encourage the right developments; and this, in turn, can do much to extend the service of the whole pension field.

As pointed out in the various reports already mentioned, we should have a tax system that will give primacy to those social objectives which can help solve the problem of income for the aged. The present tax treatment of pensions has been helpful so far, but it also needs a shift in emphasis to the individual. This could be achieved by some such system as ERITD that would provide tax exemption for employer contributions to pension plans at the time those contributions become vested in the individual. We in this country should also reconsider giving a deferral of tax on an individual's contributions during the time that he and his employer or the individual alone is saving for old age. Benefits would be taxable when received.

One of the problems of broader extension of coverage of pensions and annuities throughout the population has been our "employer-oriented" system. If we now put the individual's protection uppermost and set our tax laws to encourage this priority, we can make a break-through to a higher level of pension usefulness and retirement security.

Additionally, making tax benefits available to a corporation only when the individual is actually protected would, I believe, achieve the early vesting, full funding and other desirable objectives mentioned in the Schulz report. Furthermore, the effort would retain the strength of those pension plans that are currently fully funded and socially well oriented, while encouraging continued movement toward even better funding and vesting of pension plans in general.

Congress can, I am confident, as it has in so many other areas, set a healthy climate for pension programs. Essential to this climate is a reordering of priorities to and for the individual in our society.

AN URGENT NEED

Congress certainly has a major stake in encouraging those pension programs which have incorporated desirable social trends. I therefore bring to your attention one item on which congressional action is urgent. Higher education's nationwide retirement system—so highly and gratifyingly praised in your committee report—has been providing fully funded, immediately vested portable pensions for over 50 years. The TIAA-CREF retirement system covers over 300,000 employees at more than 2,100 institutions. The system is efficient and economical for both small and large employers and is equally appropriate for employees at all salary levels. But because of recent shifts in interpretation of state insurance law, the essential uniformity of this pension system is threatened. Impairment of nationwide uniformity could not help but hurt the stimulation and essential movement of academic talent from institution to institution—both intrastate and interstate. Of similar crucial importance is the continued availability of a low-cost, efficient pension plan for hundreds and hundreds of small colleges that, in the absence of TIAA-CREF, would have to contend with all the problems of "small size" as brought out in your report.

S. 1290 and H. R. 9010 are essential if the objectives recommend in these recent government reports—particularly full funding, immediate vesting, and portability—are to be continued in the world of higher education. The proposed bill is supported by all of the educational institutions and associations: the American Council on Education, the American Association of University Professors, the Association of American Colleges, the National Association of Land-Grant Colleges and State Universities, the National Catholic Education Association and the others. The proposed legislation gives Congress an opportunity to establish a positive climate for good social policy in pension programs for the entire college world, both public and private. And all this without adding to the financial burdens of the Federal Government or state and local governments. I hope this committee will support this effort for higher education.

I am pleased to have had the opportunity to meet with you today. I hope that in some way I have added to your deliberations the conviction, built up out of pertinent and relevant experience in the college world, that pension plans can serve well and that your deliberations can be helpful in that direction. Congress can, at this juncture, help America provide for its older people by establishing an effective climate for the pension world. And it can strengthen higher education by confirming the existing pension system in that sector.

Mr. ORIOL. Dr. Greenough, I will certainly bring the legislation you mentioned to the attention of the members of the committee, and see what followup action will be possible.

I have one question. I am very much interested in your statement:

Congressional attention is centering on what is potentially the largest combined public service and private enterprise in America: providing adequate retirement income for all our people.

I would just like a little more discussion of that point. You say "potentially". Are you talking in terms of dollars, in terms of people served? Could you amplify that comment a little more?

Dr. GREENOUGH. Maybe it already is. Maybe the word "potentially" is not necessary. When we set out in the public and the private sector to provide some way to finance a third of a person's life or a fourth of a person's life during retirement, this is a big job. The normal professional career may extend over as much as 40 years. The person retires at age 65, the man has 16 years still to live. He is married and his wife is a couple of years younger than he is. The two of them together have over 20 years during which they need income from public and private sources. Twenty years is equal to the first part of life when you are growing up as a child. Then you have 40 years in between, and then you have 20 years of retirement.

Financing that 20 years is what I am talking about as a huge job that society has taken unto itself and it can carry off, but it requires an extraordinarily good social security system supplemented by an extra good private pension.

Is that responsive?

Mr. ORIOL. Yes.

Do we have questions?

Mr. MILLER. Yes, I have a couple of questions.

Dr. Greenough, you just made the statement that we can carry off this retirement for one-third of the life of a person. I am perhaps echoing the question asked by Senator Hartke yesterday, but do you think this really is possible as a practical matter?

I am not talking about a theoretical matter. Apparently there is considerable resistance on the part of the working population manifested in a variety of ways, some subtle and some direct, to expansion of social security amounts, minimum payments and maximum payments, and so forth. Do you honestly think that we can provide retirement income for all for a third of their lifetime?

Dr. GREENOUGH. You picked up my error. So we will change it. I should have said a fourth of the total life. A third of the working and retired lifetime.

Mr. MILLER. Even a fourth then.

Dr. GREENOUGH. One, I am certain that it can be done. I am quite certain, I agree with a good many people, that this country can do whatever it really sets out to do.

Two, it has to be done. We are now letting many of our older people, I guess the word is "starve". A fair number of our older people are not living as well as they should at the present time. But we can finance adequate old-age income and at the same time do the job for the working population and for the kids whose aspirations to go on through college are so great now.

I would say that part of the way to do that is to have a very strong private pension system. Why a strong private system? Why not do it all through the Government? Because it is a handy thing for the Government to set a climate in which the private sector can do as much as it possibly can because the demands on Government are endless and we should husband our Government resources as much as we can.

By having the private sector do everything that it can in the field of old age, it means that you should have fully-funded plans in the private sector. The funds that go into those, representing an individual's savings, corporate savings for the individual's old age, are invested and the investment is in productive capacity: machinery in our plants, houses for our people, Government buildings, all the rest of it. These actual investments help to produce the goods that then will support those people in their old age. There is a direct relationship between the savings and the productivity and the product sent to the people in their old age.

Mr. MILLER. Do I understand you correctly to say that it can be done, but really only if there is a substantial expansion in the use of the private sector in this area?

Dr. GREENOUGH. Yes.

Mr. MILLER. I have one other question on another point, if I may. On page——

Mr. GREENOUGH. I was trying to figure out where you were going next and how I could be responsive.

Mr. MILLER. On page 13 you make reference to S. 1290 and H.R. 9010. As I understand it, this is legislation to provide a Federal charter; is that correct?

Dr. GREENOUGH. Yes.

Mr. MILLER. For your plan. And you cite pretty well the benefits that would accrue to the individuals involved in the plans. Is there any way in which legislation could be developed so that such benefits could be extended to other groups, other potential retirees?

Dr. GREENOUGH. The particular request in S. 1290 and H.R. 9010 is simply for precisely the same treatment that is available to about 90 or 95 percent of the pension plans at the present time. The peculiarity is, that this college program is a very old one. When the colleges set up their plan they wanted public regulations and public supervision of pensions. Even today you see that public supervision has not gone very far, but the colleges wanted it 50 years ago. The only supervisory agency there was was State insurance regulations. So they put their plan under State insurance regulations.

A half century later, two court cases went for this purpose the wrong way, for other purposes the right way. Throwing this 50-year-old pension system into the possible supervision of 50 different State insurance codes, State insurance regulatory authorities which were set up for agency life insurance companies, not nationwide portable pension systems, would be to return the colleges right back to where they were before their pension system began meeting their needs.

The tax protection for the system simply puts it in the same category as State and local retirement systems, Federal civil service, of course social security, bank trustee plans, the union negotiated plans, and everything else. The only plans that are taxed are life insurance company plans, and really only about 15 to 20 percent of those plans are.

So this legislation provides what can be done in the private sector through various alternatives now anyway. No similar legislation is needed for those plans.

Mr. MILLER. Would you favor similar legislation to take care of the life insurance plans that are, as I understand you, subject to taxation now?

Mr. GREENOUGH. I think it would be wise to let that be their decision. I do not think those plans should be taxed. When they are retirement plans, they definitely should not be.

Whether the Federal Government should say that they are not, I will leave to the State government and to them. Clearly, a nonprofit plan should not be taxed.

Miss MCCAMMAN. In describing your proposal for ERITD, you mentioned it was similar to the proposal made this morning by Mr. Hewitt. You proposed that employee contributions not be deductible until they vest in the individual worker. I wondered whether you could tell us, is this something that you have explored with Mr. Hewitt, so that you know whether he feels the same way? And one of the major reasons I ask is, that if there were to be a specific legislative proposal in this area that question of the possible difference might have to be resolved.

Dr. GREENOUGH. I do not know his attitude on that. The similarity in thinking that I was mentioning was the importance of evening out the tax incentive to individuals to save, whether employed by General Motors or by themselves, or they are working on a farm or whatever, to try to fill in the gaps that Mr. Schulz, in his report, shows.

I go on and suggest, although there will be a good deal of difference of opinion on this, that you also encourage achieving other social objectives, not only spreading out participation, but vesting. Why give the corporation a favorable tax treatment until the contributions really are dedicated to an individual? That, after all, is the social objective of the private pension plans.

Mr. Hewitt and probably others may not go that far. I certainly would welcome this approach of emphasizing that pensions are for people, and trying to set the thing up so that they do start spreading pension coverage more broadly. I would not let it fall on that one point of vesting.

Miss MCCAMMAN. Perhaps we can address a question to Mr. Hewitt along this line.

Mr. HEWITT. As Dr. Greenough has said, perhaps one of our objectives is to try to put some kind of greater equity into the system, as well as to try to expand the coverage of the private system. I am not much of a handyman, but if I found one leg of this chair a little shorter than the other, I could start cutting off the other legs and pretty soon I would have the chair on the ground. It seems to me when you try to correct an inequity you have to cut something down or build something up.

My own feeling is, that you try to build up the part that's short; you don't try to knock the good part down. The concern I would have with Dr. Greenough's suggestion for eliminating the tax deductibility or tax treatment of the private pension plan is, that you would probably knock down what we already have been very successful in building up. We would not agree with the statement—with the way I heard him say it just now—that the deductibility of employer contributions would only be available when and to the extent that the full benefit of employer money is vested.

We have no question of the vesting of employee money. Employee contributions are always vested. If we were to say that a way of encouraging greater vesting would be to add the provision that the deductibility of employee contributions would require that employer contributions be fully vested, then I think maybe it would be a point that I am not willing to commit myself on now.

I think we would have to realize in his own industry, in the teaching profession, that a great deal of it is supported by employee money. There is, of course, no question of tax deductibility because they are not tax-paying institutions. But a good deal of the teacher pension is supported by a heavy amount of employee contributions. I would certainly feel that there would be good justification in permitting the tax deductibility of those employee contributions to teacher plans which is possible now, but it is a very cumbersome process of qualifying a tax-sheltered annuity, even for contributions to TIAA. This is possible at the present time. It is not easy. In our proposal for a universal tax incentive we would contemplate that the tax deductibility of employee contributions would appropriately extend to the public employee plans, including teachers' plans as well as to individual action or the equivalent contribution of an employer in behalf of an individual.

Dr. GREENOUGH. I think it may bring us completely together. There are two matters of a time dimension that I might mention, too. One, it is never wise in pension matters suddenly to shift from one system to another for a period of time. The present tax treatment of qualified plans should go along a parallel with and concurrently to the kind of thing Mr. Hewitt and I were talking about. It would have to go, I don't know how long, parallel else you might have plans that would drop and that would serve nobody well.

The second time dimension is quite persuasive. It has a good many technical aspects, but it has to do with past service benefits. Mr. Hewitt mentioned it this morning. You choose your priorities. Well, the priority you choose is the person who is already retired or close to retirement at the time a plan is set up, and has no benefits. You jolly well try to provide him with some benefits. In the college world, that was done by a free grant of Andrew Carnegie in 1906 that took care of past service benefits. When that money started to run out, the colleges began to put in new plans based on the past service benefits being funded through foundation grants, but not building up a deferred liability.

So they could always put a priority both on the person retiring and on the young person. They did not have to choose and did not choose between the differing interests of those two people. They recognized their interests are quite similar. The young guy is going to be old sometime. So the full vesting in portability was brought in through taking care of past service benefits. This always should be done, and it can be done. It can be done in the nonprofit world, it can be done in the regular commercial world.

So those two time dimensions are very important. Private pensions really only go back to World War II. Therefore, some of them still have a past service problem. But they are working out of it now, and I believe all of us will be getting together on full and immediatevesting and agreeing on it. I must take the words "all of us"—a fair number of us are moving in that direction already, and we are making real progress.

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

Dr. SCHULZ. Your last comments were very interesting, because I was going to ask you what is unique about the TIAA–CREF and the college pension industry that permits it or has caused it to develop in such a comprehensive manner. Perhaps you do not wish to add to what you have said. I would like to ask the question anyhow, because to some of us it seems strange that you have a system like TIAA–CREF which has solved these problems, as you have just said, and yet there are so many other plans that have not been able to solve these problems and are moving ahead in greater or less degree, depending on your interpretation of the data.

Dr. GREENOUGH. These principles are not universally accepted, as the nod of the head there informs me. Not everybody does believe in fully portable pensions and fully transferable pensions. There are employers who want to use pensions to tie employees to them. They are not interested in the person who leaves. The entire attitude of the college world is different from that. The idea of the college world is that they are dealing with people of the mind, that intellectual ability is very well developed in different climates and under different challenges. The college world believes that the John Gardner who moves from college teaching in a small woman's college to the Carnegie Foundation, to the head position in HEW, to trying to solve our urban problems, is a desirable thing. They believe if it is good for John Gardner, it is good for the whole society. This is based on the portability of human effort and knowledge.

So it is a different approach. Another part of it is the idea that a man is worthy of his hire each year as he works. The obligation of an employer or anybody who pays a person should be fully discharged within that time and, whether that person is able to continue to be employed—the Studebaker person was not—or whether he wants to move on to another job, or whether he does stay, those things should not influence what the employer has already paid.

This concept of pensions considers them as part of compensation currently earned, deferred in form, but nonetheless discharged fully. Not all employers accept that approach to it.

Dr. SCHULZ. The other question I have is in regard to a comment made by Mr. Frank Griffin in his prepared statement* which has not yet been presented. Since it directly considers TIAA–CREF, I think it would be wise or right to get your reaction before you leave.

On page 12 of his statement Mr. Griffin says that in my report I labor under a misconception with regard to plans like TIAA–CREF. He says, "His," referring to me, "praise of the TIAA plan with which he is personally familiar is quite understandable, though it also concedes unfamiliarity with the history of money-purchase plans which fell into rather general disfavor in the early 1930's due to glaring deficiencies in their basic benefit structure."

I must confess that I am not sure what he is referring to, but I thought it might be helpful to get your reaction to that statement.

Dr. GREENOUGH. If there is a weakness in understanding the history of pensions, perhaps it is a shared one. We have already mentioned the history of college pensions where the colleges did the past-service job concurrently with the present-service, partly through the Carnegie grants, partly through their own efforts.

The money-purchase, so-called, plans—defined contributions would be a better title—in industry in the early 1940's and early 1950's did have some serious defects. They were not structured to take care of the persons who had already grown old in service. Instead of providing benefits directly for them, they left them with inadequate benefits which could have been solved through additional past-service benefit at that time.

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*See p. 1648 for prepared statement of Mr. Frank Griffin.

The defects were in the way the money-purchase or defined-contribution plan was applied in industry, not a defect in the plan itself. Now, we could go into a good deal of discussion of what the defined-benefit plan really does for individuals and what it does not do for the person who changes jobs even under the assumption that the benefits are vested, because they do much more for the older person than for the younger person.

If you have a system, as you do in the college world, where each person is getting his full salary and full share put in on his pension each year of his life, whether he is 30 or 60, then the problem mentioned in money-purchase plans does not develop and it is not accurate to say that it does. So, I would say the great advantage of the private sector is that you can have defined-contribution plans in one area, if you want them for the colleges, defined-benefit plans in another area, whether that be auto workers or meatpackers or General Motors, if you want them.

That diversity is very good. I am not criticizing the defined-benefit plans, nor should the plans that do, as you point out, solve the problems of full funding, portability and vesting, be criticized.

Mr. ORIOL. Dr. Greenough, thank you very much. You gave us an excellent presentation back last March when we began, and you have helped us again today. Thank you very much.

Dr. GREENOUGH. Thank you.

Mr. ORIOL. Our final witness was to have been Frank L. Griffin, chairman of the Wyatt Company in Chicago. Mr. Paul Jackson will be heard from instead.

STATEMENT OF PAUL JACKSON, ACTUARY, THE WYATT CO., WASHINGTON, D.C.

Mr. JACKSON. The formal statement which Mr. Griffin prepared I believe has already been sent on to your office.* Mr. Griffin very much regrets his inability to be here today and appreciates the invitation.

In a way I regret it too, because Mr. Griffin is a very fine spokesman for the basic ideas I believe in. He is a fine actuary, president of the Conference of Actuaries, member of its board of governors and that of the Society of Actuaries, and coauthor of the Pension Research Council's Status of Funding under Private Pension Plans.

I am a consulting actuary in the Washington office of The Wyatt Company, a fellow of the Society of Actuaries, a fellow of the Canadian Institute of Actuaries, Associate of the British Institute of Actuaries, and a member of several other actuarial organizations. I have been employed in the employee-benefit field for some 20 years.

At the present time, I am consulting primarily on pensions and on plans of, among others, two of the Nation's largest industrial organizations, one of the largest railroads, a large multiemployer plan and perhaps the largest union-financed plan in the country.

There are no doubt a number of areas where Mr. Griffin and I might differ. Of course, I am prepared to answer any questions regarding his statement or the study that he prepared, but first, I would like to emphasize a few points in his formal statement that I feel are particularly important and perhaps add a few comments of my own.

*See p. 1648 for prepared statement of Mr. Frank Griffin.

In his statement on page 7 he lists in tabular form the results of a survey of a number of pension experts as to what the trend in benefits is likely to be, going forward to 1980. The majority of these correspondents—these are majority consensus items—felt that pensions for workers will approximately double in amount with the trend toward formulas based on final average pay. There will be improved disability-pension provisions, more liberal early retirement benefits with improved benefits, survivor benefits in many plans for deaths occurring before and after retirement, pensions reflecting the cost of living, vesting after 10 years of service, and further decline in popularity of employee contributions unless their tax status is changed.

In connection with that survey, I would like to bring to your attention an article that appeared in the January–February 1970 issue of the Harvard Business Review entitled "Employee Benefits 1970-1985", written by P. J. Gordon and R. E. LaBue. It presents a forecast of future benefits assembled by a panel of roughly 100 authorities. In the pension area their estimate of what the future holds in store coincides pretty well with that of Mr. Griffin's more limited sample.

THREE MAJOR PROBABILITIES

Specifically, they list three major items that are likely to occur over the next 15 years: Higher prospective pension incomes for future retirees, permitting them to enjoy a higher standard of living relative to the final pay than do current pensions, periodic increases to pensioners income during retirement to reflect cost-of-living increases, and pension portability.

Further, as to possible new benefits they cite optional retirement at age 55 with full benefits to all employees. It is interesting to note that the trend in early retirement benefits under private-pension plans is one that social security has not been following nor is there any indication that it might in the future.

In this particular forecast they give a breakdown of 43 of the experts as to their speciality, where that speciality was given, and I found it interesting that Government welfare supplied two of these 43 experts, economics supplied four, labor three, education three, employee-relations eight, domestic business six, corporate structure three, a rather widespread set of respondents.

It just stands to my mind in rather sharp contrast to the list of experts that were summoned to write on private-pension matters in connection with Mr. Schulz' paper.

Mr. ORIOL. Is this a reference to the comments on page 2, Mr. Jackson?

Mr. JACKSON. Indirectly. Mr. Griffin noted that as well in his remarks.

Mr. ORIOL. I had a comment on that because I caught it when I read it. I think perhaps a little more elaboration is needed here. It is just referred to as one private research statistician and five Government statisticians in addition to the retirement editor. Of course one of the persons who participated we heard from this morning, Miss Charlet, who certainly has a broad experience in the field.

I believe that the persons also represented on the panel have capacities and qualifications, even though a Government statistician has to be an expert, I think that their qualifications go beyond that. I just wanted to make that comment.

Mr. JACKSON. I have no real criticism of the selection of the individuals. I believe basically you get people to work on a thing like this when they are convenient and they are available and I can say that the individuals chosen are expert. I have no hesitancy on that.

I would like to point out, however, that there is a bias here toward what might be considered the macrocosmic view of pensions, viewing the overall picture from the outside as opposed to actual work with pensions on a day-to-day basis from what might be termed the inside. I am not saying one point of view is better than another, but that only one point of view was adequately represented in the paper.

Mr. ORIOL. Did you find that was true, Dr. Schulz?

Dr. SCHULZ. Not entirely, but I am in sympathy with the comment. Economists pride themselves, in part, of being generalists and working from the outside rather than from the inside.

Mr. JACKSON. Right.

Mr. ORIOL. May we have a copy of that article* for the hearing record?

Mr. JACKSON. Yes, I have a copy.

Mr. ORIOL. Fine.

Mr. JACKSON. When I read this working paper and considered this overall broad point of view, then adding up 35,000 plans and finding that they cover 22,700,000 participants and the like, I took the dozen or so programs that I worked on and added them up to see what added insight I was able to get in private pensions and I found these programs cover 1.3 million workers with 167,000 retired people now collecting benefits and some five and a quarter billion dollars in funds.

Having done this, I found in the first place that it did not really give me very much insight into what I was actually doing, or into the value of these pension plans, what the plans themselves are doing for the people who are collecting the benefits.

Second, there is a tendency in this approach to average out individuality. For example, the two largest programs that I work on are a union-negotiated pension plan supported by one of the Nation's strongest corporations on an employer-pay-all basis and a union-member plan where the only source of funds comes from union-member dues.

After adding these two programs into a single total it seems to me that I have an apple and an orange added together and the end result is a bit meaningless in some respects.

My own personal view is that private pensions do not have as a valid objective 100-percent coverage. If they should ever achieve a 100-percent coverage I believe that would probably be indicative, by my way of thinking at least, that our social security program had fallen behind the point where it ought to be.

To me the ideal is to have the social security program reach the point where the first group of citizens agree that nothing further is necessary for them. Other groups then will agree that small additions are necessary on up to still other groups that want to lay a great deal more away for retirement.

* Retained in committee files.

No Programs "In a Vacuum"

I think there is a danger in holding a hearing on private-pension plans that relates to modern benefit design. The total approach to employee benefits is more and more frequently being taken. An employer does not look upon a pension plan as a program in a vacuum, but rather considers it in connection with other programs such as workman's compensation, social security, group life insurance, disability income insurance, sick leave practices, vacation programs and the like and tries to fit all of these into one meaningful whole. Concentrating on just the pension aspect tends to overlook some of these other areas that have a valid hearing on the design of these programs.

The overall feeling that I got from reading the committee background paper was that we have essentially another paper exploring the hole in the doughnut. It is not quite as far out or objectionable from my standpoint as that of Nelson McClung, but it exhibits a great deal of negativism. It is viewing what is wrong with private pensions and I submit that you could consider what is wrong with *x*, letting *x* be almost anything you want to choose, and after a period of 2 or 3 weeks of looking at the flaws in what you have decided to look at, you would conclude that it isn't very good. I think some balance is needed.

I was delighted in reading Senator Williams' opening remarks to find that there is in fact balance in his statement and that there is some recognition that these private plans are doing a good job.

Illustrations of "Negative Approach"

One illustration of this negative approach. I think there is no real understanding of the true value of a pension plan as a useful mechanism in the Nation's economy. A pension plan has two disadvantages when it is compared to private-individual bank accounts. One is that there are service requirements for vesting and the second is that there is forfeiture at death.

This leads to suggestions that vesting should be immediate and full and that greater survivor benefits should be added to private-pension plans.

At the same time this objection is raised, there is no recognition whatever of the offsetting advantages; that is, that adequate benefits can be provided to current retirements as well as to those who live too long. And the objections overlook the fact that the groups choosing the pension approach could have selected a profit-sharing or thrift plan with full immediate vesting if indeed such a plan had better served their purpose. The fact that most of them have not selected such plans I think is quite pertinent.

Also as to general area of vesting, it seems to me that most of the comments I have heard today overlook the acquisition and training costs that are involved in bringing new employees in and I am not sure that I understand the rationale that employers should not only meet such costs for what might be termed nonpreventable transients but also should accept a liability for them as well in pension units not falling due for some 30 or 40 years into the future.

A second illustration of the negative approach lies in the comparison of private-pension plans to social security and the conclusion that social security is portable and private pensions are not and this is bad.

In the final analysis, our national program of social security provides benefits geared to political and economic considerations that simply may not be applicable to a private-pension plan established by the individual employer. Social security provides full unrestricted benefits only after age 72. Benefits are available after 65 only to the extent that an earnings test can be met. Social security provides extra benefits for the wife or minor child of a living pensioner simultaneously with his collection of a full benefit, and benefits for surviving parents also. None of these are commonly found under private-pension plans.

Disability benefits are more restrictive and social security benefits generally discriminate in favor of married participants as opposed to single, against female participants, and in favor of those spending only a small part of their working careers in covered employment.

There can be no question but what many of these unusual benefits and the quirks in the system's operation would make little sense under a private-pension plan however justifiable in the national social insurance scheme.

To some extent, however, the integration rules imposed by the Internal Revenue Service tend to favor benefit patterns that are similar to those of social security. This is particularly important in the case of early retirement. Thus, they impose a set of considerations on the design of private-pension benefits that may or may not be compatible with the private interests that are involved there.

A third illustration of this negative point of view would be the Studebaker situation. There is only one spokesman that I have heard of in the last 10 years and that is Bob Royes of A.T. & T., who has commented not on what the Studebaker pension plan did not do, but rather on what the Studebaker pension plan did.

There is surely some Studebaker worker who retired in 1952 or 1953 or 1954 or 1955 who received a pension based on 30 years' credit, that pension having been paid in full to date and probably will be paid in full in the future.

On the subject of funding which was raised this morning by one of the labor representatives, I think all of us can agree that the sound funding of pensions is a good thing. Again, as with the case of vesting where I would personally agree it is a good benefit, the question is should it be mandated. It seems to me that pension-plan termination is a symptom not a disease. The disease is business failure. The end results are not only loss of pension rights, but loss of jobs, loss of earned income, the need to move from one community to another.

I do not personally view plant termination as posing as great a problem for private-pension plans as inflation which in the long run has perhaps robbed more people of more pension rights.

In the area of vesting and turnover, we conducted a study recently for a major client with high turnover rates and found that of all of the people now working for them only 18 percent would leave employment prior to meeting vesting requirements under that plan, the vesting requirement being 10 years of service at this point. Of the 18 percent, 14 are those who will leave with less than 3 years of service. These figures are a lot lower than Professor Bernstein would have us believe.

The plan that I work with that has the weakest vesting requirement is the union-member plan that is supported entirely by member contributions. In that case, a conscious decision was made that, rather than provide benefits to terminating members, even a return of their own contributions, it would be better to provide a death benefit of $1,000 and an additional accidental death benefit of a further $1,000 in order to carry out the fraternal interests of the program.

In looking at the effect of pension regulations a parallel can perhaps be drawn in Canada where I can think of two illustrations that sort of lead me to the view that greater regulation will not improve matters. On the one hand, we have an employer with a pension program covering a small group in Canada and we have been forced to conclude, because of a recent ruling of the Department of National Revenue-Taxation, that this employer is better off operating an unqualified pension program for the handful of people in Canada than he is continuing to operate under their restrictive regulations.

In a second situation, a U.S. employer with separate United States and Canadian pension plans decided to adopt a fairly generous disability pension in the United States. In Canada the Department of National Revenue regulation indicated that the particular type of disability pension did not meet their qualifications, since it exceeded the accrued pension, and so it would have to be modified. Now, the end result here is that the Canadian employees of this organization have no disability provision whatever. It was simply not put in.

One miscellaneous question that I believe should be raised in connection with the various studies that are done on the needs of the aging, and the various comments about the gradual decline in purchasing power of a flat dollar pension, is whether there is not in fact some decline in the need for income with advancing age. Is it not true that people retiring, let us say, in their fifties or up to age 65 do not in fact have a great proclivity and ability to spend money for the first 5 years following their retirement than they do 20 years later when they may be bedridden?

So that the gradual——

Miss McCAMMAN. There is nothing more expensive than being bedridden.

Mr. JACKSON. This may be true. I think with the introduction of Medicare we may have an offsetting factor here. And yet a good many of my friends and associates that have retired have done a good deal of traveling in the first few years. Those who were retired years ago have slowed down somewhat—Bill Williamson is a good example, a fine actuary, Bill is now approaching 80, and he is not getting around to quite the extent that he did. I just pose it as a question because the Bureau of Labor Statistics has never broken this need for income down by age.

Mr. ORIOL. Mr. Jackson, we will make available to you a transcript of the hearing conducted in Ann Arbor last summer on consumer aspects of the economics of aging at which this question was posed and in which BLS representatives participated.

The upshot is that there is no reason to accept your premise as right or the premise that expenses markedly increase. There is no study which is what we both agree on. However, I think medical expenses, rising property taxes, inflation, do add quite a bit to erode fixed incomes quite markedly.

Mr. JACKSON. This may be true, but one possible trend in private-benefit design which I believe the Harvard Business Review article mentions is the possible introduction of decreasing pensions, pensions that are designed to start higher in the first year following retirement.

Mr. ORIOL. What do they say are the elements of reduction? What causes them to think the need for income declines?

Mr. JACKSON. Presumably what they have in mind is the matter of plan design, if there is a sharp reduction in an individual's income from one day to the next as a result of retirement the individual hesitates making the move.

In early retirement due to ill health in particular, an individual may not be able to get his advance financial commitments out of the way fast enough to be able to adjust to a lower dollar income. Thus, if there is a gradual decline it may ease the transition.

Mr. ORIOL. One decline we have become familiar with is the decline implied when a person has to choose between prescription drugs and food. We have encountered that awful choice at any number of hearings. And I don't know what else could be reduced when you reach that minimum. True?

Mr. MILLER. Is examination of this question of declining retirement incomes directed at people with rather substantial incomes at retirement? Because that is a major factor. If you are talking about substantial income or near subsistence income, the pattern of inflation almost inevitably is going to work so that they are going to need more income, not less.

Isn't that so?

Mr. JACKSON. That is possibly true. I am talking about private-pension benefits that are presumably above the bare subsistence level.

Miss McCAMMAN. So they do leave room for foreign travel in the early stages whereas the person might not have the capacity to travel later.

Mr. JACKSON. This is true. This is one of the alleviating factors that prevent private-pension benefits, even when a flat dollar amount, from gradually becoming inadequate. They may not in fact have become inadequate. They may start at one level of adequacy and gradually taper off, by reason of the increase in cost of living, to a subsistence level 20 years later. That may be all the individual needs at that point in time. The point is that there is not 100-percent agreement even on the need for cost-of-living adjustments in pensions.

Another illustration of this approach is the steelworkers pattern plan which has a lump-sum payment upon retirement and that lump sum is intended to tide the fellow over a few months.

Mr. ORIOL. To reduce the shock.

Mr. JACKSON. To reduce the shock. You want an employee to take advantage of the pension plan and retire when he really ought to retire. And yet if he is going to take such a sharp drop in income that he can't afford to, then you have resistance.

You have a point at which the individual doesn't want to make the decision.

Mr. MILLER. Now you have hit on a very important point, when one ought to retire. In whose opinion?

Mr. JACKSON. I would say in the opinion of the individual, himself, which is pretty generally a good one.

Mr. MILLER. Isn't this other thing you are speaking of a dangling of a carrot before the retiree when he has some reluctance about retiring, so as to make him jump because of certain immediate advantages?

Mr. JACKSON. The carrot has been dangled in a number of pension plans, the autoworkers pattern plan being one perfect example. Viewing in their own particular industry a potential problem of automation and loss of employment opportunity the autoworkers negotiated for what they call supplemental allowances which for the 30-year worker at, say, age 60 would provide a total income from their plan of $400 a month up to 65 at which point he would drop to his full regular pension and collect social security.

That was put into their program as a carrot so that, when there was a cutback in production, the older worker would retire and the younger worker would not be laid off.

Mr. MILLER. This relates to a comment made by a previous witness that many of these pension plans are designed for the benefit of the country. You are citing an instance where an element in the pension approach is designed for the benefit of the younger workers and the union.

It is true, is it not, that this is frequently the case?

Mr. JACKSON. I would say most definitely. And in those cases where there are no unions I would say that employers are highly cognizant of their competitors' pension plans and just how attractive a package they have and so they are encouraged by the example of others to provide benefits which they might not have thought of, themselves.

By and large, these union-negotiated plans have followed a pattern of development that has best served the interest of the union membership, at least as well as the union leadership can read it and as well as management can read it.

Management does not just take the union demands and accept them. If they are going to pay for the program they want to make sure it fits in with corporate philosophy as well.

EXAMPLE FROM AUTO INDUSTRY

One illustration in the auto industry would be the individual in his 60's who has a job and he is not totally and permanently disabled so as to meet the social security definition which almost requires that he be put in a basket and carted off somewhere, but he is semisenile and he is beginning to reach the point where he may get his finger cut off in a drill press or step in a hole on the way through the shop or have some other accident so that the company would prefer to have that man retire.

The individual, himself, given a reasonable pension, will accept it.

There was a study at the University of Michigan, published this last summer, on the subject of early retirement that developed the fact that below some minimal level of income the early retirement choice is not made. You have to reach some minimum level of the order of $300 or $400 a month in income, social security plus private pension, before you have what might be considered as a fairly free unfettered choice on the part of the individual worker as to whether he will retire or not.

Below that point, the choice simply is not made.

Mr. MILLER. Is it not true, Dr. Schulz, that the early retirement has been most common among those with the lowest incomes?

Mr. ORIOL. Let us distinguish between voluntary and involuntary.

Dr. SCHULZ. In general it is true; it is documented that the phenomenon of early retirement is commonly observed among lower income people. Those who have retired early are typically those with the lowest economic status. A 1966 social security study found that men claiming reduced social security benefits are much more likely than men who defer their claim until 65 to have low lifetime earnings and sporadic work or unemployment in the years preceding entitlement.

Mr. JACKSON. I would like to comment very briefly on Mr. Greenough's suggestion of an employer deduction only when the benefit vests. I think there are two problems here.

The first problem is that many private-pension plans do not have a cost that is allocated specifically to an individual employee and placed in a bank account for him and forfeited at the time that the man leaves.

So that there is a real problem under many of our largest plans of determining just who the employer contribution is made for. For example, if you have a plan that has been developed over a number of years and there should be a change in the actuarial interest assumptions, from 4 percent to 5 percent, cutting back the cost, does that represent an employer payment on somebody's behalf? It means that past contributions made by the employer will stretch further than they did at the time when they were first applied.

It seems to me that this suggestion envisions a world in which we have individual annuity purchases made from an insurance company or an organization such as Mr. Greenough's, in which case this would be practical because the records would be there. Unfortunately, under most private-pension plans things aren't that simple.

So, my first criticism of his suggestion is that it is not practical. In many cases we do not even know how many people are covered by a plan. We do not even have the employment statistics, pay, date of birth and so on for all the people who are covered. These are developed only when the people reach retirement and apply for pension.

Now for my second objection. Pensions, private pensions, are long-term commitments. Employers can in theory cancel a private-pension program once embarked upon. The fact of the matter is that they have not done so very often unless they get in very dire straits, primarily because they don't want to back down on a promise made to an employee about something as important to him as retirement income.

Now, it seems to me quite obvious that this sort of long-term commitment is taken very seriously by private employers and they don't like embarking on pension programs of this type or of expanding programs already in existence if they are not sure of where things are going. A pension commitment is not one that is made for the next few years and changed as would be the case, say, with a group insurance program. It is a 20-, 30-, 50-year undertaking.

When you have a climate in which there are continual changes, even of a modest nature, in the tax rules that affect these plans you merely focus the employer's attention on the fact that we live in a changing world and raise the question of why he should adopt an expensive pension plan and commit himself to it permanently when the effect of that commitment can change overnight.

"Threat" of New Regulation

Threats of new regulation, or greater regulation, on the part of Government also discourages employers from adopting these programs, and there are even bills that have been entertained in Congress which would in effect result in confiscation of some of the funds already put into private-pension plans if the plans don't perform in one or another desired fashion.

I personally feel that private pensions do a great deal of good, because I deal with the individual calculations, and certify to the benefits of individuals who are retiring. I have met some of these people and I can see at the working end of pension plans just what it is that they are doing. I think they do a great job basically. I would hate to see them discouraged.

I think the biggest thing that Government could do in this regard, admitting the fact that change is necessary in the long run, is at least to leave the American public with the feeling that there is some element of stability here, there is something you can count on.

One illustration of this point is the integration rules which first came out in 1942 or early 1943 and there was a great outcry at the time that the rules of the game had been changed, but at least the rules that went in in 1943 lasted until 1968 at which point there was a ratchet-like change downward. Now, that one change discouraged a lot of people from improving their pension plans. They turned to other approaches, group insurance which at the moment is not federally regulated, pay-as-you-go arrangements, unqualified arrangements, and the like.

And so I think the Federal Government does have something that it could do to assure reasonable growth in private-pension plans—namely, to think through very carefully any changes that are going to be made, to give people advance warning of the changes, to let the public comment on the need for and forms of such changes and then to make a minimum of major policy shifts.

This is my chief objection to Mr. Greenough's suggestion, the changing of the tax rules from A to B. Maybe B is better than A, I am not an expert on taxes. It is a change, and the employer who is faced with a pension commitment that he views as stretching on into a future which is affected by taxes which change from one year to the next, and rules and regulations that change ceaselessly, is that much less likely to increase the benefits and put more into that plan.

He is more likely to let it wither.

Now, I have touched on many of the things that Mr. Griffin had covered in his statement and given perhaps some emphasis that he would not have given. I will be happy to answer any questions you may have either on his statement or on my own.

(The prepared statement of Mr. Griffin follows:)

PREPARED STATEMENT OF FRANK L. GRIFFIN, JR.

PRIVATE PENSION PLANS

That honest men may disagree as to the fundamental nature of things, depending on their particular viewpoints, background and preferences, is readily apparent. I can think of no better illustration than the parable of the six blind men who set out to determine the nature of an elephant. The first, upon grasping the elephant's tail, observed that the object was very like a rope; the second, upon grasping its tusk, exclaimed that it was like a spear; a third, clasping its arms about the behemoth's leg, averred that the object was akin to a tree; . . . and so on. All were right, to a degree, but not one had an accurate concept of the animal. It would have taken a wise man and a philosopher to have pieced together an "elephant" from the limited findings of these data collectors.

In assessing the private pension field, men of different persuasions, having vastly diffrent areas and degrees of experience, are arriving at varid conclusions. The economist has a particular viewpoint, the research statistician another, the politician yet another. Unfortunately, few of these have intimate knowledge of the practical aspects of private pensions, influenced by daily contact with the thinking of individuals who bear primary responsibility for decisions on design, negotiation and communication of benefits, administration, and financing of these plans. It is not possible to make a proper evaluation of the private pension system without giving considerable weight to such practical matters as the give and take of pension negotiations, the tailoring of benefits to specific needs of particular groups (coordinating pension programs with separate benefit programs maintained by employers or provided by statute), and the practical considerations involved in selecting realistic cost budgeting methods within the framework of IRS regulations.

Progress of course lies in blending new concepts with methods and approaches which have proven themselves successful. It is to be hoped that fresh viewpoints will constantly flow from minds unfettered by traditional concepts and allegiances. We should make sure, however, that new proposals blend harmoniously with the practical realities of the market place.

In view of the fact that Professor Schulz' acknowledgement list of "experts in the field of private pensions" includes not a single person with more than a peripheral view of the field (i.e., one "retirement editor," one private research statistician, and five government statisticians), it occurred to me that it might be of interest to explore the opinions of experts who are actually practicing in the private pension field. These are the consultants and actuaries who, being on the firing line, are familiar not only with the statistics and theory of pensions but also with the practical problems and viewpoints found in everyday contact with the field.

Accordingly, as part of my presentation, I have derived a sample of such opinion, choosing as my correspondents 17 individuals, any of whom would rank high on any list of pension consultants and actuaries, from different geographical areas in the country. For the most part these individuals, though well seasoned, represent the younger generation of actuaries and pension consultants. This latter choice was deliberately made in order to avoid the possibility of criticism on the grounds of "arterioschlerotic" bias. To avoid influencing my correspondents' opinions in any way, these individuals were merely asked "*What, in your opinion, would do most to strengthen the private pension system in this country?*" Their answers, given later, may be of interest. In an effort to obtain a further opinion on the probable character of private plans a decade hence, these experts were also asked what the well dressed pension plan will wear in 1980. Their answers to this question are summarized in the background material below.

GENERAL BACKGROUND

To begin this presentation with some observations of my own, what is it we *do* know about private pension plans? Among other things, we know that compared with many other institutions they are exceedingly strong and healthy. We know they have thrived in an atmosphere of minimum government restraint or interference. We know that, for the most part, employers and unions have taken their stewardship of retirement security seriously, and have arrived at sound decisions on a multiplicity of benefit provisions and funding policies adapted to their special requirements. We know that desirable experimentation and innovation of new benefit forms have been the rule rather than the exception, and that vesting provisions have undergone significant liberalization by voluntary action over the past two decades. We find that currently, under pension plans which have been in effect 10 years or more, 80% of the values of all accrued benefits are vested. We know, too, that funding of private plans is well ahead of realistic benchmarks of funding progress in over 90% of all cases. These conclusions are borne out by the recent Pension Research Council monograph on the "Status of Funding Under Private Pension Plans" authored by Mr. Trowbridge and myself. That monograph presents the results of the first factual nationwide study of private pension plans in the United States.*

Furthermore, we know that if mandatory vesting were legislated, it would be the *smaller* employers, and the employers with the most generous bnefits, on whom the principal cost burden would fall. These inequities extend beyond cost into the area of benefit priorities, which have traditionally been set by those most familiar with the needs and preferences of the particular group being covered, rather than by an omniscient government.

What other facts do we know about private pension plans? We know that they cover approximately one-half of the total civilian labor force between the ages of 25 and 65 years, that the amount of pension per retiring employee has approximately doubled over the past ten years (it is estimated that it may double again over the next ten years). We know that most large and medium sized employers already have pension plans covering their employees and that there are a growing number of small employers adopting plans either of the pension or profit sharing type. We know that even at the present stage of evolutionary development of vesting provisions, most older employees of organizations employing 100 or more will reach retirement *with substantial pensions*, notwithstanding any job changes made prior to their middle working years. We also know that, even in the absence of liberal vesting in some plans, employees who put in as many as 15 or 20 years of service with their last employer will in most cases develop a meaningful private pension supplement to their Social Security benefits.

As Robert Tilove, Senior Vice President, Martin E. Segal Company, well pointed out in his discussion "Income For the Elderly Through Work Life Extension, Asset Conversion, and Pension Improvements" which appears on pages 31 and 42 of the Joint Committee Print, "OLD AGE INCOME ASSURANCE—Compendium of Papers on Problems and Policy Issues in the Public and Private Pension System," submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States:

". . . pessimistic estimates (of the percentage of employees who will receive private pension benefits) have not been supported by convincing evidence. . . . The real question is not the probability that a young man or woman will remain with the same employer to retirement age, but rather the following: What percentage of the older worker population is covered by pension plans and will be eligible for pension benefits"?

Subject to the political and economic climate for private pensions during the next decade, it is possible to predict that in 1980 perhaps two-thirds of the

*Plans which, at the time of the study, had been in effect at least ten years.

non-farm, civilian labor force will be covered by some form of pension or profit sharing plan. It seems probable that the average per capita pension payable under private plans will have increased to between $2,500 and $3,000 per annum, of present trends continue. As an illustration, note that in the past ten years private pensions for workers in the automotive industry have increased from an average of $840 to an average of $1,800. A further doubling in the next ten years is clearly possible. *Including Social Security,* total pensions for such workers by then may have reached or passed $6,000 a year.

Another national "pattern" plan (Steelworkers) provides a similar level of benefits under a different type of formula. In many areas there has been a trend toward formulas based on final average salary. These plans often provide 40% to 50% of final average salary, which, for a typical worker, would produce a pension of from $3,000 to $5,000. Even when this amount is inclusive of ½ P.I.A., the benefit is a significant one.

Some have predicted that in a generation private pensions plus Social Security (even with the latter remaining at its present level in relation to average pay rates) will reach close to 80-90% of final average pay for lower paid employees, a lesser figure applying to higher paid employees. The possibility of a legislated minimum subsistence income for all, active as well as retired, may of course bear on such a projection.

Employers, unions and their pension advisors have on the whole wisely planned their retirement programs in relation to the benefits available under Social Security. The government itself has encouraged this approach through the operation of IRS rules; as a result, many plans quite properly allow in their formulas for the substantial Social Security benefits applicable only to the lower segment of earnings, by providing larger *private* plan benefits on earnings not covered by Social Security.

(Some individuals have incorrectly criticized private plan benefits on this score, on the grounds that they are disproportionately weighted in favor of higher paid employees. When viewed in relation to total retirement income, this is certainly not the case. Looking at the matter correctly, it is apparent that the employer provides not only the private plan benefit but at least 50% of the Social Security pension. This fully justifies the provision of different levels of benefit under the private plan, on different segments of earnings.)

A number of persons outside the field have made projections of the benefits which may be expected under private pension plans by the year 1980. Accordingly, it seemed wise to consult experts practicing in the field to find whether there was general agreement on this point. The following table is a truncated summary of the replies to the question "*What will the well dressed pension plan wear in* 1980?" Admittedly, answers to this question are no more than unprovable prognoses at this time, especially in view of uncertainties as to the political climate for pensions in the decade ahead. However, since the answers come from consultants who are used to anticipating trends in this field, they are certainly indicative of likely events if the climate remains favorable to the growth of private pension plans.

Trends in benefits to 1980	*Number of times mentioned by 14 correspondents replying to this question*
Pensions for workers approximately 100 percent higher in dollar amount, with trend toward formulas based on final average pay	10
Improved disability pension provisions, both as to eligibility and amount, either under pension plans or more widespread use of long-term disability programs	10
More liberal early retirement practices, with improved benefits (retirement ages flexible, with full benefits at age 60 becoming common)	[1] 8
Survivor benefits in many plans, for deaths occurring both before and after retirement	10
Pensions reflecting cost of living	11
Vesting after 10 years of service	11
Further decline in popularity of employee contributions unless tax status is changed	[1] 7

[1] It is my belief that these numbers would have been higher if questions covering these points specifically had been asked.

The prospect of greatly expanded benefits under private pension plans would appear to be bright provided these plans are not subjected to rigid regulatory control which would lead employers to retreat from this field in favor of other, less regulated forms of benefit.

A SUGGESTION FOR BROADENING PRIVATE PLAN PARTICIPATION

From what we know about private pensions, we can also deduce that everything possible should be done to strengthen the private pension movement by broadening the base of coverage under private plans. Several schemes have been suggested to accomplish this. One of the most logical, in that it would open new avenues to employees of small organizations and to the self-employed, would be to encourage individual savings for retirement by making the contributions of individuals for retirement purposes tax deductible currently (taxed upon ultimate payment of the benefits). This would put such contributions on a comparable (though not identical) basis with contributions made by employers on behalf of employees in presently covered employment. Such a procedure would argue for a revision of the present code relating to tax deductibility of pension contributions in order to establish greater equity between those employees in occupations covered by employer sponsored plans and those employees who are not. Specific suggestions on this point will. I dare say, be forthcoming in the not too distant future.

A change of this type would of course have an immediate impact on the U. S. Treasury, to the extent individuals availed themselves of the new privilege. Long range, however, it would not have a seriously adverse tax effect. The most logical time to adopt such a revision would obviously be a time when substantial Federal disbursements for defense or other priority items could safely be reduced.

Aside from the advantage of such a scheme in broadening and strengthening coverage under private pension plans, making these plans an ever more important part of old age security, the scheme has the additional advantage that its encouragement of savings would act as a brake on inflation. Certainly there is no more compelling argument that could be raised at the present time.

ACTIONS WHICH WOULD STRENGTHEN THE PRIVATE PENSION SYSTEM

The following table summarizes replies received from 17 correspondents, chosen from experts practicing in the private pension field, to the question: "What, in your opinion, would do most to strengthen the private pension system in this country?"

TABULATION OF MOST FREQUENT ANSWERS (REPLIES FROM 17 CORRESPONDENTS)

Removal of detrimental factors (12 respondents commented here)	
Discourage "expansionist" philosophy for social security; hold such benefits to a floor of protection consistent with present levels in relation to pay	8
Reduce governmental interference; simplify IRS requirements; avoid excessive regulation	9
Curb inflation	6
Positive actions that can be taken (12 respondents commented here)	
Broaden the coverage of private pensions by encouraging plans for small employers; raise inadequate limits of deductibility for HR-10 plans	7
Make employee contributions tax deductible, whether under existing employer sponsored plans or as individuals	5
Better public relations by the industry, through studies, publication, testimony (three respondents significantly pointed out the need for a change in the basic attitude of many governmental leaders)	8
Minor regulation possibilities (9 responeents commented here)	
Require meaningful disclosure and more adequate communication of benefit rights to employees	7
Require fiduciary responsibility; impose restrictions on trustees other than corporate trustees	3
Accreditation of actuaries (through American Academy of Actuaries) to help insure adequate funding	5

Although the emphasis varies from one person to the next, I believe the foregoing opinions are widely shared by pension actuaries and consultants.

A number of side comments were made by various of these correspondents. For example, one has observed there is an inherent bias in the manner in which information is presented to the public, as a result of which the industry has been less successful in communicating its side of the story than critics have been in voicing theirs. He bases this claim on the fact that writings of government officials and academicians are supported either by taxation or educational endowments, while representatives of the private pension field (working usually for themselves or for relatively small firms), must take time from their regular duties in order to prepare the studies and publications needed to communicate the favorable aspects of private pensions.

An interesting idea expressed was the possibility of applying a special business tax where an employer had no pension plan or where the plan fell below certain minimum standards established through legislation. The tax could be graded according to degree of insufficiency. Any such scheme undoubtedly should be accompanied by an overhauling of the code relating to tax deductibility of employee contributions, a simplification of IRS regulations, and so on.

Another respondent suggested permitting employers to "opt out" of the Social Security system in favor of comparable benefits privately provided (as has been the case in England). Others suggested the possibility of eliminating the Social Security system as an old age pension scheme, and the substitution of the concept of minimum subsistence income for all persons, active or retired.

One point on which nearly all consultants seem to agree is that the greatest threat of all to the private pension movement lies in the continuing "squeeze" between an expanded Social Security and a narrowing of the integration limits permitted by IRS. Many persons, including Robert J. Myers, Chief Actuary of the Social Security Administration, have spoken out boldly against the "expansionist" philosophy held by many government officials.

MISCELLANEOUS CONCERNS RELATING TO THE POSITION PAPER: "PENSION ASPECTS OF THE ECONOMICS OF AGING: PRESENT AND FUTURE ROLES OF PRIVATE PENSIONS"

A point of some concern is the readiness of some observers to criticize private plans for the absence of ancillary benefits, especially widows' or survivors' benefits. In my opinion such criticism is unjustified.

Since the days of the earliest private plans, which provided only age retirement benefits after attainment of an advanced age, many ancillary benefits have been developed. Among those commonly found in pension plans today are disability pensions, special forms of early retirement pension, severance benefits (in the form of vested deferred pensions), optional forms of retirement income (which permit, among other options, the election to take a portion of the total value in the form of a survivors' annuity), and lump-sum or installment death benefits. The selection of particular forms of benefit (in addition to old age pensions) has depended on the priorities assigned by the interested parties, in allocating available funds.

Yet, the benefits contained in the pension plan itself do not tell the entire story. Pension plans are almost always accompanied, in the employer's overall benefit package, by a separate program of group life insurance. Frequently these separate insurance programs are quite substantial. Moreover, during the past several years *automatic* widows' or spouses' pensions have become popular additions to quite a number of plans. Experts are predicting that this type of benefit will become one of the more common features of private plans before the decade is out.

In both the type and amount of their benefits, private pension plans continue to keep pace with new ideas and developments, without any prodding from government. This adaptability is one of the outstanding features of the healthy growth of private plans in the past. I believe it is particularly unhealthy for a handful of individuals, in government or out, to postulate themselves "arbiters" of the question of benefit priorities, on the theory of special insight into questions of social reform. I believe these issues should be settled democratically in the market place, on the basis of competition for good employees or through collective bargaining.

Little purpose would be served by bringing to light disagreements with the author on miscellaneous matters of fact or interpretation, yet it may be of value to clear the record on a point or two.

In citing "exemplary" plans, the author labors under a misconception that plans of the TIAA–CREF (money-purchase) type are somehow superior to others. Possibly he confuses the liberal vesting provisions of such plans with "superiority" in general, rather than recognizing that similar vesting can be provided under any form of pension plan. His praise of the TIAA plan with which he is personally familiar is quite understandable, though it also concedes unfamiliarity with the history of money-purchase plans, which fell into rather general disfavor in the early 1950's due to glaring deficiencies in their basic benefit structure. The weakness of money-purchase plans in comparison with "fixed-benefit" plans is reflected in the fact that 90 to 95% of all private pension plans today are of the fixed-benefit type. I shall not bother to elaborate here, as the situation is well known to pension experts.

The two industrial plans and the plan bargained by UAW with several large automotive companies, also included in the paper as "exemplary" plans, are basically of the fixed-benefit type, one having a variable annuity feature. Why these particular plans were cited by the author, however, I cannot say. They are reasonably good plans but are not particularly unusual in any important respect other than the special early retirement provision of the UAW plan. Their benefit levels are matched by *many* other plans.

Thus, one cannot subscribe to the unequivocal statement that "the superiority of these exemplary plans cannot be attributed simply to normal growth and development over time; conscious commitments lie behind their innovative provisions." I submit that many, many employers and unions have made as great a commitment, frequently with even greater innovation. Just as in the parable of the blind men and the elephant, the quoted statement is based on inadequate information relative to the field as a whole.

Finally, under the heading "Conflicts in Plan Purposes" (which might more appropriately have been termed "Diversity of Plan Objectives"), the author of the paper presents in a negative way what proponents of private pension plans view as the positive advantage of "flexibility." He states that the "conflicts" have contributed to the difficulties of developing a public atitude regarding private pension plans. One might ask whether we *need* a uniform "public attitude" to justify the existence of *private* institutions. If that were so, for example, many of our finest institutions of higher learning would be forced to conform to mediocre educational standards set by an uninspired and nebulous "public attitude." The situation, it seems to me, argues for quite the reverse of social uniformity. Diversity is the key to progress and this distinctive feature of private pensions, as opposed to social pensions, presumably should be viewed as both normal and desirable in the private field.

CONCLUSION

Those who believe strongly, as I do, in the potential of the private pension system must take exception to the expenditure of taxpayers' money in research which appears to be deliberately aimed at shifting emphasis from private to public pensions, thereby inhibiting further growth in the private sector.

The fundamental question here should be: *"How best can a healthy private institution be expanded to embrace an ever larger segment of our working population"?*

Accompanying this line of inquiry, a related question is: *"What changes, voluntary or otherwise, would be desirable in existing pension plans to effect a higher level of ultimate coverage under these plans"?* Here, though it is my belief that too much has been made of this particular issue by critics, it is likely that most persons of responsibility in the private pension field would be willing to accept some "ground rules" in the nature of *minimum* vesting standards. At the same time, however, vesting is not the paramount issue.

The basic problem is to find a practical means of making available to small employers, the self-employed, indeed any individual, a vehicle to finance private retirement security. One possible approach was outlined in an earlier part of this statement. This problem can most certainly be solved if we are prepared to pay the price from whatever revenues are available for domestic social improvements. And in so many other areas, however, we are faced with a question of priorities. There are many social problems which a majority of our citizens would undoubtedly argue to have a prior claim on our resources. For this reason alone, I do not believe that a *substantial* reordering of priorities in favor of the "Economics of Aging: Toward a Full Share in Abundance" as a practical goal *at this time.*

Notwithstanding the foregoing observation, since it is possible to develop otherwise workable programs which would broaden the private pension movement, as well as have other beneficial effects in the economy, preparation of desirable alternatives is most certainly in order.

Supplementing the material in this statement is an article by the present writer entitled "Myths in Proposed Pension Regulations," which appeared in the October 1969 issue of Financial Executive magazine, copy of which is attached.

Mr. ORIOL. Thank you very much, Mr. Jackson. I think we would have been very disturbed if we had had uniformity of opinion at these hearings. You have saved us from that fate.

I do believe though as Mr. Hewitt said this morning, that the areas of agreement may be far greater than at first it appears.

Mr. JACKSON. I think that is true.

Mr. ORIOL. By making us focus on the positive you have stated something that we should certainly pay attention to. Since we are informal here, Mr. Hewitt is here, I cannot resist the opportunity to ask whether he has a comment now or in a few moments and if so, just let us know.

Mr. HEWITT. Thank you.

Mr. ORIOL. On page 14 of Mr. Griffin's statement, he says, "Those who believe strongly as I do in the potential of the private pension system must take exception to the expenditure of taxpayers' money in research which appears to be deliberately aimed at shifting emphasis from private to public pensions, thereby inhibiting further growth in the private sector."

This may be a reference to a much broader activity than I am about to describe, but I just want to be absolutely clear on this.

If this is a reference to Professor Schulz' paper, Professor Schulz was a volunteer I think but he certainly was unpaid.

I just mention that for the record.

Mr. JACKSON. I think what Mr. Griffin may have had in mind there is the fact that we have at the present time a set of disclosure laws that were originally adopted with the idea of protecting the participants in private-pension plans. There were public hearings and I am not even sure that they even found one pension plan in which there was something wrong, not one pension plan. I think they have since then found one, maybe two.

But the disclosure requirements were adopted as law. It was put in along with a lot of regulations. It has been amended. There is a great deal of pressure currently to increase the information to be disclosed and to study it in depth, as is sort of implied by Professor Schulz' reference to the great wealth of information on file with the Labor Department that remains relatively unanalyzed.

Now, the current proposals for disclosure would ask for information that goes well beyond its original purpose of catching the thief or preventing stealing. It is suggested that employers who sponsor private-pension plans should now provide a host of other details regarding the operation of their plans. Some of these proposals I suppose are just tossed in as flyers, others are seriously intended. In part, however, we are faced with the fact that for the college community, for example, the universities, this offers a great opportunity to do research and to write papers. So, employers should provide more information.

I think one thing that Mr. Griffin was concerned about is that the more papers of this sort that are written, the more pressure there is going to be to add still more to disclosure requirements. Perhaps if something meaningful were added to disclosure and all of the information which has been found useless were eliminated then the reporting burden would not get greater.

There is some concern on my part about the proliferation of these things. I am probably one of the few people in this room who has actually had the pleasure of filling in a disclosure form from end to end. It took me the better part of an afternoon. It ruined my day completely. Looking back on it, I don't really see that the information that is provided there really does a great deal of good in the form that it is now provided.

Mr. ORIOL. Do you think you could provide us within the 30 days this record will be open, you or Mr. Griffin or both, some thoughts on what could be eliminated from current disclosure and what might be added to it?*

Mr. JACKSON. Yes.

Mr. ORIOL. Are there any questions?

Dr. SCHULZ. First of all, since Mr. Griffin raised the question of the composition of the group of people assisting me, I think it is appropriate at this time that I formally acknowledge their assistance and I would therefore like to request at this point in the proceedings that their names and their titles be entered into the record, if that is agreeable.

Mr. ORIOL. That will be done.

(The information referred to follows:)

Miss Pearl Charlet, manager of research, Edwin Shields Hewitt Associates.

Mr. Walter W. Kolodrubetz, Office of Research and Statistics, Social Security Administration.

Mr. Donald Landau, 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.

Dr. SCHULZ. Mr. Jackson, on page 5 of Mr. Griffin's prepared statement, he talks about what is going to happen in the future with regard to private-pension coverage and the size of pensions that will be paid to various people in retirement. It seems to me that what Mr. Griffin has said conflicts with many of the other projections that I am familiar with.

I would like to ask you what is the source of Mr. Griffin's projections?

Mr. JACKSON. You mean the probable increase in the average per capita pension payable to between $2,500 to $3,000 per annum?

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*See letter from Paul Jackson, appendix A, item 3, p. 1724.

Dr. SCHULZ. Yes, and also that it is possible to predict that by 1980 perhaps two-thirds of the nonfarm civilian labor force will be covered by some form of pension or profit-sharing fund.

Mr. JACKSON. I will have to ask Mr. Griffin for his source of information on that.

Dr. SCHULZ. I think it would be useful to know whether his prediction is based upon some specific study or whether it is based on a less formal source of information.

On page 8 of Mr. Griffin's statement, he talks about the advantages of private-pension plans—the fact that they encourage savings and would act as a brake on inflation.

I think that the assertion regarding the extent to which private-pension plans encourage a net increase in the aggregate amount of savings in the economy is open to question, based upon what I have read in this area. But I don't want to quarrel with that now. Rather I want to ask you if you agree with the following. If the economy is not in an inflationary period but rather in what the noted conservative economist, Professor Friedman, has characterized as imminent recession, does it not therefore follow that the encouragement of savings would contribute to this recession? It is rather unfair in times of inflation to credit the pension system with contributing to anti-inflationary policy without pointing out at the same time that if we go into a recessionary period it will do just the opposite.

Mr. JACKSON. Let me answer that in two ways. First of all, private employers put more money into pension funds in good times than they do in bad times. So, given a recession, pension contributions serve as sort of a cushion so far as the employer, the drain on cash for the employer is concerned, because he can cut back his contributions. His work force cuts back anyway, but even above and beyond that relative decrease, he can cut back his pension contributions.

So, I don't agree that private pensions worsen recession, and I am not speaking now as an economist, but as an actuary looking at what happens to a company's contribution to its pension plan when business conditions are bad.

The second comment is that it may well be that we have been in an inflationary period and it may well be that we are going into a recession. This I leave up to the economists. But I am not sure that the fact that we are going into a recession means that we won't also have inflation.

Some spokesmen have suggested it is possible for us to have the bad medicine and the disease both and to have them for a prolonged period of time.

So, the question of whether we have a recession or not is immaterial. The fact remains over the last 20 years private pensions have built up reserve funds amounting to billions of dollars, $100 or $120 billion. The number is so large that it boggles the mind.

You may well contend that if that money had been kept in the corporate treasuries that the corporations would have borrowed less. You may contend if it had been paid to the individuals they would have saved it. What might have happened is pure conjecture. Frankly, I doubt it.

I suspect what would have been paid to the employees would not now end up as $120 billion in savings. If the whole amount would have been paid to the employees, you might have half of it saved, or a quarter, but certainly not 100 percent. In that sense, I think the private-pension movement has served over the last 20 years as a brake on inflationary forces, much in the same way as the Social Security System did when it was first started.

When social security was originally put in it paid no benefits at all. Possibly this was for political reasons, it may well have been necessary at the time. Anyway, when social security was originally put in it drew several billion dollars in taxes out of employees' and employers' incomes and just held them in the social security trust fund for a number of years. The social security plan when first adopted did not make the mistake that private pensions are now accused of making, namely, of considering the fellow who is already 64 at the time that the pension plan is going in and wondering what is he going to do next year when he retires. Social security designers just sort of washed their hands and avoided this problem and said, "Let these old people take care of themselves, we will wait until a man earns his credits before we pay him a benefit."

It is interesting that the subsequent developments in social security have been a continual upgrading of the benefits granted even to the earliest recipients so that the distinction at this point between those who were left in and those who were left out of the Social Security System at the start is a pretty sharp one and it is one that I don't think society can be too proud of.

Accordingly, I think employers who do consider these matters, who do put in adequate benefits for people already past the age on their staff when a future service benefit would be at all meaningful, are really to be praised rather than flogged.

Dr. Schulz. As I argued in my original statement, however, perhaps it is not the private-pension system that should be the humanitarians but rather the Social Security System—that is, the country in general should be the humanitarian. But that is a matter on which people will disagree.

Mr. Jackson. On this point, may I just say that I think the American public is relying on social security for something in their old age. And yet I think almost to a man they would prefer not to have all their eggs in one basket. I don't think they want to rely 100 percent on private-pension plans either, on an employer-sponsored plan. I don't think they want to rely 100 percent on their friends and relatives and their children. I don't think they want to rely 100 percent on their personal savings.

I think the more legs you put under the old-age security stool the better the American people like it. It is when you start sawing off one leg and then another, when there is a threat that private-pension plans will be taken over and lumped into the Social Security System as another layer on a federally operated cake for the old people, that the American citizens begin to wonder.

Should they place that much reliance on social security? Aren't they better off in fact having two or three sources of income? Something could go wrong with one of them. Diversity is merely a means of insuring against that.

Dr. SCHULZ. When social security was started, however, there was recognition of the fact that certain people would not be covered under social security. As a result, we developed the Old Age Assistance legislation which was made a part of the general social package. Inadequate as it may have been, and still is, it certainly was a recognition by the Congress of the fact that not all people would benefit from the social security retirement benefit legislation that was originally passed.

Mr. JACKSON. That is true. Also along the same line when the Railroad Retirement Act was passed there was also provision made in that act for past service.

Dr. SCHULZ. Mr. Griffin mentions on page 14 certain ground rules with regard to minimum vesting standards which he thinks most people in the private-pension field would be willing to accept.

Do you know what sort of ground rules he is referring to?

Mr. JACKSON. I think probably what Mr. Griffin had in the back of his mind is the practical approach that is taken to vesting that occurs in a private-pension plan freely operated. When the autoworkers-pattern plan was first put in they did not have 10-year vesting. They had a $1.50-benefit unit. If they had started out with 10-year vesting then today we would have some ex-employees who had 10 years of service 20 years ago still carrying around a $15-a-month benefit that will not be paid for another 5 or 10 years. It would be a little meaningless really. It seems to me that vesting is not simply a problem of service. It does not depend on the fact that the first 10 years of work performed represents one-quarter of your working career just as the last 10 years do.

It seems to me that the need for vesting ties in not only with service but more importantly with the level of benefits. It seems to me that the development of vesting in the private-pension field has been a reflection not of the fact that vesting is desirable as a benefit but rather that it is a less desirable benefit than an increase in normal retirement income to an adequate level.

An awful lot of emphasis today has been given to vesting which I view as just one of the benefits that can be added to a private-pension plan.

Anyway, rather than adding vesting, I would far rather stand up for the widow and add survivor benefits. I don't know who in Congress opposes income for widows. Obviously you have to favor survivor benefits that would pay widows and orphans an income to sustain life currently over a benefit that gives a man who is 32 years old, and is voluntarily terminating one job to accept employment elsewhere, a benefit that will be paid 33 years in the future.

Dr. SCHULZ. Then why do we have to make a choice between the widows and vesting credits for workers?

Mr. JACKSON. Because the employer doesn't have enough money to buy everything, Mr. Schulz. If an employer had all the money in the world, full immediate vesting right back to the word "go" might be one of the things in his pension plan but it might have gotten into the plan after an adequate survivors benefit, after a disability pension, after reasonable early retirement provisions and so on.

Now one of the puzzling features of the current pension dialogue is how everyone can settle upon one benefit like vesting and say, "This is desirable, and so without this pensions will not qualify." We have that same pattern in Canada where the Department of Revenue has laid down a set of rules and said pension plans will provide only this type of benefit and that is bad. It does not help the Canadians. They end up not getting any benefits at all in some cases. No pension plan at all is clearly worse than one with poor vesting. It is not a question of whether vesting is desirable. It is a question of whether it should be mandatory.

Dr. SCHULZ. I am raising the question though about its desirability, not about mandatory requirements. You say that the employer——

Mr. JACKSON. I agree that it is desirable. It is a desirable benefit.

Dr. SCHULZ. Yes. But leaving aside for the moment the matter of mandatory requirements, you say that an employer cannot provide everything; there is just not enough money. Suppose the worker were willing to settle for a lower take-home pay; you could then provide him both with survivors benefits and vesting.

Mr. JACKSON. You have been emphasizing what you refer to as a conflict between young and old. I would prefer a somewhat softer word, maybe call it a different objective of the young employee versus the older employee.

Young employees frankly don't care what sort of pension plan their employer has. You can't convince an 18-year-old girl who is employed as a secretary that this is at all meaningful. They are just not concerned. By the same token you can't convince a 58-year-old woman who is working for a company that a maternity benefit in the group health plan is a desirable benefit.

She does not care. You have a whole host of divergent interests here. What we are talking about is balancing them. Now, a pension plan happens to be one of the few employer instruments that is devoted to old people.

I begin to wonder why the interests of the young in the pension plan should become overriding here. No wonder it is biased in favor of the old, that is its purpose.

Dr. SCHULZ. Because they will become old and eventually will be very concerned about their old age and the amount of income they have in retirement. Because you find that the people who are old today and who were young many years ago are very concerned now about their inadequate benefits, both private and public. These people are now asking the Congress and private organizations for increased benefits, benefits which they did not or could not provide themselves with when they were young.

There is a serious problem here; I think it is one of education and communication. It should perhaps be the subject of hearings by the committee—the stake which younger people have in providing for their future old age.

It is something which is not very meaningful to them when they are young; but as Professor Bernstein pointed out yesterday, this is not a lottery. Those of the young who live to old age, all of them have to face the old-age income maintenance problem, and many of them will have to face the survivor's problem.

So I see it mainly as a communication problem between the young and old and not one of there not being enough money to provide the benefit. I am very young and I belong to a private-pension system that takes out quite a bit of my salary. If I did not contribute and if my employer did not contribute to the plan I would have much more money and could afford now much more of the abundance of the society.

The fact that it is taken out, however, guarantees me that in my old age I will be able to have a relatively adequate standard of living. This is something I don't think you can trade away.

Mr. JACKSON. I think that the plan you are involved in, the TIAA–CREF plan, is a fine plan. I know that you appreciate it. I think it works well in colleges and universities because it is covering people who are higher paid than the workers who are covered under our private-pension plans.

If you ask the typical autoworker to make a voluntary contribution toward his old-age security at the level that college people are asked, few would make it. I think college people are more aware of the problems of the future and maybe other people are more inclined to live in the present. In America that would seem to be their right. So I think there is a valid distinction between the TIAA plan and industrial pension plans. But on balance it strikes me that if the younger generation were really upset about the lack of accumulation of a pension credit during the earlier years of employment we would have heard more from the younger generation on the subject and less from college professors. We hear very little from the younger generation. They don't really care about pensions. The man who is in his fifties and sixties does care about pensions.

Now, when you use a word like lottery, and I am not accusing you of using it, you were quoting Professor Bernstein, I think you do the pension arrangement a very real disservice.

Professor Bernstein takes a simplistic approach of assuming that if an employee works for 1 year he has accumulated 1 year's pension credit because in the collective bargaining agreement x cents an hour were set aside for pensions and x cents times the hours the man worked is the amount of money that is his pension money, and if he does not get it then it is stolen from him.

Yet that very thing happens under group life insurance programs where y cents an hour is taken out of a man's pay and he never gets a cent.

His wife may collect a good deal more than his "equity" if he is unfortunate enough to die. And yet if he is fortunate enough to live the whole thing is forfeited. You could call that a lottery. This pension arrangement operates in exactly the same way. It is aimed at a problem area. It is aimed at the older person. It is aimed at the person who can't work any more. It is not aimed at the younger person who can.

When the steelworkers were concerned about the possibility of plant shutdown and widespread unemployment they negotiated for their 30-year retirement provision. They were not concerned about the man at 55 who just felt like quitting. They were not concerned about giving him a pension. They were concerned about the involuntary case.

You see, as an actuary I view pension plans as financial tools that have been around for hundreds and hundreds of years. Pension plans, as I view it, provide benefits that are defined in the plan. If the plan says that a man reaching age 65 is entitled to a pension and that is all it says, then that is what the plan provides. I don't view that plan negatively and say that there is a complete forfeit of pension rights on the part of a man who leaves before he got a pension right. I think there is a clear distinction.

The benefit formulas under private-pension plans frequently relate to years of service as a convenient way of developing a reasonable pension amount. That does not say that an employee earns the pension in each one of those years. And the employee does not forfeit a pension right if he terminates without vesting. If he gets no benefit it's because he did not have one. The plan did not give him the right. Forfeiture takes place when you have an unfortunate situation like Studebaker where an employer goes out of business and the plan terminates, and the man who had a right given to him under the terms of the plan is frustrated because there is a lack of funds.

Mr. MILLER. From your experience who makes the decision as to whether a plan shall be vested or not vested? Is this normally made by the employer or is it normally made by the employee?

Mr. JACKSON. There are probably as many answers to that as there are companies. By and large, demands for vesting have been brought up by some unions, not others. Vested rights don't really help the union either. If the employee is leaving the company he is also leaving the union local. He is not going to vote any more. Whether union leadership has gotten him a good pension with a vested right or not, does not help them. The political aspects are such that you would expect unions to be no more interested in vesting than employers.

The fact is that both unions and employers are interested in vesting after they get benefits for the old people up to the point they are satisfied they are doing a reasonable job and then they start looking around in other areas.

Sooner or later an increase in benefit will mean that the amount forfeited, if you want to call it that, is big enough to worry about. If you are talking about a $1-per-month-per-year-of-service pension, then lack of vesting until 20 years of service does not bother anybody because $5 or $10 or $20 a month just does not mean that much whatever the figure turns out to be at termination. It is when the benefits rise to a level of financial importance that vesting becomes a matter of concern. It has been my experience that it is a matter of concern to unions and it is a matter of concern to employers. And it was a matter of concern to unions and employers whose pension plan reached the appropriate stage for vesting long before it was a matter of concern to college professors, for that matter.

We now have pension plans in all sorts of stages of development and those that are just off the ground with inadequate benefits look pretty bad in the way of vesting. Those that have been in existence 10, 20, 30 years with adequate benefits look pretty good.

One major exception to the general rule that vesting takes care of itself over the years is the union-member plan that I work on.

That plan has operated for more than 40 years and they have vesting essentially at 20 years. It is a sliding scale. 20 years and age 65 really, but you can get some benefits if you are age 55 and have 20 years of membership in the plan. And yet this is a case of a group of people sitting down and trying to decide what they should provide in the way of benefits to their membership and at the moment their pension benefit happens to be fairly modest. An outsider could point to that plan and say it has pretty weak vesting and you can also point to that plan and say it was established in 1927 and it is still not fully funded. Anyway, this plan ran all the way through the depression and it paid 100 cents on the dollar and there are a lot of old people who could not have made it without it.

The fact remains of course that it does not have good vesting, and I think they would like bigger benefits and better vesting both. But where are they going to get the money?

Mr. MILLER. The thing you are saying about vesting is the same point that was made by Mr. Hewitt's chart on the costs of various elements that might go into the pension plan.

Mr. JACKSON. You don't often find an employer who has a pension plan with benefits of 60 percent of pay, including half of social security, who is planning on making it 70 or 80 percent. At some point you reach a stage where private-pension-plan objectives have been met in dollars for the old people. It is at that stage that you begin concentrating on these other areas, on survivor benefits, vesting and disability pensions.

In some cases disability income is provided through disability pensions and in some cases through long-term disability insurance plans. Thus the fact that a pension plan does not have a disability-pension provision does not prove benefits are inadequate. In the case of the autoworkers pattern plan some of the disability income benefits are in the pension plan and some are outside in the form of sickness and accident and extended disability benefits. Similarly there are survivor benefits under the pension plan and survivors income insurance outside the pension plan.

The autoworkers were one of the early groups to emphasize vesting but they also pioneered a supplemental unemployment benefit program to cover the involuntary layoff case.

There are a whole host of benefit programs. It is a real problem to design benefits in such a way that they all fit together. I think when you just fence pensions off and say, "In pensions we have a conflict between the young and old," you are ignoring all these other programs. I grant this, Dr. Schulz: I think we have a conflict between the young and old in group life insurance, we have a conflict between the young and old in medical expense insurance, in disability income.

In every one of the fringe benefit areas there is some conflict of interest. The point is neither side is right. It is a case of reaching a balance. Most private employers with pension plans that have inadequate pension benefits for people now retiring would prefer to spend additional money bringing their normal retirement benefit up to a level of respectability before they spend additional money on vesting.

Now, if you give employers a free choice they are eventually going to get the vesting and at the appropriate time. I think that is what Mr. Griffin's testimony indicates and it is brought out in the funding study of the Pension Research Council which he coauthored.

Vesting it is something that everybody admits is desirable. We are getting there. The question is are we better off if the Government says you have to have vesting before you can have any pension for your oldtimers?

It is at that point that I would deny that it is necessary. I think that free choice and bargaining between employers and employees who are designing these plans is what leads to innovation and what results in the plans working better for the particular groups that they cover.

Dr. SCHULZ. I understand your argument, I think, very well.

But I still think there is a problem which you are overlooking and not taking account of. Let us switch from vesting to survivor benefits which you just said were very important and something which we should be moving forward toward improving.

At the present time most private-pension plans do not have automatic survivor benefits. Some of them have optional survivor benefits. The evidence, very fragmentary evidence, indicates that the option is often not exercised.

Mr. JACKSON. That is true.

Dr. SCHULZ. Now, in Mr. Griffin's statement, and I think in much of what has been said at these hearings, there is an indication that some day in the future we are going to get adequate survivor insurance benefits—whatever adequate means.

Mr. JACKSON. You may not get them in pension plans though. They may be provided through a group life insurance program or a survivor-income program outside the pension plan. So looking just to the pension plan it may or may not be that survivor benefits will be added.

Dr. SCHULZ. But some time in the future this problem will be solved. It may take 3 years or 5 years; I would say it would take 10, maybe 20 years, to solve it.

Now, what happens in the meantime to the hundreds of thousands of workers who are now retiring, who have retired in the past and who we know are going to die and in many cases leave widows?

We already know that there is currently inadequate protection for these widows both through company life insurance, personal life insurance, and private-pension plans.

It seems to me that there is a problem which needs to be recognized, and the question is where does the money come from to solve the problem? Now, the younger worker of course is not interested in that problem because he is not old yet.

But if I were about to approach retirement, I would be seriously concerned about it. Why is it that the unions and the employers and the workers are not concerned enough about this problem to insure that the improvement in this situation occurs relatively quickly?

Mr. JACKSON. The unions and employers have been concerned and there are far more private-pension plans providing widows benefits for death before and after retirement than you would indicate. I don't believe it is a majority of the plans yet, however.

The autoworkers pattern plan, for example, has a preretirement death benefit and subsidized option at retirement that is now automatic. You have to elect out. You don't have to elect the joint survivor option in other words. The people doing the electing have to specifically say: "I don't want it."

So these things are going in pension plans. I think when you consider the overall benefit package, however, you can see that there are really two separate problems here. One is the young widow with minor children. The other is the old widow. Now, under pension plans the first pressure to provide a widows pension comes when you have a right on the part of an employee to retire early and to elect a joint and survivorship option, and yet if the man dies during that period while he continues at work there is no benefit.

This is a matter of concern for both employers and employees and it looks like an unfair loss of benefit. The man's entire pension accrual and the survivorship protection for his wife goes up in smoke because he did not retire, because he elected to stay on the job.

That does not seem fair and accordingly pension plans more and more frequently are providing that the individual widow will receive the benefits she would have gotten if the employee had retired on date of death and elected an option, for example. A simpler kind of widows pension is to give the widow a flat 50 percent of the employee's accrued pension.

Now that is one problem area. When you get to the young widow, it is a completely different problem area because the young widow in theory can become self-supporting and get a job when her children eventually reach a certain age, say 15 or 20, somewhere in there. This problem is being approached currently I think more frequently by group life insurance programs or group survivor income benefits.

Again the autoworkers pattern plan happens to have both group life insurance and group survivor income benefits.

Dr. Schulz. Once again that is not a typical plan.

Mr. Jackson. But it is a leader and not that far ahead. They manage to drag all sorts of people along after them when they come up with new benefits. If they were to have a program that continually remained too far ahead of everybody else then all the people going into the employment market would become autoworkers.

And that has not happened.

Mr. Oriol. Mr. Jackson, thank you very much for sharing your expertise and your point of view with us on several crucial issues. We are very glad to have this for the hearing record. I asked whether Mr. Hewitt would care to say anything. If you do we will be happy to hear from you at this point.

Mr. Hewitt. A good deal of the discussion during the past hour has focused on the question of priorities that Dr. Schulz raised in his paper. Mr. Jackson has pointed out some of the practical aspects of determining these priorities.

As I see it, there is so much variability in individual situations, needs, and preferences that it would be almost impossible for governmental dictate to prescribe an order of priorities that would be satisfactory in meeting this great variety of needs. The most practical and effective way of resolving pension priorities for the optimum satisfaction of all concerned would appear to require the decisionmaking to occur at the closest possible level to the individual. I believe emphasis should be put on maintaining freedom of choice through normal processes for expressing preferences, such as individuals themselves or their collective-bargaining representatives, rather than on some master overall legislation as a method of accomplishing the social objective you are seeking.

Mr. ORIOL. Thank you very much.

Dr. SCHULZ. May I respond by saying that I disagree with that view? As I have looked at the problems of the aged and the problem of income maintenance one thing which has become clear to me is the difficult problem the individual has in correctly anticipating what his needs will be and what the problems he will face in old age will be. The problems are very large and in many cases, I think, almost impossible for the individual to handle as an individual.

If this were not true I think that we would have a very different sort of income maintenance system in the United States today.

I think social security would be much weaker. I think that private pensions would be completely voluntary which, in most cases, they are not today. If individuals could foresee the problems, they would make the correct decisions; they would make proper provisions for their own economic welfare through personal saving or through group insurance programs of one sort or another. But history clearly indicates that people have had great difficulty doing this.

Apparently they do not foresee the problems—cannot foresee the problems that they are going to face. Even if they could foresee them, such things as inflation, recession, and unexpected death are outside their personal control and interfere with their decision-making process. What they thought would be true very often turns out not to be true.

I think our opening panel of old people very vividly illustrated, in certain cases, these problems. As I listened to them I heard them talking about the sort of problems they had and, apparently in many cases, their lack of success in solving these problems. And when they reached old age, they felt the results of problems in a very real sense.

I think a very strong case can be made for private and public decisionmaking in the old-age income maintenance area. Notice I say both private and public. I think it is very unwise to argue that we should put a large measure of the responsibility in this area in the hands of the individual.

I am speaking now not as an economist, I suppose, but more in a political sense. But I do think that economic facts support this view.

Mr. HEWITT. May I add one comment to that? I think we have already emphasized the need for a basic level of protection through Government. But I cannot go along with the paternalistic view that people cannot make decisions for themselves. Nor do I believe that most younger people subscribe to paternalistic decisionmaking.

I have more confidence than you in the private individual decision. Not that each decision the individual makes will work out under unpredictable circumstances. But I think most of us would still far prefer not to be deprived of the right to make decisions for ourselves and to take our own chances. On this I think I differ with you on the point that the decision should be mandated and made by someone else in a paternalistic way rather than permitting the individual to have the freedom of choice, either acting individually or through employee representatives.

Dr. SCHULZ. I would disagree with you with regard to the use of the term "paternalistic." I would refer to this as a delegation of decisionmaking authority—just as we delegate certain other decisions to our representatives in Congress.

Just as, for example, most people delegate the decision about the education of their children to school boards.

Mr. ORIOL. May I ask a question here, Dr. Schulz?

You emphasize public and private decisionmaking; do you have a breakdown of the division of effort there, where you see the public effort, where you see the private effort?

Dr. SCHULZ. On this I don't think we disagree. That is, when we speak in generalities and talk about basic forms of protection, we talk about the public decisionmaking effort.

When we talk about private decisionmaking, we are talking about the special circumstances of small groups of people. I think we all recognize that you can't do everything with one gigantic national plan, that there is a meaningful role for private plans.

And there is certainly an important role for individual decisionmaking with regard to individual or group action. This is what I was referring to in the private collective decisionmaking process.

The individual can try to provide for himself. Alternatively, you can either get, for example, all the workers together in one big "town meeting" in the plant to decide what their private pension package should be or you can have them elect their representatives, appointed union members to get together and represent them.

That is a delegation of authority right there. Or you can, as we do now, get a delegation of authority, in most cases through private-pension plans, where union representatives negotiate with representatives of business.

I think there is a role to be played by both public and private decisionmaking. I think this is a very real and meaningful alternative, and I don't think it should be characterized as paternalism.

Mr. ORIOL. The decision we make in the public area may actually increase the number of choices in the private area. It has been stressed that improvement in social security can give private pensions more flexibility in fulfilling their role.

Dr. SCHULZ. This is what I have tried to argue. Not everyone agrees with that obviously.

Mr. JACKSON. There seems to be an omission here of any reference to old-age assistance or similar programs. I would like to merely observe that social security even today is not universal in its application. There are gaps. There are people who don't work and who, when they reach old age, are entitled to nothing from it. As a private citizen it seems to me perfectly reasonable that Government should concern itself about those who slip through both of these sieves and that public welfare should be readily available, perhaps in more generous quantities and perhaps the terms and conditions on which it is granted should be more gracious than at the present time. Private charity is another source of income for these people that should be encouraged. For the record I also would like to add that I too share wholeheartedly, Mr. Hewitt's faith in free individual choice. When you look at the paycheck that a typical employee gets and see the total amount that is taken off in taxes and the total amount that is taken off for fringe benefits and other elements that don't even show up on a pay check but that are considered compensation of a type, that someone other than the employee ought to spend for him in effect, someone far wiser than he even if not in the employee's judgment, it seems to me there is a limit as to how far you go.

Eventually you reach the point when you have taken a hundred percent of the man's money and spent it in the ways you and others want to spend it, and then there is nothing left over for him and he stops working. Now there is a balance to be reached here. I am not suggesting a hundred percent is a practical extreme. I am not suggesting zero percent is the ideal. It seems to me that we are searching for a reasonable balance that takes full advantage of the various arrangements that are now available.

I for one disagree completely with Dr. Schulz' conclusions that the average American cannot take care of himself. He has done a pretty good job of it up to this point. I think the American system really ought to encourage the individual. I don't know how our children are going to grow up knowing how to take care of themselves if they're led to the belief that they can't every time they turn around, that it is the Government's problem to take care of you when you are old, to take care of you when you are young, to take care of you when you are sick. Somewhere there must be individual responsibility. If you just wipe it completely out and make it unnecessary it seems to me that we have not added to the quality of life in America.

Mr. Oriol. I will refer you to our initial working paper which described some of the difficulties. I don't believe that it is a matter of not being able to take care of yourself.

As Dr. Schulz said before, our present crisis, which is what the committee has described the retirement income situation as, is substantial evidence that people are now faced with monumental problems in trying to live on available income, retirement income.

They are deprived of choice by the current situation. I think this is what we were trying to emphasize.

Dr. Schulz mentioned before about the importance of helping younger people to realize their stake in issues related to retirement income. Senator Williams, who is now planning the final hearings in connection with our overall study of the economics of aging has indicated that that should be a major if not the major issue in our final hearings.

So we will be able to do more in that way. Thanks once again for coming and we thank everyone for being here.

(Whereupon, at 4:40 p.m., the committee recessed, subject to call of the Chair.)

APPENDIXES

Appendix A

ADDITIONAL MATERIAL FROM WITNESSES

ITEM 1. WILLIAM C. GREENOUGH, CHAIRMAN, TEACHERS INSURANCE AND ANNUITY ASSOCIATION AND COLLEGE RETIREMENT EQUITIES FUND, NEW YORK CITY

PENSIONS ARE FOR PEOPLE

The "ERITD" (Earned Retirement Income Tax Deferral) Approach to Federal Regulation of Pensions

Dr. William C. Greenough
Chairman, Teachers Insurance and Annuity Association and College Retirement Equities Fund

Private pension plans in the United States have now reached the highest level of service to the public and to the economy ever achieved in this or any other country, in this or any other time. And yet their potential for even greater service to this country and its people is just beginning to be realized.

In the last quarter century, the number of people covered by private pension plans has increased from 4 million to 26 million, and the assets supporting prospective benefits have increased from $2.4 billion to $94 billion. By 1980, we should see the number of people covered reaching more than 41 million, representing 44 percent of the working force, and with assets to support benefit payments growing to more than $193 billion.

Or am I blind? Are nongovernmental pensions already on the way out? Are the seeds of their destruction already planted? Will we increase social security benefits so much that there is no room for private pensions? Will we overemphasize regulation and supervision to the point where we hamper imagination and innovation? Will we standardize so severely that we discourage diversity, so demandingly that we halt development of the private pension sector?

The things we do in the next few years will determine whether the coming quarter century will see private pensions make enormous social and economic contributions to the country or see them dwindle and die.

This paper will attempt to ask different questions than those usually posed by lawyers, regulators, and tax experts. It will propose a different solution than those heretofore proposed, and perhaps will arouse some discussion that might lead to worthwhile shifts in approach. In preparation, I have been giving a good deal of thought as to how public action can encourage and reinforce the public service function of private pensions—how it can establish the best "climate."

To begin, let me propose a new priority: PENSIONS ARE FOR PEOPLE. How obvious! Of course!

Perhaps it is obvious, but our regulatory and tax structure, our competitive approach, the type of pensions generally used—group annuities and trust fund plans—and the attitude of many people toward pensions are company oriented, not people oriented. And almost always *one*-company oriented! Repeatedly it is announced that the purpose of pension plans is "to make possible the retirement of older employees whose efficiency has declined," or "to part in a socially acceptable manner with those whose usefulness has been undermined by age," or "to tie our employees to us during their working years."

As an interim objective, this one-company orientation has served us well. The tax laws have encouraged companies to establish pension plans, the competition for talent has pushed them forward, the design of most pension plans has emphasized one-company responsibility, and in the process a large number of people have indeed been served well during their old age. But isn't it time for a change in emphasis? Time to reorient out thinking *toward the individual?* This doesn't mean we should stop thinking about the needs of the firm; but it does mean we should start thinking more about the needs of the individual.

Many years ago we cast aside the old "charity" concept of pensions as a gratuitous reward for long and faithful service, to be handed out arbitrarily and fitfully. More recently we have been challenging the "leave it to the last employer" concept of responsibility, a concept that avoids the degradations of charity but still results in capricious treatment among individuals according to their choice of a "last employer" and whether they work for one firm or several during their careers. I believe we can now adopt a broader goal than the one-employer approach to pensions. And the timing is right. We are now moving toward the far more appropriate concept of funded pension credits constituting a vested part of current compensation from each of a person's employers during each of his working years.

The acceptance of the *pensions are for people* approach leads clearly to the concept that pension credits are a part of current compensation that is set aside for retirement. And this in turn leads to the conclusion that retirement benefits for each individual in our society should always be fully vested in him, that his pension benefits should be wholly funded and invested productively, that each year's obligation of the employer toward each employee should be discharged that year, and that the level of benefit produced by each year's service should not depend on whether the individual leaves an employer or stays with him until retirement.

If we are to emphasize the "people" element in pensions and move toward the improvements which follow from this change in emphasis, we can now work toward new regulatory, supervisory, and tax approaches that will encourage the right developments. New regulation is coming anyway, and coming fast; the only question now is whether its effect on private pensions will be constructive or depressing.

Later on I shall make a specific proposal as to how we might arrive at a "people pensions" approach. I believe it deserves careful consideration. It might even be the answer. Or criticism of it might lead to a better answer.

FEDERAL REGULATION OF PENSION PLANS

For many years the pension world and to some extent the whole benefit world was an overindulged industry, large parts of it being under no direct supervision whatsoever. Those days are passing. Adequate public regulation of this great sector of our life is absolutely necessary. We need not devote time to discussing whether we *should* have federal regulation of pension plans—we already have it. And, things being what they are, there seems to be no question but that the federal government is going to regulate, supervise, and direct this field of endeavor a good deal more than it does now. I want to emphasize that insured pension plans are now regulated under the state insurance laws by state regulatory authorities, and plans funded with state chartered banks are supervised generally under state banking laws. Other state agencies also have similar functions. Incidentally, the proposal to be presented later is unusual in that it does not disturb these state patterns. But since the federal government is already heavily involved in the field of pension regulation and has served notice that it will be in it a good deal more in the future, this paper will focus on the federal scene. Here, the only real points for decision are: regulation by what agency or agencies of the federal government, according to what guidelines, and toward what objectives.

The following is a brief review of existing regulation at the federal level, so brief a review that it oversimplifies and thereby does not give sufficient credit to the thoughtful and energetic efforts of the federal supervisory agencies and their staff members working in their present gerrymandered spheres of control.

Federal Regulation Now Applicable

Internal Revenue Service. The most powerful instrument of federal supervision is, of course, the Internal Revenue Service. Here a certain kind of regulation of commercial employers' pension plans is brought about through the taxing power. The service reviews each employer's plan to determine whether it meets the criteria for federal qualification, which exempts the pension fund from taxation on earnings, makes corporate pension contributions tax deductible to the employer as a cost of doing business, and makes such contributions tax-deferred to the employee until retirement.[1] A separate section[2] establishes a strict set of limitations on the retirement plans of nonprofit organizations as a substitute for federal qualification. Both of these provisions will be discussed later.

The Labor Department. Through the Welfare and Pension Plans Disclosure Act, the Labor Department endeavors to see that people covered by retirement plans receive adequate information regarding the funding and management of those plans.[3]

Federal Trade Commission. The Federal Trade Commission exerts authority over a number of pension plans that are insured by its limited but significant regulation of mail-order insurance.[4]

Proposed Federal Regulation

Federal Extensions Now under Discussion. Suggestions for extensions of federal regulation of pension plans range far beyond the various items of regulation mentioned above.

We are already familiar with the cabinet-level study *Public Policy and Private Pension Programs* released in January, 1965. Its major recommendations include:

1. Improved and earlier vesting.
2. New minimum standards for funding.
3. Broader coverage by the plans.
4. Further study of a system of transference of pension credits.
5. Protection of employees upon termination of a plan.
6. Full disclosure of relevant facts.

Several congressional committees are also concerning themselves with pension matters. The Joint Economic Committee's Subcommittee on Fiscal Policy, headed by Rep. Martha Griffiths (D., Mich.), has made studies of our old-age income assurance systems, and its report has added to the pressure for pension law changes.

[1] INT. REV. CODE OF 1954, Secs. 402, 404.

[2] INT. REV. CODE OF 1954, sec. 403(b).

[3] Welfare and Pension Plans Disclosure Act of 1958, P.L. 85–836, 85th Cong., 2d sess., 72 Stat. 997, amended by Act of March 20, 1962, P.L. 87–420, 87th Cong., 2d sess., 76 Stat. 35.

[4] FTC, *Guides for the Mail Order Insurance Industry* (effective July 14, 1964).

Specific Bills Introduced in Congress in 1967. S. 1103, introduced by Sen. Jacob Javits (R., New York), deals with some of the major problem areas pertaining to private pension plans. The bill would establish in the executive branch of the government a new, independent, SEC-type agency—the United States Pension Commission—which would administer and enforce all aspects of the bill. Its purpose is to consolidate the legal requirements relating to all employee benefit funds, including pension plans, under the commission's jursidiction. The bill would set up criteria for communicating provisions of a plan to employees. It would also establish minimum standards for vesting and funding and require periodic reports from all plans. A federal pension reinsurance program would be created to insure against the failure of a plan to pay vested benefits because the employer went out of business. The reinsurance would be optional, but a plan that was not reinsured would not be considered for qualification under the Internal Revenue Code. The bill would also establish a pension portability program and set forth minimum standards for administration of all employee benefit funds (not just pensions). Furthermore, the commission would have enforcement powers.

S. 1635, introduced by Sen. Vance Hartke (D., Ind.), would establish a federal program of insurance for private qualified plans to protect credits earned by employees from the risk of loss. As under the Javits Bill, participation in this insurance would be required as a condition for deduction of employer contributions from taxable corporate income.

H.R. 5741 and S. 1024, the Perkins-Yarborough Bill, provides for full disclosure by employee welfare and pension plans, expanding greatly on the existing Welfare and Pension Plans Disclosure Act by establishing standards of conduct, responsibility, and obligations binding upon all plan managers and others, and by providing sanctions in the case of a breach of such fiduciary standards.

S. 1255, introduced by Sen. John McClellan (D., Ark.), combines fiduciary standards and sanctions, management, and insurance provisions in one package.

Private-Public Action

In many sectors of our economic life the federal government performs a large and growing "climate-setting function." In the benefit field it not only sets the climate but it also accepts a huge direct responsibility for our peoples' welfare through its poverty programs, Aid to Dependent Children, Old Age Assistance, Unemployment Insurance, and Old-Age, Survivors, and Disability Insurance and Medicare. If the private and the public sectors work effectively together, each encouraged to do that part of the job that it does best, then the public programs, other than the broadly based OASDI and Medicare, should contract substantially over the years as the difficulties they were designed to ameliorate are resolved by a combination of private and public action. The elimination of poverty itself and of the various programs depending on direct or indirect "needs tests" is a conclusion greatly to be desired.

SOCIAL SECURITY

The directions already taken and those to come in social security legislation have profound implications for the amount and the kind of pensions needed in the private sector and for their supervision and regulation. Let me mention one specific area where social security can be taken into account in designing the "climate of regulation" for private pensions.

The Internal Revenue Code has been very much concerned over the years to prevent "discrimination" in favor of higher paid employees. The problem of controlling "discrimination" in a pension plan 20 and 30 years ago was one thing; now, with OASDI providing half of salary or more in retirement benefits for all salary up to nearly the $7,500 a year level, the problem is quite different.

In view of those sizable social security benefits, the Internal Revenue Code and the Internal Revenue Service can shift their primary attention from the question of "discrimination" against lower paid individuals *within a single employer's service* to questions of vesting and funding and disclosure. The real problems of discrimination now perhaps relate more to the differential treatment of individuals from industry to industry and from one employer to another; and the differential treatment of two employees, one of whom works for a single employer all his life and the other who shifts jobs one or more times.

OPPORTUNITIES AND DANGERS

It is clear that there are great opportunities and great dangers as legislative and regulatory agencies take increased interest in private pensions. The opportunities include reinforcement of a climate favorable to the general development of private pensions and conducive to their innovative capacity, diversity, and investment productivity. Broader coverage, earlier vesting, and effective investment of pension funds are all trends to be strongly encouraged, so that the sharing of responsibilities between the private and public sectors can be most effectively accomplished. The dangers mostly lie in the possibility that our efforts to strengthen certain aspects of the private pension world and to control specific abuses or imperfections will result (*a*) in requirements that delay the establishment of new plans or the improvement of existing ones; (*b*) in mandating a particular set of provisions to achieve a particular set of social objectives, wherein we may overlook other objectives just as important and introduce pension rigidities or regressions; and (*c*) in establishing minimum standards that might tend to become maximums as well and so halt the rapid improvements now being made. The stakes are clearly high. Will we maximize the gains for the country and for our people, or will we stultify, homogenize, and constrict the whole private pension development?

I have mentioned that our approach so far to private pensions in this country has been *one-company* oriented, not *people* oriented. Approaching pensions from the context of the separate firm results in particular attitudes and problems that are then reflected in the kind of plan set up, in the treatment of individual participants, and in the type of supervision that evolves. Let us take some examples:

1. The firm itself may oppose vesting of retirement benefits because it takes little interest in the treatment of an employee who leaves before retirement. I happen to believe that this is unenlightened self-interest. In any event, it is contrary to the public interest; for society as a whole, early vesting of retirement benefits is essential.

2. The Internal Revenue Service in "qualifying" a pension plan gives a good deal of attention to whether there is "discriminatory" treatment in favor of the higher paid employees in a particular company. But it has no responsibility, nor does any other regulatory agency, to see that the company's workers are treated fairly compared with employees in similar categories in other companies or compared with the needs of particular employment groups or individuals. For example, a corporation can conceivably qualify a pen-

sion plan for favorable tax treatment even though the plan allows little or no vesting of benefits prior to retirement so long as all participants seem to be treated (or mistreated) consistently.

3. The main funding mechanisms that have developed—group annuities and trust funding—are designed for use primarily by separate employers acting separately, with the group contract or pension trust specifying the individual's rights and lack thereof.

4. The benefit formulas that have developed—unit benefits related to final average salary—are sustained by contributions that are small for the young person and very large indeed for the older, highly paid person. This makes true portability of benefits related directly to current compensation nearly impossible to obtain—in fact, true early vesting is a chimera in this kind of arrangement.

Some transition away from this separate firm orientation and toward the individual person is already occurring. Earlier vesting and greater portability, better funding, and, in some employments, emphasis on "money purchase," that is, "current compensation," plans are all signs of this shift of emphasis. (Perhaps "defined contribution plan" is the better name, and I shall use it later.)

I believe a major shift in emphasis is now needed in our approach to private pensions. This is not because private pensions are doing so badly. Quite the contrary! It is precisely because there has been spectacular growth and, in general, great success in private pension plans that we can now take a giant leap forward. This leap will be toward having the great majority of our workers enjoy retirement income directly related to the fruits of their own labor and of the productivity of our economy through pensions oriented to the *individual's* needs and desires and rights as a concomitant to the social orientation of OASDI benefits.

EARNED RETIREMENT INCOME TAX DEFERRAL "ERITD"

I believe there is a way to encourage the trends that lead in the right direction and to discourage the others. This can be done by a twofold provision:

1. Tax deferral for individuals on a stated percentage of earned income, say up to 20 percent, on amounts set aside for retirement income in approved systems.

2. Full disclosure of all pertinent facts regarding investing, plan provisions, and management of approved programs.

Specifically, each employed or self-employed person would be allowed to defer up to, say, 20 percent of his earned income and the taxes on this income by participating in an approved retirement program. The employer, whether a corporation, a college, a self-employed person, would be required to set up a plan or to participate in a broader pooling in order to qualify plan participants for this Earned Retirement Income Tax Deferral.

To add a little precision to this ERITD suggestion, let me offer for discussion the following more detailed explanation. It can help point up the principles involved and perhaps lead to suggesting revisions and refinements to make this approach viable.

ERITD Through Internal Revenue Code and Regulation

The following code provisions relating to ERITD would be the basis for federal regulation of pensions:

1. Funding requirements for prior service benefits at least as strict as at present.
2. Every person would have an individual ERITD allowance determined each year by the following formula:
   ERITD allowance = 20 percent of his earned income for the current year multiplied by his years of full-time employment through the current year (for any employer, including self-employed) minus sums deferred in previous years.
3. The ERITD allowance would apply to contributions made on behalf of an employee by his employer or by the employee himself (including a self-employed person) to an individual annuity contract or to his account in a group annuity or trusteed pension plan provided that such contributions were:
   a) *Fully vested* in the individual for future payment to him as a life annuity or, in event of his death prior to commencement of annuity payments, to his named beneficiary or estate;
   b) *Nonassignable* by the individual or the employer;
   c) *Noncashable* during the individual's lifetime; that is, payable only as an income involving life contingencies;

d) Reported on the employee's Forms W-2 and 1040 as currently nontaxable income (the employer contribution reportable under a unit benefit plan would be determined in accordance with procedures similar to those now in the regulations for Section 403[b]);
e) Part of a formal and fully disclosed plan available on a fair and equitable basis to all full-time employees or if not all at least to those who have been in the full-time employment of the current employer for five or more years and have attained age 30.

4. Contributions that qualify for the employee's ERITD allowance would receive the following tax treatment:
   a) Employer contributions would be deductible by the employer as a business expense, and
   b) Employer and employee contributions would not be taxable currently to the employee, but would be taxable as ordinary income to the employee or his beneficiary when received as part of the annuity payments.
5. Investment earnings realized on contributions that qualify for the employee's ERITD allowance would not be taxable currently to the employer, the employee, or the pension fund but would be taxable as ordinary income to the employee or his beneficiary when received as part of the annuity payments.

Testing ERITD against Objectives

This proposal holds up very well indeed—at least I think so—when it is tested against a list of objectives worthy of encouragement through good legislation and public regulation.

DESIRABLE OBJECTIVES FOR PRIVATE PENSION PLANS

1. *Adequacy* of benefits.
2. *Mobility* of human resources.
3. *Flexibility*.
4. *Capital* formation.
5. *Enhancement* of tripartite partnership.

Each of these objectives is important because it serves people, because it helps them achieve their economic aspirations, because it helps them live in financial security in a productive economy. Again, people pensions.

1. *Adequacy of benefits.* Achieving adequacy of retirement benefits is a major endeavor. The life expectancy of a man aged 65 is about 15 years, and of at least one member of a couple, both aged 65, is around 21 years. Most working careers are about 40 to 45 years long. This means that *each two years of work have to support one year of retirement.* I believe the ERITD proposal would encourage employers, unions, self-employed people, government, and nonprofit employers and, of course, people, to strive for real economic security during retirement, for reasons outlined later. This security would result from a tripartite cooperation consisting of (*a*) direct governmental benefits from wage taxes through social security, (*b*) employer-employee participation in retirement plans, and (*c*) individual savings of current income until retirement. With reasonable provisions for benefits related to service prior to the start of ERITD, the 20 percent deferral in addition to social security is sufficient to provide a good level of retirement income at all salaries even in light of the necessity for each two working years to support one year of retirement.

2. *Mobility of human resources.* Probably no society in history ever provided greater voluntary mobility of human and material resources than does ours. In trying to improve still further, we must identify and strengthen those areas where additional mobility for advancement of our people is still needed—through broader educational opportunities, through new job availability in depressed areas, and through elimination of barriers of all kinds to mobility of our human resources.

One of the known rigidities in our society is the lack of immediate full vesting or at least early vesting in all too many of our pension plans. This includes the de facto delayed vesting resulting from the unit benefit formula incorporated in final salary pension arrangements. If a person cannot leave a given job and seek one where his particular abilities would be better used, there is an economic, a social, and a personal loss. If the individual is going to have to forfeit a substantial amount of retirement benefits upon leaving, he is a good deal less free to leave. His present employer has an inappropriate economic hold upon him. If he does decide to leave and forfeit part or all of his accrued pension benefits, he comes to any new employer as a pension liability. As such, he may not be acceptable to a new employer. Underutilization of human resources is the result.

The proposed Earned Retirement Income Tax Deferral arrangement would encourage earlier vesting. Corporations could exclude from taxable income monies paid into a pension plan only if they were allocated to and vested in a specific individual's accumulating retirement account. This would encourage employers actually to make such contributions and would also help the individual to realize better than at present that the retirement plan means little for him until vesting actually occurs.

This would enhance the individual's interest in early vesting and would encourage him to seek it as part of his employment opportunities. But unlike the many current proposals for legislative action, there would be no compulsion and no designation of a specified type, term, or point for vesting. It would not establish a particular minimum, which all too often turns into the "normal" or even the maximum.

Mobility with assured benefits, of course, calls for full funding of the vested benefits, whether they are left in the previous employer's plans until the individual's retirement or shifted over to the new one.

Since neither the individual nor the employer would receive any tax deferred credit until funds were actually paid in and ascribed to the individual's account, the ERITD proposal would lead to increased interest in adequate funding and a prevention of even indirect employer recapture of contributions made. Since the contributions of each individual and the employer would have to be put in individual benefit accounts, the individual immediately would have an inducement to take an interest in the funding mechanism and its effectiveness, which, in turn, would encourage more productive investment of pension funds and engender concomitant advantages for economic development. The ERITD suggestion would not in itself lead to adequate funding of all plans, but it would provide a strong and yet flexible *inducement* to funding. It would help to avoid "Studebaker" situations where persons involuntarily separated from a company or industry in its waning years may now be inadequately protected.

In forwarding these goals, the ERITD proposal can help bring us toward a society in which our people have a greater freedom to develop their talents fully either by staying in one job throughout their careers or by changing from job to job as their own personal development and job opportunities dictate.

Social security provides full mobility without loss of benefits among employments covering 90 percent of Americans. Private pension plans have also been moving rapidly toward earlier vesting. With encouragement, perhaps this objective can now rise to first priority as more and more private pension plans accomplish the initial job of providing retirement benefits for people who originally had no expectations and for whom no savings had been made.

Benefits that are fully and immediately vested in the individual have been working effectively for 50 years in the field of higher education. Now 250,000 educators at 2,000 educational institutions are cooperating in the TIAA–CREF nationwide pooling of benefit plans that give them full ownership of each year's accumulating benefits whether they change jobs several times during their careers or stay at one institution the entire time. And they are being financed by 100-cent dollars; a nonprofit employer receives no tax advantage from having a retirement plan.

There are also retirement systems such as unionwide plans, plans covering ministers of given denominations, and Federal Civil Service where opportunities exist for carving out an effective career within a fairly broad range covered by the given retirement plan. However, professional people frequently complain that the separate employer plans found in industry and business work against mobility of chemists, accountants, engineers, actuaries, economists, lawyers, and many of our most important brain-power resources.

3. *Flexibility.* At the present time there is a great deal of flexibility within pension arrangements. This, of course, may be because pensions are not as strictly regulated as other financial organizations. Savings banks, savings and loan institutions, and commercial banks are strictly and comprehensively regulated by law and by supervisory authorities. And as a result, banks of about the same size look pretty much alike. But in the pension field there is broad diversity. There are funded and unfunded plans; there are fixed benefit and there are defined contribution plans; there are plans based largely on equity investments and plans based solely on fixed-dollar investments; there are different plans for nonprofit groups in the colleges, churches, and welfare agencies; there are insured plans and trust fund plans, and there is a wide variety of retirement ages, eligibility provisions, and contribution levels. Benefit schedules vary widely. So do the vesting provisions and the adequacy of funding.

And diversity is intensely to be desired. There should be flexibility across the economic cycle so that both society and the individual building up retirement benefits can adjust well to periods of full employment when compulsory retirement ages are being relaxed and to periods of unemployment when they are being more strictly applied. Experimentation with various methods of funding is also good—variable annuities, split funding, separate accounts, and the more traditional group annuities and trust fund plans.

The full advantages of diversity and pluralism can be most fully realized by the individual if *he* is the participant, if clearly it is part of *his* current compensation that is being set aside in an annuity vested in and owned by him, if funds are actually being accumulated by him and for him. And this is all part of the new ERITD proposal. It would be a substitute, or alternate, to the currently discussed proposals for federal mandating of specific vesting, portability, funding, and participation requirements—moves that have commendable social objectives but which eliminate flexibility. The greatness of this society of ours is related to the fact that it is innovative, it is diverse, it is pluralistic; let us keep it that way in the pension field, too.

4. *Capital formation.* There have been various great waves of capital utilization in this dynamic country. Our earliest settlers effectively utilized the virgin resources of a richly endowed earth; the opening of the West carried the process forward; this was followed by the Empire Builders, the power revolution, automatic machinery, the electronic innovations. A most impressive source of private savings to generate the next great capital goods revolution is private pension savings. It is estimated that a trillion-dollar economy, which we may reach in terms of constant dollars by the year 1975, will require an additional 500 billion dollars of invested capital in the seven years between now and that time. Pension funds, which had total assets of $2.4 billion in 1940, $12 billion in 1950, $52 billion in 1960, and $94 billion in 1967 can provide a substantial portion of this sum.

In this respect social security provides no capital formation for the economy; it is essentially a transfer system that does not and should not build up large reserves. The funds to pay benefits under social security come directly from the current efforts of currently productive people. Again, this is the way a nationwide governmental plan must be financed, and it is quite proper. But it is also proper, and exceedingly important, to have a substantial amount of our benefits for old age provided through capital formation and savings, giving individual rights and equity ownership for participants in addition to their socially determined benefits. It is in the private sector that this can occur and that individuals and concerns can set aside some part of the productivity of this generation to support the people now working when they arrive at old age.

Capital formation is a crucial function of private pension plans. Because this is so, the suggested ERITD method of taxation with its encouragement of private pensions and its emphasis upon full vesting and full funding can assure the continuation and increase of capital production. By emphasizing the importance and viability of the private pension sector, ERITD can continue to keep this sector strong and healthy and therefore productive of investment resources. By encouraging employers to give the "investment position" to the individual, the individual can take more interest in the source of his retirement income and in supporting a healthy economy. This would include a better balance both for the individual and for business as a whole in equity investments through greater participation in variable annuity plans such as CREF.[5]

The mobility of these capital savings is also important. Some restrictions still limit the range of pension investments. Some public plans must invest fairly heavily in federal government bonds or in tax-free municipal bonds. In some states, trust and life insurance codes contain stringent limitations. Common stocks are still not acceptable everywhere. But in general, capital is free to move, in terms of invested savings, from industry to industry, as higher interest rates and greater productivity beckon. Most of the pension funds are large enough to be invested by professionals, skilled in comparing investment opportunities, and thereby able to shift resources efficiently among mortgages, bonds, and common stocks, from company to company and from one section of the country to another, "wherever the action is."

5. *Enhancement of tripartite partnership.* How would ERITD enhance the tripartite partnership of public pensions, private pen-

[5] College Retirement Equities Fund (CREF) provides retirement benefits based on investments in equities. CREF and Teachers Insurance and Annuity Association are companion organizations, working together to provide retirement and other benefit programs for educators. CREF is financially separate from TIAA, with its own portfolio of investments and its own board of trustees. Both organizations have the same limited-eligibility, nonprofit status, and the same officers and staff manage both companies.

sions, and personal savings mentioned earlier? The ERITD taxing arrangement by setting a favorable climate for experimentation and diversity will encourage the continuing vitality of private sector pensions. The voters' liking for social security is well demonstrated. If our people also really like private pensions and the direct opportunity to share in the productivity of the American economy, they will be better able to achieve a reasonable balance between public and private pensions and individual personal savings.

ERITD ENCOURAGEMENT OF GOOD TRENDS

It would perhaps be worthwhile now to analyze other aspects of pension plan operations, present and potential, to see how the proposed ERITD arrangement would affect them.

ERITD would help spread the full advantages of private pension plan participation among larger numbers of Americans, especially among younger workers. Years ago when the initial "qualification" requirements were established by the Bureau of Internal Revenue for private pension plans, the immediate objective was to eliminate the sources of discrimination existing then. The qualification tests helped spread out participation among a substantially larger group of employees of each firm establishing a plan and to assure that the benefit formulas for various salary patterns were in reasonable balance. Since the initial demands upon a new pension plan are to provide benefits for retiring and retired staff members, the initial benefit formulas, participation and vesting provisions, and actualities of coverage nearly always favor the older employees. The first problem for the company is "to part in a socially acceptable manner" with the oldsters. Again, as an interim objective this is fine. But it only touches lightly upon the total potential of private pensions for later generations.

In actual operation, final-salary, deferred-vesting plans result in substantially better treatment for most older highly paid people of whatever length of service, and the preference is especially great for those of long service. The annuity contributions to support a final-salary-related benefit formula for an individual who has risen rapidly in salary can really be large. It should be noted that the Internal Revenue Service does endeavor to eliminate discrimination in operation and tends to look at a company's entire system of qualified plans in determining whether discrimination exists.

Under the ERITD arrangement, a trend toward "defined contribution," or money purchase, pension plans would be encouraged. Since no amount could be put under the tax-deferred arrangement until it was vested and actually funded in the individual's name, employees should take more substantial interest in the actual size of contributions to their own pension account at various ages. Many young employees might be exceedingly interested to find that under their present unit benefit plans little or no money was being set aside for their benefits, even though they were being assured that they were "participating" in the retirement plan; they might be disposed to move toward defined contribution retirement plans providing employer contributions of a reasonably level percentage of salary at all ages. This of course is a salutary move toward the concept that retirement plan contributions are a part of current compensation. And it encourages more equitable allocation of retirement plan contributions among participants of various ages and salaries, again helping to make private pensions mean something for more people.

The ERITD arrangement would encourage the direct participation of the individual's pension savings in the investment experience of the fund, including equity funding and variable annuities. At present a commercial employer can have one set of tax-deferment arrangements for its employees under a pension plan and a separate set under its profit-sharing plan, with still a third set under bonus or stock option plans. Government employees of all levels, federal, state, and local, and the entire nonprofit sector including churches, educational institutions, charitable organizations, and a number of organizations such as mutual savings banks and similar corporations do not have available these other methods of setting aside money for the retirement of their employees. In fact, there is considerable, although unintended, discrimination against the nonprofit and governmental employments solely because of the structure of the employing agency and the resultant unavailability of these other arrangements. Since a good deal of the world's work is done by governments and by the independent nonprofit sector, some better balance in tax treatment for retirement income deferral and increased availability of equity funding with the advantages going to the individual, as is true for college teachers through CREF, would seem to be good. Section 403(b), discussed later, helped to encourage individuals and nonprofit or governmental employments to use good pension funding, including variable annuities, to achieve retirement security. But it could not redress the existing imbalance caused by unavailability of profit-sharing and other such plans.

The total amount of tax shift forward or backward under the ERITD proposal would require most careful study by experts. However, several factors might be mentioned:

a) Much of the tax impact would be a matter of timing, not ultimate amount. This is a tax deferment, not a tax avoidance, program. Annuity taxation of the general kind now in force could continue. Although certainly not a part of this proposal, suggestions being made in some quarters for taxing social security benefits and eliminating the double exemptions for people over 65, would, if enacted, bring in substantial revenues.

b) The individual's own contributions to annuities, now taxed currently to him, would under the ERITD plan be taxed when received as benefits during retirement. The present heavy tax load carried by our younger productive members of society just when they are trying to raise their families would be more equitably distributed over their lifetime.

c) Insofar as the economy itself was strengthened by the saving and investment—capital formation—made available through pension plans, the ERITD proposal would help generate new tax revenues.

d) The proposal's encouragement of financial security for all our people would help reduce the welfare tax load.

The proposal could eliminate otherwise duplicatory regulation and supervision. Adequate public supervision is absolutely essential in the area of staff benefits. Competent, effective, imaginative, and flexible supervision—yes, tough and demanding supervision—is a must. But it is apparent also that the private pension world could be circumscribed and stultified by multifold overlapping regulation in coming years. The adoption of just the one structure of ERITD alone would minimize such a danger while permitting flexibility and encouraging innovation in pension planning.

The current anomaly whereby employee contributions are taxed currently to the individual and employer contributions are not, would be removed by the proposal. The differential tax treatment has, I believe, led to a slower growth of pensions, to lesser vesting, lesser funding, and lesser benefit levels than would have been the case had employer and employee contributions been given equal tax deferral treatment.

As to economic cost, economists can point out that the *real* cost of a pension plan is shifted forward to the consumer, backward to the raw materials producer, over to the employee, on to the employer, or backward or forward in time, according to the economics of the particular competitive situation for labor, capital, materials, and the end product. Differential tax treatment of employer and employee contributions is not economically appropriate and would be eliminated under the proposed plan.

The all-pervading orientation toward the single-employer plan could be greatly reduced under ERITD. The present approach is to consider each pension arrangement solely in terms of the separate employing unit. This, more than anything else, prevents really strong developments toward mobility of pensions among employers. Some markets for talent are national in scope, others are statewide, others are local. The marketplace for certified public accountants is different from that for production line workers, is different from that for chemists, is different from that for construction workers. But a given company, employing 10 or 100 or 100,000 people, nonetheless sets up *a* retirement plan, choosing one among these markets or some kind of a compromise in establishing its plan. This is not always helpful. Under the ERITD arrangements, different employees of one employer could be participating in different plans.

Experience in the Nonprofit Sector

A plan similar in certain respects to the ERITD recommendation has been in effect in nonprofit and some government employments since 1958. In that year, Congress enacted Section 403(b) as a replacement for all that had gone before in the nonprofit world and as a substitute for "qualification."

This alternate deferral-of-tax treatment for employees of nonprofit and governmental institutions is permitted only under the strict limitations of Section 403(b) of the Internal Revenue Code,[6]

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[6] INT. REV. CODE OF 1954, sec. 403(b) sets up congressional criteria for pension plans of nonprofit organizations and certain governmental units. Annuities purchased under this section must be funded, must contain specified provisions, and must observe a limit on the amount of salary that can be used to purchase an annuity with a deferral of taxation. This "exclusion allowance"

which requires that all annuity contributions by the institution be, among other restrictions: (*a*) kept within a statutory percentage of the employee's salary (the 20 percent rule), (*b*) fully and immediately vested in the employee, and (*c*) fully funded through an annuity contract.

The so-called 20 percent rule, while a more stringent limitation in most respects than "qualification," has, even so, provided a good climate for pension development in the nonprofit sector. As a result, certain nonprofit employments have achieved a level of diversity and innovation essential to their needs but not matched elsewhere. To illustrate, let me describe one area where flexibility has been characteristic—the college world.

The establishment of 403(b) has given colleges and universities a framework within which they can continue existing programs and construct new programs, such as the invention of the variable annuity through CREF, to meet their employment needs. The exclusion allowance approach has made it possible for colleges and universities to tailor a number of plans to accommodate to varying situations. At Cornell University, for example, the central faculty group participates in the Endowed Colleges contributory TIAA–CREF plan, certain other employees are members of the New York State Employee Retirement System, another group, mostly staff and maintenance employees, is covered by a noncontributory retirement

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limit is 20 percent of current salary times years of service, less any employer contributions which have been excluded in the past.

Government officials and legislators realized from the start that qualification requirements established primarily to control corporate use of tax incentives have little meaning when applied to institutions that meet their pension obligations without the incentive of corporate tax deductions, and therefore in 100-cent dollars. The only question for employment in the not-for-profit educational and charitable sector had to do with the employee's tax status. In the early 1930s, the Bureau of Internal Revenue held that a college's contributions toward annuities for its employees were not currently taxable income to the employee. This treatment was added to the Code in the 1942 amendments and was continued in the 1954 Code. Then in 1958, Congress enacted a specific "substitute for educational, charitable, and religious organizations for the 'qualification' required of industrial plans." This substitute is Section 403(b) of the Code.

The criteria and approach of 403(b) not only meets the needs of these organizations more appropriately than would qualification but might well form the approach for *all* pension plans. It does make sense for the colleges; perhaps, modified appropriately, it might make sense for many or even most other employments. This is in many respects the recommendation for study presented in this paper.

plan, and some older staff members hold contracts issued under a previous plan, while still others participate in the Federal Civil Service Retirement System. Multiplicity? Yes indeed. To meet different needs of various employment groups.

CONCLUSION

We clearly are at one of those points in the history of private and public pensions when important decisions will soon be made determining the future course of security for our older people. As is generally true at such times, the temptation will be to follow the same paths as in the past, erecting additional structures on top of existing ones, without a central objective and without taking full account of the changes that have occurred, both within the private and within the public benefit plan sectors.

It is inconceivable that the ERITD suggestion is the answer to all problems. Furthermore, it is not worked out in enough detail to answer all questions, and some of its aspects unquestionably could be improved on or perhaps scrapped. The purpose of this paper and the extensive presentation of a new proposal, Earned Retirement Income Tax Deferral plan, is to stimulate discussion regarding fundamental issues. It does not matter so much whether an eventual plan might take the ERITD approach or be thought through to a different arrangement, just so that whatever is done reinforces the strengths and avoids the mistakes of the past and produces a salutary climate for the future.

This will permit advancement of a "people-pensions" approach, a pluralism in provisions, a climate for innovation, and diversification in investments that is the true strength of the private pension world. This strength will find expression in the private sector's ability to provide the individual with his own pension rights directly related to his own productive efforts in the economy; its ability to generate his benefits directly from that same productive American economy; its provision for flow-through to the individual of the vitality of our private enterprise system.

ITEM 2. PREPARED STATEMENT OF EDWIN SHIELDS HEWITT

My name is Edwin Shields Hewitt. I am a partner in Hewitt Associates, a firm of consultants and actuaries helping organizations find answers to problems related to employee compensation, including retirement plans and other employee benefits. Participating with me is my partner, Mr. Thomas H. Paine from New York and my associate, Miss Pearl E. Charlet, our Manager of Research.

I have previously appeared by request before the Subcommittee on Retirement Income of this Special Committee on Aging at hearings held on July 13, 1961 and on March 4, 1965. I served as a member of the Secretary of Labor's Committee on Pension Costs and the Older Worker in 1956.

Prior to joining the organization in 1954, Mr. Paine was with the Bureau of Labor Statistics of the Department of Labor where he co-authored a series of reports on Employee Benefit Plans Under Collective Bargaining. He was a member of the staff of the President's Committee on Retirement Policy, which prepared recommendations on amendments to Government retirement and insurance systems. He served as a consultant to the Inter-Agency Task Force on Private Pension Plans in 1967 and 1968, as a member of the Labor Department's Committee on Disclosure Forms revision in 1964 and 1965, and as a member of the Secretary of the Treasury's Advisory Committee on Integration of Pension Plans and Social Security in 1967 and 1968.

Miss Charlet, in addition to participating in the preparation of materials presented to the Subcommittee on Retirement Income, prepared a paper for the compendium of papers published by the Joint Economic Committee of Congress in 1967 and served on the Advisory Committee assisting Dr. Schulz in the preparation of the background paper for these hearings. She prepared materials in Exhibit A and other sections of the working paper dealing with the potentials for expansion of coverage under the private pension system.

We sincerely appreciate the opportunity to appear here today and discuss the role of private pensions as an income source for our older citizens.

We appreciate the fact that this Special Committee has the foresight to review and to contemplate some of the broad basic issues involved in financing old age. Too often philosophic decisions which should be considered as part of a long-range policy are swept up in a current controversy over the merits of some specific piece of legislation, with the unhappy result that we must then live with any short-sighted decisions that may have been made.

I have read with great interest the working paper prepared for your Special Committee by Dr. Schulz. I should like to address a few comments to several specific points made in the paper concerning:

1. The role of private pension plans
2. Conflicts in plan purposes
3. Myths concerning pension plans
4. Private pension benefit levels
5. Private pension coverage - potentials for expansion

I. The Role of Private Pension Plans

Dr. Schulz's paper focuses attention on the three-way choice we face in assuring adequate income in old age. What, he asks, should be the respective roles of individuals through private savings, private industry through private pensions, and government through public pensions?

Perhaps fundamental to defining the role of private pensions is some agreement as to what these plans are supposed to accomplish. Are they "second layers of protection" to be evaluated as an adjunct to social security? Are they instead methods of tailoring retirement income to the needs of particular individuals and groups?

We must start with a recognition that public and private pensions are two different types of programs, with different purposes, methods of financing, and benefit characteristics. Each has its role to play. Each should be judged on the basis of whether it justifies its role.

The federal social insurance program has the following characteristics:

1. It is almost universal in application and generally compulsory. Because it is, it provides fully portable benefits as workers move from job to job.
2. It is work related in benefits and contributions. Entitlement is based on past employment and the amount of benefits is related to past earnings. It has no means test.

3. It is contributory and financed through a payroll tax divided equally between covered employers and employees.
4. It is not advance funded. Income through taxes is almost equally balanced by outgo through benefit payments.

The federal social insurance program provides the basic level of retirement income for almost the entire work force. It needs to be continually appraised to assure that its benefits are sufficient to meet its basic role. This could be defined simply as providing the level of income needed for an individual or an elderly couple to maintain a modest standard of living during retirement. The benefit should be large enough to allow this modest goal to be reached even if the individual has no private pension plan benefit. It should not be much larger, since there comes a point beyond which it is uneconomic to allocate additional resources from the working population to transfer to the retired group.

If these are the basic parameters for the federal social insurance system, they imply that the system needs to be appraised periodically to see that it continues to fulfill its proper role. We should expect that with continued inflation in prices and compensation rates there will be revisions in social security benefit levels and wage base. This might be done by periodic amendments enacted by Congress or by some automatic mechanism as suggested in the Administration's current bill. But one way or another, the job should be done.

If federal social insurance does meet this goal, the role of private pension plans can be better defined.. Perhaps we can start with some suggestions as to what private plans are not:

-- They are not universal. Nor is it practical to suggest that they ever will be. Nor is there any compulsion that they should be if social security is, by itself, sufficient to provide basic needs during retirement.

-- They are not uniform. Since they result from decisions made in the employer/employee relationship, it is understandable that pension plans should differ just as much from one to another as other parts of compensation--wage levels, vacations, premium pay practices, etc. There is no "good" or "bad" label that can easily be applied.

-- They are not public. They should not be judged by the extent to which they resemble social security in such characteristics as portability and minimum benefit guarantees. Certainly anti-public behavior by a pension plan in the form of discrimination among employees should be prevented. Beyond that, however, the private character of these plans should be recognized.

If private pension plans should not be judged by the extent to which they are universal, uniform, and possessed of public characteristics, what should we expect of them? What can we count on them to do?

We can start by recognizing that contributions to a pension plan are a form of compensation. This may be shared by all members of the group, such as in a money-purchase plan or a profit sharing plan. Or the plan designer may establish a priority order as to who in the group receives the proceeds from these contributions. By establishing different methods of allocation, private plans can accomplish such goals as granting past service pensions, updating benefits to offset past inflation, and providing pensions for widows of employees who die in service.

In fact, it is extraordinary how flexible an instrument for providing adequate security protection that private pensions have proved to be in their relatively short life to date. This flexibility has been felt in two dimensions:

> First, in their ability to adapt to differing needs. It is possible to look at the variety of pension provisions that exist and dismiss it as the result of the tugs and pulls of various employee and employer pressures. But very real differences in security problems exist. The risk of disability may be present. Retirement at an earlier age than 65 may be necessary or desirable. An older work force may require past service credits. A younger group may prefer individual account accumulation. The variation for important, legitimate reasons should not be understated.
>
> Second, private pensions have exhibited amazing flexibility between different periods of time. The initial job of most plans is to concentrate on retirement income for the older worker; hence the

importance of past service and low incidence of provisions for vesting and widows' income. As plans become better funded, they branched out into other areas. Variety has increased as plans have been able to spend more money and attention to tailor-made benefits to meet specific needs. Currently, for example, many plans are wrestling with such problems as inflation protection, death benefit needs, and supplemental arrangements for employees' long-term savings.

These two elements of flexibility--among plans and over time periods--demonstrate the role that private plans should be expected to play in the provision of old age income. They are compensation payments which allocate money to where it will do the most good.

The fundamental old age income policy which the country should continue to maintain is that of a dual system of protection. Federal social insurance is the basic layer--universal, uniform, providing by itself necessary amounts of income to maintain a modest living standard. Private plans consist of a supplemental layer--individually tailored, flexible, and responsive to changes in needs of the work group covered.

It is not possible for either the public system or private plans to do the whole job in an efficient, economical way. Private plans can't be universal or a basic layer of protection. A public system can't be as flexible and as changeable over time as private plans.

A final conclusion is that we cannot judge the merits of one of these forms of protection by the standards that apply to the other. Social insurance should not be criticized because it isn't tailor-made to specific situations and is not funded. Private plans should not be castigated because they are not universal and fully portable. We can develop sensible policy toward retirement income arrangements only when we clearly understand the differing purposes of public and private plans. Fundamental to this understanding is the recognition of the permanent value of a dual system for the assurance of old age income in this country.

II. Conflicts in Plan Purposes

Let me preface my comments by saying that the existence of conflicts in pension plan purposes is a perfectly normal phenomenon. Hardly any aspect of our society is devoid of conflict. The important thing is how we go about resolving those conflicts that do exist.

Three of the conflicts cited appear to be largely a matter of internal priorities to be resolved within the employee group itself.

The first conflict is the difference in preferences between employers and employees about flexible retirement and the age of retirement. We suggest that the conflict should be rephrased to read "who should determine the time of retirement." The employee naturally would prefer to make his own decision in this matter. Although many employers would like to leave the retirement decision to each worker, few can do so, primarily because the question of retirement timing also brings the interests of younger and older workers into conflict. Employers generally feel they must exercise some degree of control over the retirement decision in order to manage effectively the manpower needs of the business and to adjust to changes in labor market conditions.

The remaining two conflicts are almost exclusively among members of the employee group. These are: a) the differences between older and younger workers regarding the priorities of benefit levels and credit for past service versus vesting provisions and b) conflicts over allocation of the total pay package.

The resolving of these two conflicts, together with the question of retirement age, is accomplished in decisions relating to plan design and specifications. Since these are the primary areas in which employers and/or collective bargaining agents stand accused of depriving individuals of their freedom of choice in pension matters, we believe it might be illuminating to this Special Committee to sketch briefly the decision-making process that typically occurs in arriving at those details of a pension plan that establish the priorities of employee interests.

Ideally, the first step an employer takes in designing a retirement program is to develop a set of broad goals and objectives that the program is expected to accomplish. Examples of such objectives might include the following:

1. To be competitive in the local labor market.
2. To provide a form of tax-deferred compensation.
3. To provide a systematic method for removing workers who become unproductive because of old age.
4. To provide a vehicle through which employees can participate in providing for their economic security needs.
5. To develop a program within the financial capacity of the business.

These are, of course, only a few of the objectives that employers might have in establishing retirement plans.

The second step in designing a pension plan is a review of the characteristics of the employee group, such as age, service, sex, turnover, earnings, nature of work, and any other factors that might affect the security needs of the employee group. This review alone will tend to define areas of potential priorities.

Third, the employer must become acquainted with the limitations imposed on his decision-making by laws, rules, and regulations dealing with the requirements for tax qualification.

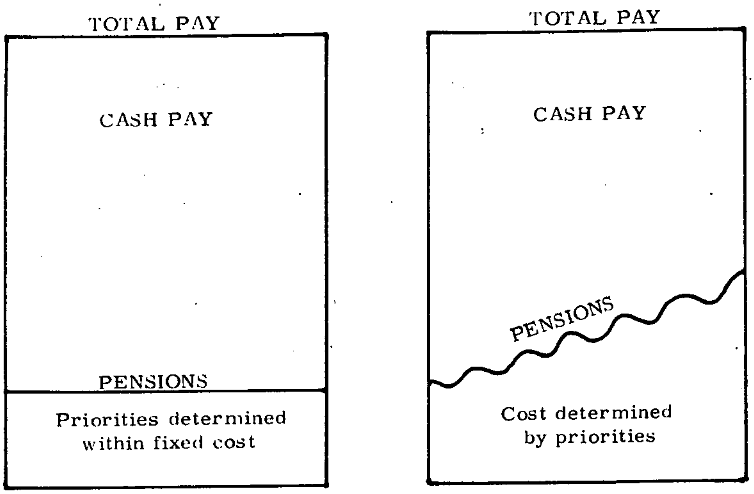
Fourth, if a collective bargaining agent is involved, the plan must be negotiated. In most cases the union will make known its goals and demands regarding plan specifications which will reflect its own decisions as to the priorities of the interests of its membership.

At this point, the employer is ready to begin making tentative decisions keeping in mind his own objectives and financial abilities, those characteristics of the work group that would influence plan design, the limitations imposed by tax law, and the demands of the union if one is involved.

Few employers are in a position to ignore the cost effects of a retirement plan. Therefore the priorities concerning who gets what and when are usually resolved within the over-all framework of cost considerations. The initial cost/benefit decision area involves the question of whether pension priorities are to be determined within some dollar limit that employees (and their representatives) are willing to divert from current compensation or whether employees are willing to channel a larger share of pay into pensions in order to satisfy a greater range of benefit needs.

The following illustration may serve to clarify the cost/benefit decision.

Illustration 1. Priorities vs. Pay Allocation

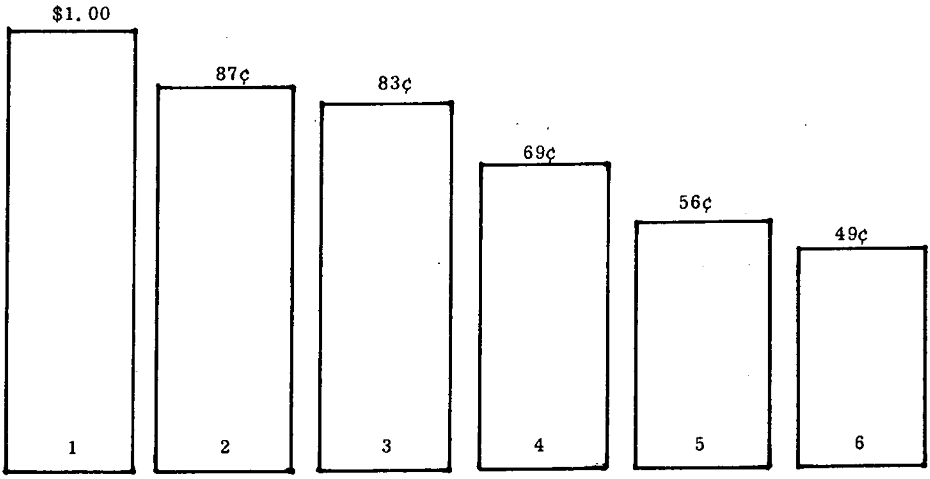


Assume that an employer and a union are negotiating a plan where the financial commitment is agreed upon and the priorities must be defined within that dollar limit. Who gets what and when?

The entire amount could be reserved for retirement benefits at age 65, or for actuarially equivalent benefits at an earlier age. Or a portion of the retirement benefit could be diverted to provide disability benefits, vesting, survivors' benefits, full unreduced benefits at an earlier age, or even full portability of pension credits. But each such benefit selected would reduce the amount of benefit that would be available for regular normal retirement at age 65. Illustration 2 shows how each dollar of pure retirement benefit for a typical employee group might be reduced by the election of additional priorities. (It should be kept in mind that the amount of benefit reduction caused by election of the various priorities will differ among employee groups to reflect the characteristics of each group, such as age, service, turnover, etc.)

Illustration 2. The Cost of Priority Benefits in a Pension Plan

-- in terms of Retirement Income Reduction

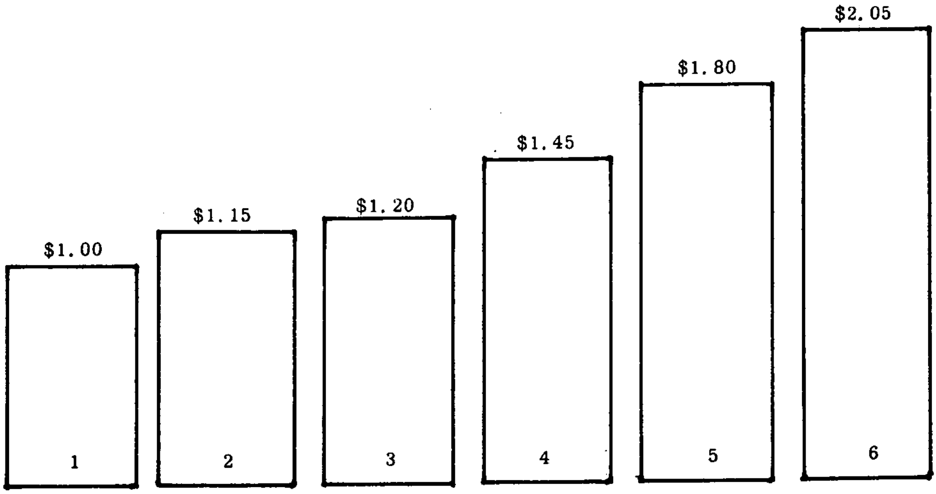


1. Retirement only
2. (1) plus vesting after 10 years of service
3. (2) plus disability after 10 years of service
4. (3) plus spouses' benefit at death after age 55 and 10 years of service
5. (4) plus full retirement benefit at age 60
6. (5) plus portability from 0 - 10 years of service

Next let's assume that an employer and a union are negotiating a pension plan where the level of retirement income at age 65 is agreed upon, but where certain additional options are also desired by the union.

Here the question becomes one of additional cost, which must be diverted from the total pay package for allocation to pension priorities. Which options, if any, is the employee group willing to buy at the price of less cash pay? Or the employer willing to absorb as an additional compensation cost? The cost of adding priority benefits to a basic retirement benefit for the same typical group of employees is shown in Illustration 3.

Illustration 3. The Cost of Priority Benefits in a Pension Plan -- in Additional Funds Allocated to Pensions.



1. Retirement only
2. (1) plus vesting after 10 years of service
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4. (3) plus spouses' benefit at death after age 55 and 10 years of service
5. (4) plus full retirement benefit at age 60
6. (5) plus portability from 0 - 10 years of service

These examples are greatly oversimplified for the purpose of illustrating how the employer, or the employer and the bargaining agent, will weigh costs against benefit priorities in their decision-making process. Their process is not dissimilar to the process followed by legislators in resolving the conflicts of priorities that exist in determining the benefit structure of the social security system.

It should be kept in mind that the decision-making process is never finalized but merely hesitates for a period of time. Traditionally both workers and employers have tended to give priority to retirement income during the initial years of a plan. Once retirement benefits reach an acceptable level, other priorities receive increased attention. This same process was followed in the development of the social security system. The historical route to pension maturity tends to follow a common course of priorities starting with retirement income adequacy, followed by the addition of disability, vesting, survivor benefits, and unreduced pensions at earlier ages. Along the way, eligibility standards for benefits tend to become relaxed and retirement income levels adjusted periodically to reflect wage trends.

A fact frequently not recognized is that private pension plans are still a maturing institution. They are growing rapidly, but the rate of maturation differs among individual companies and among industries.

III. Pension Myths

I should like to comment briefly on several of the myths described in the working paper prepared for your Special Committee and to offer a few pension "misconceptions" of my own.

Myth 1 says that 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.

The "free choice of workers" in pension matters is limited as much by restrictions imposed on private plan design by the Internal Revenue Service as by power blocs or special interest groups either within unions or company work forces. For example, plans must be designed around these IRS limitations: death benefits must be only "incidental"; integration rules impose benefit limits; employer contributions are subject to specified limits; benefits may not be based on average pay over periods of less than five years; benefits must be "reasonable"; employee contributions are limited; etc. etc.

Within the limitations imposed by requirements for tax qualification, employees do have a few options that they may exercise individually. In the matter of benefit payments, it is common practice to permit the individual some flexibility of choice within the "actuarial value" of his earned benefit. This freedom of choice by the employee usually becomes evident after he has attained eligibility for early retirement. Usually he can retire early with a pension of equivalent actuarial value, and sometimes at early retirement age he is offered a choice of converting a portion of his future pension to provide a death benefit if he should die before retirement age. At actual retirement he almost always has the option of continuing part of his pension to a surviving spouse by accepting a reduced benefit during his lifetime.

Options permitting diversion of part of a pension benefit into a variable benefit amount are becoming increasingly popular. Such options involve converting part of a fixed benefit into an equity benefit in the expectation that investment return will keep pace with the cost of living.

Another approach to permitting greater employee choice in matters involving his retirement income is evident in the adoption of employee savings plans as supplements to basic pension plans. Each employee decides whether to contribute or not. Frequently he is offered a choice of decision regarding the amount of his contributions, the investment of his contributions, the time of payout of his and employer contributions (whether short-term or deferred to retirement), and the manner in which his benefits are to be paid. It is important to observe that his voluntary contributions are from after-tax income.

Myth 2 states that "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."

The fundamental objective of the social security system is to assure a basic minimum level of benefit under specified conditions (i.e., old age, disability, and death) to a maximum number of workers. Such an objective could only be accomplished under a compulsory system where receipt of benefits is based on criteria other than input of funds. Freedom of the individual to elect participation and benefit rights has to be submerged in the greater social need for some universal degree of minimum protection.

The accompanying statement that private pension plans are flexible and can be tailor-made to meet differing situations is a myth only to the extent that such plans are circumscribed by limitations imposed for tax purposes. Viewed in comparison to social security, there is a wide range of choices available even within the confines of tax qualification requirements.

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.

This myth contains a contradiction within its language. The "high incidence of vesting" may result in more persons receiving pensions in future years, but it is more apt to depress future benefit levels than to raise them. The reduction in retirement benefits resulting from the addition of vesting was shown in Illustration 1. Unless vesting is acquired by diversion of additional funds to the pension program, it would generally result in a redistribution of a predetermined number of dollars to a greater number of people.

Some Pension Misconceptions

1. Private employers receive substantial tax subsidies on funds they contribute to retirement plans; therefore, private plans should conform to standards of public interest.

Companies do not establish and maintain retirement plans because of tax advantages to the company. The same tax deduction would be permitted for the same amount of money paid in wages. Employers are, however, influenced by the fact that money put into a pension plan is not taxable to his employees until they receive it in the form of benefits.

Since the tax subsidy ascribed to private pension plans is actually a tax deferment benefitting individual participants, the same "subsidy" is also enjoyed by members of public employee plans. It could be argued with some logic, however, that employer contributions to the social security system enjoy a true tax subsidy, since the benefits they purchase are tax exempt when received.

2. The social security system provides greater protection to workers than private plans because social security is vested.

Benefit vesting does occur after 40 quarters of coverage, or earlier if a covered worker reaches retirement age, becomes disabled, or dies under the qualifying condition. And, of course, eligibility for vesting can be acquired during the course of employment with numerous employers.

The vesting of contributions, particularly employee contributions, is an area of significant difference between private plans and social security. Employee contributions to private plans are always 100% vested, usually with interest. Employer contributions to money-purchase-type plans (including profit sharing and savings plans) usually vest after a specified period and at death, disability, or retirement. Contributions to social security, however, never vest. Unless a worker meets one of the conditions for benefit eligibility, there is no return of funds. Technically speaking, both employee and employer contributions to social security are a payroll tax.

3. Private pension plans are not adequately funded to provide the benefits they promise.

At the end of 1967 private pension funds had sufficient assets on hand to pay benefits at 1967 rates for 25 years. The Civil Service Retirement Fund could make benefit payments for 9.6 years, and the OASDI fund had 1.2 years of benefit funds on hand.

IV. Pension Benefit Levels

Private pension levels are far more than they were when we first appeared before this Committee in 1961 and again in 1965, and they are increasing constantly. Today they are producing more actual income that is assumed by many critics. With the continuing growth of benefit levels and funding for benefits, they will approach a level of adequacy in the future as measured by the percentage of spendable working income replaced.

The adequacy of benefit levels has been questioned by some students of private pensions, primarily because of the absence of meaningful data. The point has been made that many of the studies to date are either limited in scope or are based on unrealistic assumptions.

We invite your attention to a source of information on pension levels that may shed some additional light on this question. The source is pension and annuity amounts reported by individuals on their federal income tax returns. This data source (which is published annually by the U.S. Treasury Department) is extensive and does not require the use of a number of assumptions for interpretation. All we need to know is what kinds of pensions and annuities are included and what kinds are not.

Since amounts reported on income tax returns represent only the taxable portion of pension and annuities, such amounts will include:

1. Employer-paid pensions

2. Employee-paid pensions, but only those amounts over and above actual employee contributions

3. Individually-purchased annuities, but only those amounts over and above actual cost of the annuities.

The amounts reported as pensions and annuities do not include:

1. Employee contributions to pension plans

2. Lump-sum distributions from qualified pension, profit sharing, stock bonus, and annuity plans (these are reported elsewhere on income tax returns)

3. Cost or investment in individually-purchased annuities

4. Death benefit exclusions under survivors' pensions if employee dies prior to retirement

5. Sick pay exclusion prior to age 65 under disability pensions

6. Social security

7. Old Age Assistance

8. Veterans pensions

It should also be kept in mind that amounts reported for income tax purposes include public employee pensions.

Table 1 on the following page shows the extent of pensions and annuities reported by taxpayers of all ages at 5-year intervals since 1952. These would include early retirement and disability pensions as well as old age pensions. The dollars reported are only the taxable portion of pension income.

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Table 1. Pensions and Annuities Reported on Federal Income Tax Returns by All Taxpayers

	1967	1962	1957	1952
Number of returns with pensions	2,503,296	1,533,963	920,441	634,881
Increase over preceding period	63%	67%	45%	-
Amount of pensions reported	$5,046,015,000	$2,322,493,000	$1,140,021,000	$583,811,000
Increase over preceding period	117%	104%	95%	-
Average pension per return	$2016	$1514	$1239	$919
Increase over preceding period	33%	22%	35%	-
Joint Returns				
Number	1,529,491	891,465		
Amount of pension	$3,378,626,000	$1,485,872,000		
Average per return	$2209	$1667		
Separate Returns of husbands & wives				
Number	43,254	Not Available		
Amount of pension	$76,644,000			
Average per return	$1772			
Heads of Household Returns				
Number	69,932	Not Available		
Amount of pension	$130,618,000			
Average per return	$1868			
Returns of Surviving Spouses				
Number	7,286	Not Available		
Amount of pension	$7,921,000			
Average per return	$1087			
Returns of Other Single Persons				
Number	853,333	548,358		
Amount of pension	$1,452,206,000	$703,534,000		
Average per return	$1702	$1283		

The most impressive evidence revealed by Table 1 is the significant progress made in a relatively short period of time. In the 15-year period, 1952-1967, the number of persons reporting taxable pensions and annuities increased nearly fourfold. Total dollars increased nearly nine times, and average amounts per return more than doubled.

Turning now to the older segment of the population, Table 2 shows the actual pensions and annuities reported in 1967 and 1962 on returns with at least one taxpayer age 65 or older.

Table 2. Pensions and Annuities as an Income Source in Old Age

	1967	1962	Increase
Number of returns with pensions	1,807,053	1,146,756	58%
Approximate number of persons Age 65 and over	2,318,449	1,479,315	57%
Percent of population age 65 and over	12.3%	8.5%	
Amount of annual pension	$3,803,974,000	$1,805,808,000	111%
Annual pension per return	$2105	$1575	34%
Annual pension per age 65 exemption	$1641	$1221	34%
Pensions as a percent of total adjusted gross income	9.1%	6.5%	

Note: Table 2 includes the taxable portion of pensions and annuities included in gross income on tax returns with at least one taxpayer age 65 or over. Institute of Life Insurance reports benefit payments from individual annuities were $463.8 million in 1967 and $372.1 million in 1962. If it is assumed that such payments were reported by older taxpayers in the same ratio as total pension payments and that approximately 25% of such payments represented taxable income, individual annuities would account for about 2-1/4% of total pension and annuity income reported by older taxpayers in 1967 and 4% in 1962.

The average pension per return is only slightly higher than reported for the entire population in both years. This results largely from the fact that over 75% of all pensions and annuities are reported on returns with at least one taxpayer age 65 or over.

A substantial portion of the individuals reporting pension income also received social security benefits. At the end of 1967 nearly 11 million retired workers age 65 or older were receiving benefits, averaging slightly more than $85.00 monthly. Nearly 2-1/2 million wives of retired workers were also receiving benefits at half the average rate of their husbands. Fewer than 10,000 husbands of retired female workers received benefits. Even at average rates, older couples could have had $1,530.00 additional annual income and single persons perhaps an additional $1,000.00.

If we assume that all taxpayers age 65 and over who report pensions and annuities are also receiving social security benefits, the value of these benefits translated into tax return classifications would result in extra income of about $908 each year for every age 65 and over taxpayer, or $1164 for each tax return filed.

A final illustration from tax return data shows a classification of the older population by tax and pension status.

Illustration 4. Tax and Pension Profile of the Older Population in 1967

Number of Persons	Tax and Pension Status
18,802,000	Total population age 65 and over
8,419,322	Filed income tax returns
4,994,864	Paid income tax
Of these 1,410,503	received pensions averaging $1920 for each person age 65 or over; or $2463 for each taxable return
3,424,458	Paid no income tax
Of these 907,946	received pensions averaging $1207 for each person age 65 or over; or $1549 for each nontaxable return
1,900,000	Were claimed as "dependent parent" exemptions
300,000 (approx.)	Were claimed as "dependent grand-parents, aunts, uncles, etc."
10,619,322	Were represented on federal tax returns
8,482,678	Were not represented on federal tax returns

Data from federal tax returns can provide infinitely more information regarding the financial status of the older population than shown here. Our purpose is served, however, by tracing the growing importance of pensions as an income source in old age and by showing that when pensions are a source of income, they are producing increasingly significant amounts.

The rate at which private pension plans are growing is also evident from developments during the 1960's among pension leaders. For example, the retirement income pattern of hourly workers in the auto industry illustrates this progress toward maturity. The table below indicates the monthly income from company pension and social security for a worker retiring at the beginning of each year in the past decade together with the monthly income each worker would be receiving in January 1970. Benefit amounts assume each worker retired at age 65 after 35 years of service and that base pay was equal to or in excess of the social security wage base in effect.

Table 3. Retirement Income in the Auto Industry 1960 - 1970

Year of Retirement	Benefit at Retirement			Benefit January 1970		
	S/S	Pension	Total	S/S*	Pension	Total
1960	$119	$ 84	$203	$166	$170	$336
1961	120	84	204	167	170	337
1962	121	98	219	168	184	352
1963	122	98	220	170	184	354
1964	123	98	221	171	184	355
1965	132	149	281	171	184	355
1966	133	149	282	173	184	357
1967	136	149	285	177	184	361
1968	156	184	340	179	210	389
1969	161	210	371	185	210	395

*Includes 15% increase approved under 1969 Amendments.

Auto industry pension plans have matured to the point where they are supplementing social security to provide a substantial portion of pre-retirement spendable income, together with providing vesting, disability, early retirement, and survivors' benefits. Single hourly workers have about 70% of their spendable earnings replaced, and married workers with wives who are eligible for social security have about 77% of spendable earnings replaced. These replacement levels of the combined company pension and social security are for workers earning $4.00 hourly at the time of retirement and are related to that pay rather than to a final average pay during the last five or ten years.

If the historical pattern of "follow the leader" in pension matters continues, we can expect many more plans to be generating income that will supplement social security at 70% levels within the next few years. And we can further anticipate that benefit forms and eligibility conditions existing only among today's leaders will be adopted by the followers.

The rapid acceleration toward maturity that has occurred in the recent decade is reason to question whether efforts to improve the private pension system should not be directed toward devices that will extend coverage rather than to measures that risk disrupting the current growth pattern. At the present rate of maturation, the private system may well outgrow any need for some of the legislative changes being considered.

Our concern should not be with the private pension system as it has developed to the present time in covering members of the work force. It is doing a good job and likely will continue to do so in the future if it maintains its present direction and momentum. Our concern rather should be with the inapplicability of the present private pension system to a large portion of the population who are not employed in industries and jobs where private pensions are being substantially developed. Our attention should rather be focused on those areas where pensions are not an appropriate part of the employer-employee relationship and where we have no adequate tax incentives to encourage their development.

It would seem that a primary concern of long-range planning for the economic well-being of older citizens is finding the means for increasing the portion of those who have pension income.

At the end of 1967 about 47-1/2% of the total labor force had retirement income coverage. Tax returns for that year show pensions as a source of income for 12.3% of the age 65 and over population--and some unknown percentage also received retirement income resulting from lump-sum distributions from retirement plans, which was reported on other sections of their tax returns. (Unfortunately, income tax returns do not permit analysis of this type of retirement income, which generally would be reported as a capital gain in the year of receipt. In subsequent years, income from invested proceeds would be reported as interest, dividends, rents, etc.)

We do know, however, that pensions and other forms of retirement income programs cannot produce income in old age if coverage does not exist during the working years. We also know that there are segments of the labor force where prospects for pension coverage are minimal, as outlined in considerable detail in the working paper.

V. Private Pension Coverage--Potentials for Expansion

Expansion of private pension coverage is vital, and we believe the time is appropriate to consider new measures to accomplish the desired expansion. We suggest consideration should be given to the encouragement of voluntary saving for retirement, either through individual saving or employee group saving. Such encouragement could be expressed by extending tax deferment to funds saved for retirement beyond the scope of the present deferment granted only to employer payments to qualified retirement plans.

In effect we are proposing a universal system for private retirement income accumulation which would permit every working taxpayer to exempt from current taxes a portion of his earned income if it is held or invested in a bona fide retirement income arrangement. The portion of income exempt would take into account payments made on behalf of the taxpayer by his employer (as currently permitted), payments made by the taxpayer to employer-sponsored plans (not currently permitted), and payments made by the taxpayer to any approved retirement income arrangement (not currently permitted except under tax-sheltered annuities available only to employees of certain tax-exempt organizations).

A universal private retirement system would offer a solution to the major deficiency of the present system; namely, its apparent inability to achieve broad coverage. Adoption of a universal system with the tax privilege related to the individual taxpayer rather than limited to application through the employment relationship would appear to lead to the natural achievement of the goals of flexibility, freedom of choice, portability, vesting, and funding.

ITEM 3. PAUL JACKSON, ACTUARY, THE WYATT COMPANY, WASHINGTON, D.C.

THE WYATT CO.
ACTUARIES AND EMPLOYEE BENEFIT CONSULTANTS,
Washington, D.C. March 31, 1970.

U.S. Senate,
Special Committee on Aging,
Washington, D.C.

GENTLEMEN: At the public hearing, February 18, 1970, on Pension Aspects of the Economics of Aging, Dr. Schulz asked for the source of Mr. Griffin's projections as to the extent of private pension coverage and size of pensions by 1980.

First off, it should be noted that an actuary hardly needs a survey (public or private) to prepare forecasts, since his primary function is to make long range projections. A good actuary can make long range forecasts with considerable accuracy if he is experienced in the field to which his estimates apply. The forecast in Mr. Griffin's prepared statement was "that the average per capita pension payable under private plans will have increased to between $2,500 and $3,000 per annum (by 1980), if present trends continue". This estimate was qualified by "subject to the political and economic climate for private pensions during the next decade". Furthermore, the estimate applies to benefits payable to retirees of 1980, rather than to the total of all benefits payable from private pension plans divided by all recipients in 1980. Because of the periodic updating of benefits, the estimate of benefits payable to current retirees is a far more pertinent measure of the progress made under private pension plans than the aggregate average.

As to method, Mr. Griffin based his estimate on intimate knowledge of a broad spectrum of retirement plans, coupled with the rates of increase in benefits which are currently being experienced. Essentially, three basic types of formulas and levels of benefit commonly found today were separately applied to pay rates and length of service, where applicable, to obtain an average pension for a 25-year employee; and, after weighting these three types, the average payable in 1980 came to $3,200. Independent estimates made by three other actuaries produced figures of $3,500, $3,600 and $2,500 to $3,000. Like most actuaries who are conservative by nature and try to avoid overstating their case, Mr. Griffin rounded off well on the low side and used the range $2,500 to $3,000.

Dr. Schulz indicated that Mr. Griffin's projections conflicted with other projections he was familiar with, which had been done by Government Committees. It would probably be necessary to analyze the basic assumptions underlying such other projections in order to determine just why they appear to conflict with Mr. Griffin's projections. Personally, I am inclined to the view that Mr. Griffin's estimates are well on the low side, even assuming a stable economy and the expressing of the benefits in terms of dollars having constant purchasing power.

A second question raised by Dr. Schulz was Mr. Griffin's reference to certain ground rules with regard to minimum vesting standards. Although Mr. Griffin made the statement that "most persons . . . would be willing to accept some 'ground rules' in the nature of minimum vesting standards", he did not mean to imply that there was any magic number on which 100% agreement could be reached. As a matter of fact, being opposed by nature to telling others what is good for them, Mr. Griffin has indicated that such ground rules should be set through the democratic process of debate and compromise. Employers have diverse viewpoints on the question, just as do different unions, and it would seem to be impossible to satisfy everyone.

Mr. Griffin has indicated that if he were asked to estimate where a suitable compromise might be found, he would be inclined to suggest a vesting requirement expressed more in terms of age than length of service. Certainly, age is a more meaningful factor for vesting under the many plans that provide greater than proportionate benefits for employees of short service—An illustration of such plans would be the flat-benefit excess plan providing 30% of final average earnings, reduced pro rata for service shorter than 15 years. Mr. Griffin felt that vesting by age 45 or 50 would probably be reasonable to use as a legislated or regulatory minimum.

To illustrate the divergence of viewpoints, my own personal inclination would be to relate the requirement of vesting more to the amount of benefit involved than to either age or service. If an employee terminates employment, even after long service or reaching some older age, under a program with miniscule benefits, there can really be little deviation between his expectation, right or wrong, and reality if he is granted no benefit. On the other hand, where the accrued benefits at termination of employment, even though after short service or at a younger age, are greater than, say 100% of the Social Security Primary Amount, then I would personally be inclined to the view that some vesting should probably be provided. Such an approach would tend to hold to a minimum the value of any benefits that are not extended to terminating employees by reason of lack of vesting.

Finally, at the hearing, William Oriol asked either Mr. Griffin or me to submit suggestions as to those items in present disclosure forms that might be eliminated without any sacrifice in the value of such forms, and those areas where it might be worthwhile to request additional information. In view of the submission in the meantime of an Administration-sponsored Bill that would radically extend the scope of disclosure, a detailed listing of such items would not appear to serve any useful purpose. In general, however, both Mr. Griffin and I would be inclined to support full disclosure of party in interest transactions and of any other transactions that could conceivably be questionable. Greater disclosure also seems reasonable from those organizations which do not have an independent audit.

Basically, we believe that the purpose of the Disclosure Act should be to make it clear that the financial transactions of pension and welfare funds should be on an open and aboveboard basis. On the other hand, we would recommend minimum disclosure as the standard requirement, with the administrator of the Act then being empowered to ask for further details in those cases where some suspicion of the possibility of wrongdoing has developed. We do not believe that the fundamental purpose should be to supply Government or private research workers with additional data, because the cost of preparing that data, imposed upon thousands of plan sponsors, is far, far greater than the sum total value that could ever be derived from the added information.

When immense detail is called for, as under the Administration Bill, evidence of wrongdoing becomes buried in a pile of meaningless figures, and the very purpose of disclosure is thwarted by the over-abundance of detail. In this sense, too much disclosure may end up being no disclosure at all, and the end result may be valueless, except possibly as data for theoretical research.

Sincerely yours,

PAUL H. JACKSON, *Actuary.*

EXHIBIT A

MYTHS
in proposed pension regulations

Proposals for regulation of private pension plans, supported by three specious arguments, may force employers to retreat to other, less regulated—and less secure—forms of benefit.

BY FRANK L. GRIFFIN, JR.

In this session or the next, Congress is headed for a showdown on the principle of self-determination under private pension plans. Proposals contained in several bills before Congress, two of the most publicized being those introduced by Senators Javits and Yarborough, would bring this highly successful private institution under strict governmental control. In the opinion of those most intimately concerned with the private pension movement, there is serious question whether regulation would be in the interest either of the sound future development of these plans or of employees, employers, or unions—in short, whether *need* for regulation has been demonstrated at all.

The proposals Congress will consider would effectively remove certain decisions relating to benefit priorities from the hands of the parties to such plans through mandatory benefit provisions (e.g., vesting), as well as enforce rigid funding requirements (including entirely inappropriate dictation of minimum cost assumption standards by a pension "czar" or by legislation) in order to accomplish what Walter Reuther and certain others really want: federal reinsurance of private pensions. This last idea also appeals strongly to those who would like to see private pension assets and obligations taken over lock, stock, and barrel by the federal government.

Proponents of this type of legislation either do not realize or close their eyes to the fact that vesting is merely one of many benefits that can be added to a pension plan. A form of severance benefit which carries a price tag, vesting must be considered in conjunction with other benefit priorities. It is clear that any of the several forms of benefit which can be added to the basic retirement allowances of a pension plan must be provided at the expense of something else. Does vesting outrank, for example, disability pensions, widows' pensions, lump-sum death benefits, or additional retirement allowances for long-service employees? Who is to say, under a particular plan, what the priorities should be—the parties to the plan or the government?

As far as funding is concerned, strangely enough, it is only the healthiest pension plans that anyone is talking about regulating. No one seems the least bit concerned about unqualified or unfunded pay-as-you-go plans, which offer little security to employees. And, to round out the picture, most plans for governmental employees are in far worse condition than virtually any funded plan of a private employer.

The right to assert public policy or set social objectives we may suppose always to be present in government. At the same time, certainly we ought to be able successfully to dispute specious arguments of any kind advanced to "justify" otherwise unjustifiable intrusions into the private sector.

FIRST GREAT MYTH

To date, the principal argument cited in support of the government's "right" to impose restrictive controls and mandate pension plan provisions rests on a false hypothesis: substantial tax subsidization of qualified private pension plans. This is a fiction, purely and simply, as has been demonstrated by tax attorneys and actuaries alike. Yet much of the argument for regulation is grounded on this fiction.

Tax expert Raymond Goetz, professor of law at the University of Kansas, has written a number of scholarly papers on the tax treatment of pension plans. He concludes that the tax deductibility of pension contributions to qualified plans does not involve any special subsidy, any more than deductibility of salaries and wages can be construed to constitute preferential tax treatment.

Treasury Department spokesmen have implied that a partial measure of tax subsidy is to be found in the $3.9 billion in additional taxes which would be collected annually from employers *if* their pension contributions were not tax deductible and *if* the pension fund investment income were taxable to employers at corporate rates. Mr. Goetz says:

"... there is no real basis under general principles of taxation for disallowing the current deduction of such payments as a business expense or attributing fund income to the employer, with or without employee vesting. In the long history of the Internal Revenue Code (aside from the special restrictions on non-qualified plans), there never has been any real question about the propriety of such employer deductions, or the freedom of the employer from tax on investment income of pension funds, under *general* tax principles. Thus, the entire amount of the $3.9 billion in estimated lost tax on employers can be disregarded."[1]*

Mr. Goetz goes on to point out flaws in the estimates of lost employee tax. Finally, he says:

"... the fundamental policy question involved ... is simply whether broad social objectives ... call for more extensive governmental control of the private pension system or can be left to private decision making by employers, labor unions and employees, within the bounds of existing regulations. *This is not actually a tax question at all.*"[2] [Italics mine]

The same conclusion can of course be reached through an entirely different line of reasoning.

First of all, it must be recognized that the situation under a pension plan is quite different from that under a profit-sharing or savings plan, where the actual net yield on invested funds affects directly the amount of the employee's benefit. Under a typical pension plan providing fixed or definite benefits following an employee's retirement, it is immaterial to the employee what the net investment yield on the fund happens to be or whether it is subject to tax. The latter is of concern only to the employer, who is obligated to meet the costs of the pension plan, whatever these may be.

The fact that interest income on a qualified pension fund is tax exempt of course decreases the employer's pension cost. But it does not follow that this is a subsidization by the government; it also decreases the employer's tax deduction and raises his tax in the year of contribution. In effect, by reason of tax-exempt interest, the government collects more taxes in the year of contribution and foregoes some taxes later.

From the employer's standpoint, whether the plan is funded or handled on a pay-as-you-go basis, tax deductions have the same capitalized value.[3] Granted there is a deferment of deductions under pay-as-you-go (with the government collecting more taxes currently under that method), but the ultimate amount of the pay-as-you-go deductions is considerably higher (with the government foregoing more taxes later).

To determine whether, in the aggregate, the government loses or gains in tax revenues from pension funding would require a forecast of tax rates and other variables over substantial periods of time. Such a forecast would be subject to many uncertain factors, among them the relationships holding from time to time between yields obtainable on pension funds, on monies invested in the company's business, and on the net cost of money to the government (borrowing rate less taxes recovered on interest paid). A paper on this subject by Ray Peterson, retired former vice president and associate actuary of the Equitable, deals with these relationships and reaches some tentative conclusions. Interestingly, *there are areas where both the government and the employer gain by the funding of pensions*, as well as areas where it is to the disadvantage of both. Only in a relatively narrow band does the employer gain and the government lose. Peterson concludes:

"In view of the realized or expected return on funds that are invested

* Footnotes are included at the end of the article.

substantially in common stocks ranging up to 9 per cent per annum (or higher) it would appear that there are many plans where the government will enjoy a decided advantage by reason of advance funding. ... Considering the entire range and character of private pension operations over the years to come, can anyone say, with any degree of confidence or factual support, that advance funding of pensions, with tax-free input, will be any more costly to the government than the pay-as-you-go financing of the same benefits under such plans would have been with tax-free output?"[4]

Thus, use of government officials' claim of "generous tax treatment" of funded plans to justify attempts at regulation is unsupportable on at least two counts. If pay-as-you-go pension disbursements are acceptable as a business expense deduction without the employer having to comply with restrictive rules, why should a funded plan be discriminated against? Such discrimination would indeed mean that different agencies of government were working at cross purposes. If, to escape onerous regulation, employers were driven to pay-as-you-go plans, or even away from pensions entirely, would we not defeat the very objectives of those (in government and out) who wish to encourage funding to protect employee pension benefits?

SECOND GREAT MYTH

Great Myth No. 2 may be stated as follows: "Public policy requires compulsory early vesting, funding regulation, and benefit reinsurance, because:

- "Pension plans have very little vesting, a circumstance which inhibits the mobility of labor, and

- "Pension plans are poorly funded, with the result that benefit losses are heavy on plan termination."

If these assertions were valid, it might seem reasonable to call on the oracles of "public policy" to get in there with both hands and regulate. The truth, however, is that our friends in Washington are managing to get things backwards with the same old mirrors. For example, the statements "pension plans have very little vesting" and "pension plans are poorly funded," are both unwarranted assumptions, as will be demonstrated. And one need only cite independent Labor Department studies to refute the corollary conclusions that lack of early vesting seriously "inhibits mobility of labor," or that "benefit losses are heavy on plan termination." More on this later.

In the face of all the activity to get regulatory pension bills into the Congressional hopper, some of us have had the temerity to suggest collecting a few facts *before* embarking on a course from which there is no turning back. One is entitled to hope that a compass will improve what is currently very poor navigation on the seas of regulation—if facts are permitted to bear on political steering of the Ship of State.

STUDY OF BENEFIT SECURITY

Charles L. Trowbridge (vice president and chief actuary of the Bankers Life of Des Moines) and I have just finished a book under the sponsorship of the Pension Research Council, entitled *Inquiry Into the Status of Funding Under Private Pension Plans in the United States.* The aim of this study has been to determine not only the average degree of funding already accomplished, but also the proportion of plans whose accrued benefits are fully funded. A secondary purpose of the study has been to examine current vesting practices and to ascertain the extent to which the values of accrued benefits are vested.

The study was limited to plans which had been in effect at least 10 years in order to allow sufficient time for a funding pattern to be established, especially in the light of IRS maximum limits on deductible contributions. It was also limited to plans covering at least 25 participants each. Notwithstanding these practical reductions in the data to be reviewed, the project was a gigantic one. The 11 major insurance companies and 22 leading actuarial firms which contributed to the study deserve considerable credit for their time and effort, which was only partially compensated.

The sample of plans is a significant one. Altogether, nine million participants were covered in the plans submitted for study, or 44 per cent of the total possible at the duration studied. The detailed actuarial valuations in turn covered approximately a 50 per cent sample of the above, or 4,500,000 participants. Over-all, the plans for which valuations were performed had accumulated aggregate asset values, at market, of $22.2 billion. The total value of accrued benefits under these plans also totaled $22.2 billion (the close correspondence being accidental). The total value of vested accrued benefits was $18.0 billion.

By the central date of the study in 1966, a very high degree of benefit security had been reached. In the aggregate, plans which had effective funding periods of 15 years or more had accumulated assets sufficient to cover 94 per cent of *all accrued benefits* (whether vested or not) and 99 per cent of *vested* accrued benefits!

Such a record is truly outstanding. Complete funding of accrued benefits should not be expected, of course, until a plan has been funding for a considerable number of years (perhaps never), for the following reasons:

- Amortization of past-service costs must be accomplished over extended periods due to IRS limits on tax deductible contributions as well as practices under union negotiated plans; and

- Most plans are subject to repeated updating of benefits which continually create additional costs to be amortized.

Table 1 illustrates the dispersion of results as well as the high overall level of funding. This particular table is restricted to plans having an effective period of past funding of 15 or more years.

TABLE 1

Plans With Effective Funding Periods of 15 Years or More	Average Benefit Security Ratio*
Upper ⅓	140% (All over 100%)
Middle ⅓	116% (All over 100%)
Lower ⅓	86%

* The weighted average of unadjusted individual plan ratios.

Over 70 per cent of the plans at funding durations 15 and over are fully funded as defined in this study. This is a much higher percentage than would be expected to have achieved full funding of accrued benefits at the funding durations represented here. The result must be attributed both to favorable investment experience and conservative funding practices of the past.

The study also introduced a measurement of funding progress in relation to the effective period of past funding. Progress has been measured by a benchmark which moves toward 100 per cent over a period of years. The benchmarks we have developed reflect funding levels that might be expected under typical funding procedures and employment patterns, and are compared with the ratios actually achieved at each funding duration by the plans in the study.

In terms of the funding of *all* accrued benefits, 94 per cent of all plans were found to be ahead of one of the benchmarks selected, and 90 per cent were ahead of the other (more stringent) benchmark.

Proportion of Plans Above Funding Benchmarks
(All Funding Durations Combined)

Benchmark #1 (30-year straight line)	94%
Benchmark #2 (40-year curve bowed upward)	90%

If the benchmarks are viewed as representing "normal" progress, expected variation about the norm means that anything over half of the plans above benchmark constitutes a reasonable record. The record achieved is therefore little short of phenomenal.

VESTING

As far as the vesting provisions of the plans studied are concerned, the results are equally enlightening. All plans were classified into three groups according to liberality of vesting provisions. Those conferring vesting essentially upon completion of 10 or less years of participation were designated "early" vesting; those conferring vesting after 20 or more years (or upon qualification for early retirement if sooner) were designated "late" vesting; and those with vesting requirements in between were designated "intermediate." (See Table 2).

Approximately half of the participants and benefit values were found to be under plans with "early" vesting. Another third were found under plans classified as having "intermediate" vesting, the balance of about one-sixth having "late" vesting.

Eighty-one per cent of the values of all accrued benefits were vested. (The percentage of benefits vested or of participants enjoying full vesting would be lower.) The figures indicate a reasonably advanced stage in the evolution of vesting, with liberalizations continuing to occur as other benefit priorities are satisfied.

So much for the highlights. The principal message to be found in the results of this study is the clear evidence that during the past several decades, in a climate favorable to independent development, private plans have responded with a remarkably healthy growth, both in the evolution of benefits and in the enhancement of employee security through sound financing.

There is the danger that those who want regulation will attempt to turn the argument around, saying that most plans are so well funded that it is *feasible* to set strict rules. To anyone familiar with the countless legitimate reasons for differences between plans and funding practices, this assertion is completely illogical. Borrowing a page from Professor Parkinson, perhaps we can translate this paradox into the First Law of Regulation: "The feasibility of regulation is directly proportional to the absence of need."

The Pension Research Council study also demonstrates a tremendous diversity in the private pension field. Unions and employers, operating on the basis of free bargaining and independent judgment, have arrived at decisions leading to the adoption of a wide variety of plan provisions and funding policies adapted to their special requirements. Since requirements vary from one industry to another and from company to company, diversity rather than uniformity should be encouraged.

In a field where diversity is the normal state of affairs, regulation seems singularly inappropriate. It would stifle innovation and end self-determination in what has hitherto been a private area. Are those urging compulsory early vesting, for example, aware that employers and unions have steadily been adding and liberalizing vesting provisions over the years without any pressure from government? Are they aware that vesting is just another form of benefit under a pension plan (like a death benefit), which carries a price tag and is provided at the expense of some other benefit? Finally, are they aware that these various benefits involve priorities which should be decided by those affected, not by the government?

No pattern can ever fit all the circumstances of individual plans. The inability of rules to keep up with changing conditions, and the impossibility of obtaining timely legislative changes, should be kept firmly in mind. The insurance industry, which has experienced frustrating delays in modernizing its products as well as valuation standards, provides an example for all to remember of the inertia inherent in legislative standards.

THIRD GREAT MYTH

A third great myth is: "Political supervision would improve pension funding, benefit security, etc."

One need only examine the record of plans for public employees to recognize the fallacy of such an assertion. Consider federal civil service, for example, which is under political supervision, if you can call it that, and a so-called funded plan. After satisfying requirements for currently retired employees, the assets of this retirement system would cover less than five cents of each dollar *of the employee's own contributions!* There would not be one thin dime of employer funds for active employees.

There are numerous similar examples in the public field. Is it not ironic that private pension plans, on the whole soundly conceived and funded, should come under scathing fire from their critics; while plans for public employees, generally underfunded, with costs grossly misrepresented to taxpayers, virtually escape public notice? Responsibility, like charity, should begin at home. Politicians ought to put their own pension houses in order before tampering with those on solid foundations.

Typical of the difficulty confronting any large bureaucracy in its efforts to regulate is the potential conflict between one bureau, IRS, which wishes to hold down pension contributions for tax purposes, and another which wishes to encourage more rapid funding. It is like the problem of tobacco. Our government spends $50 million a year to subsidize the production and sale of tobacco products, while at the same time other agencies are spending millions to point out to the American public the dangers of using such products.

Dr. George Stigler of the University of Chicago has done considerable research in the field of regulation. In an address, "The State as an Economic Guardian," he drew examples from many fields to show that regulation is rarely justified "after the fact" by the record of performance. Concluding that regulation often brings results not originally intended, he said: "We should think a man singularly irresponsible if he entrusted his children to a guardian of whom he knew nothing. . . . We have been equally irresponsible in the economic tasks we have delegated to the state."[5]

TABLE 2

VESTING SUMMARY

Vesting Classification	Distribution of: Participants	Distribution of: Vested Benefit Values	Proportion of Total Benefit Values Which Are Vested
Early	47%	51%	91%
Intermediate	34	37	83
Late	19	12	51
	100%	100%	(81%)

A result "not originally intended," which could become the fate of private pensions, may be illustrated by the following possible sequence of events:

1. First of all, if private plans are required, *as a condition of favorable tax treatment,* to confer vesting after a very short period of service, would this not argue for shortening the period over which employers are permitted to amortize past-service costs?
2. Would not the extra cost thus resulting be a deterrent to larger pensions, or perhaps lead employers to turn their backs on funded plans in favor of unqualified pay-as-you-go plans, which provide virtually no security to employees?
3. Might our "planners" then feel it necessary to legislate compulsory funding of pension plans and to outlaw pay-as-you-go?
4. Would this not, in turn, lead employers to abandon pensions in favor of less regulated forms of benefit?
5. So that, eventually, the "planners" would feel compelled either to legislate *compulsory private* pension plans, a conflict in terms, or to preempt the entire field through a greatly expanded social security?

Thus, by yielding what may appear to be a relatively small point initially, we may eventually run the full gamut of regulation. It is not amiss to recall a quotation from Benjamin Franklin's "Poor Richard's Almanac": "For the want of a nail, the shoe was lost; For the want of a shoe, the horse was lost;" and so on, down through the rider, the battle, and the kingdom, which was finally lost.

The real danger to private pensions does not lie in the details of original regulatory legislation. Such legislation will deliberately be designed to be "saleable," to get a leg up on the horse. *Rather, the danger lies in setting a pattern of rigidity which will induce employers to retreat from the private pension field and turn to other, less regulated forms of benefit.* If one were deliberately bent on a course of shackling the development of private plans, there would probably be no better way than to couple rigid regulatory controls with a continued social security "squeeze."

Does anyone seriously believe that the private pension field would be improved or the public substantially benefited by a complex system of bureaucratic control? On the contrary, having politicians oversee the healthy private pension institution would be like putting a cat in charge of bird watching.

CONCLUSION

Summing up, the hullabaloo over private pensions has given the public an impression of inadequate funding and careless stewardship. But the impression is false. During the past several decades, these plans have been going about their business quietly, funding conservatively, expanding, modernizing, adapting to a wide variety of circumstances, and generally acting like responsible citizens in a progressive society.

Unfortunately, it isn't enough just to be respectable. Maybe we've been going about it a little *too* quietly. It's a little like the old verse:

"He was right, dead right, as he sped along,
But he's just as dead as if he'd been wrong."

His communication was bad. He forgot to toot his own horn. Studies such as the recent one emanating from the Pension Research Council should encourage us to toot a little louder. Communications programs designed to publicize the good points of private pensions and enlist active support from the beneficiaries of these plans would go a long way toward correcting the publicity imbalance.

The policing of private plans—which have a high degree of benefit security, which contribute substantially to the capital structure of our economy, and which fulfill many other important social objectives—seems completely illogical if plans with far less desirable attributes are ignored.

Moreover, viewed in the over-all picture, the question of regulation to improve security levels under private plans represents a tempest in a teapot. Based on an analysis of the federal government's own statistics (a study of terminating plans made by the Labor Department), the loss of pension benefits due to plan terminations during a recent 10-year period was approximately one-fourth of 1 per cent. This is one-fourth of 1 per cent for the whole of the 10 years, not the average annual rate. Contrast this with the present rate of inflation, which, over a comparable period, produces a pension benefit loss of 30 per cent or more in terms of purchasing power!

Thus, the loss of pension benefits resulting from inflationary governmental policies is currently running at more than 120 times the rate of loss due to uncompleted funding under plans terminating.

Somehow, under these circumstances, it seems incongruous to urge a new bureau to reinsure against loss of benefits on plan termination. How much energy should be spent to close a pinhole through which an ant might crawl, when the front door is left wide open to the tiger of inflation? Let us hope the present administration will restore perspective on the pension security question by placing primary emphasis where it belongs. ■

FOOTNOTES

[1] From an address titled "Tax Treatment of Private and Public Pensions Systems," at a symposium on Private Pensions and the Public Interest, American Enterprise Institute, Washington, D.C., May 8-9, 1969.

[2] *Ibid.*

[3] When computed at the net yield rate of the pension fund, the capitalized value of the employer's contributions to a funded plan is identical with the capitalized value of pension payments on a pay-as-you-go basis. Therefore, the employer's tax deductions have the same capitalized value on the two bases.

[4] "Old Age Income Assurance by Lifetime Income Spreading with Deferred Taxation as the Natural Treatment," *A Compendium of Papers on Problems and Policy Issue in the Public and Private Pension System*, submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, Part III (U. S. Government Printing Office, Dec. 1967) p. 209.

[5] From an address before the Financial Executives Conference sponsored by The First National Bank of Chicago, April 29, 1964.

EXHIBIT B

[From the Wall Street Journal, Mar. 4, 1970]

FATTER PENSIONS—MANY COMPANIES BOOST PAY TO RETIRED WORKERS AS INFLATION CONTINUES

FIRMS ACT WITHOUT PRODUCING: SOME STOCKHOLDERS GRIPE; IT'S MORE THAN ALTRUISM

Now, Grapefruit at Breakfast

By Richard J. Howe

Thomas Fehnenberger, 79, figured he was a forgotten man.

Mr. Fehnenberger retired in 1954 as a safety inspector for Smith Kline & French Laboratories. He had worked for the pharmaceutical house for 44 years and thus was entitled to a monthly pension of $142. That wasn't bad in 1954. Combined with his Social Security, it provided him and his wife with a comfortable, if not luxurious, life in their tidy home in Pine Hill, N.J., not far from the Philadelphia plant where he worked all those years.

But what was adequate in 1954 was inadequate in 1969. By last year, Mr. Fehnenberger had slipped a few hundred dollars into debt as his expenses mounted as his pension held at $142. In the past five years alone, his property taxes climbed 20%, his food and clothing bills rose 50% and his medical expenses doubled. He could see no way out.

200 COMPANIES ACT

And then, last June, Mr. Fehnenberger got the good news. In the morning mail he received a letter announcing that Smith Kline & French was boosting payments to its 268 pensioners. In his case, the payment would rise 27%, to $180 a month. "I was flabbergasted," he recalls. "After all, they didn't have to do it."

Mr. Fehnenberger was right, of course. Smith Kline was under no obligation to boost the pensioners' benefits. The company acted simply because it was aware that inflation was eating into the pensions. Besides helping the pensioners, a company official says, Smith Kline hopes the move "will help our employe relations—will indicate our continuing concern for the welfare of our employes during and after employment."

Smith Kline is just one of a number of corporations that are increasing payments to many of the nation's six million private pensioners without any apparent pressure to do so. Though there aren't any statistics available—many concerns, wary of setting precedents for future pension boosts, avoid fanfare—management consultants and others count at least 200 companies that have recently raised their pensions. Among them are IBM, Eastman Kodak, GE and Campbell Soup.

Another 300 companies are considering boosts, according to the Philadelphia consulting firm of Towers, Perrin, Forster & Crosby. "It's true that some companies still feel that once a man retires on a fixed pension they have no further obligation," says James J. Sweeny, a vice president of the consulting firm. "But this philosophy is rapidly disappearing—along with the value of the dollar."

GOOD FOR THE IMAGE

The main reason for the increases, of course, is inflation. Consumer prices have risen about 30% in the past 10 years, and if the current rate of inflation persists the dollar in 1980 will be worth only half what it is today. "It may sound corny, but we feel we must recognize our responsibility in this," says a spokesman at Eli Lilly, which recently gave 650 pensioners boosts of 5% to 30%.

But there are other, less altruistic reasons behind the increases. W. T. Grant Co., like Smith Kline & French, believes pension boosts help the morale of employes who are still working. An official of New York's First National City Bank concedes that one reason the bank raised pensions by 5% to 25% was that the sight of financially pinched retirees could hurt the bank's image. "If people see one of our retired branch managers dressing shabbily, it can't help but reflect poorly on us," says the official.

The increases don't add terribly to most companies' costs. Smith Kline figures that last summer's boost will cost it about $37,500 a year, a tax-deductible amount equal to less than 0.1% of the company's profit. Consumers Power Co. of Jackson, Mich., says a 10% boost to 1,200 pensioners in 1966 added only $200,000 to the company's $7 million annual pension outlays. "That's not horribly expensive," says Walter Boris, the utility's vice president for finance.

Some stockholders of Consumers Power disagree. About 25 of them have sent letters complaining about the increase in pensions, apparently because they feel the money should be used for dividends instead. Ironically, most of the letter writers are retired people living off their dividends.

THE ROLE OF THE UNIONS

Though the great majority of pension increases are being initiated by companies, some are being brought about by union pressure. In recent years, both the Steelworkers and the Mine Workers unions have several times persuaded employers to liberalize pensions for members who already were retired.

There's some legal question about whether unions can represent their retired members at the bargaining table, but as a practical matter they can and do. "If the Steelworkers put the demand on the table, and if you need it to make a deal, you'll pick it up," says an official of one company that bargains with the Steelworkers.

The union motives, like those of some companies, are not always wholly altruistic. "Even the youngest union man realizes he'll be retired someday and be looking for higher benefits," says one union official. Thus, by sticking up for the pensioners the union can cement the workers' allegiance, he reasons.

Whatever the reason for the pension increases, the pensioners are appreciative. Mr. Fehnenberger, for instance, now is debt free. He and his wife sometimes enjoy the luxury of a second vegetable at dinner, and every morning they now have grapefruit. They had cut out grapefruit as an economy move five years ago.

ITEM 4. JOHN F. TOMAYKO, DIRECTOR, INSURANCE, PENSION AND UNEMPLOYMENT BENEFITS DEPARTMENT, UNITED STEEL WORKERS OF AMERICA

MURRAY W. LATIMER,
INDUSTRIAL RELATIONS CONSULTANTS,
Washington, D.C., March 11, 1970

DEAR SENATOR WILLIAMS: We are actuarial consultant to the United Steelworkers of America. Mr. John F. Tomayko, Director of the Insurance Pension and Unemployment Benefits Department of the Steelworkers, has asked us to respond to your request to him for comments on the Welfare and Pension Plans Disclosure Act and on the administration of that Act by the Department of Labor.

The enclosed memorandum is intended to comply with the invitation to comment.

Very truly yours,

MURRAY W. LATIMER.

[Enclosure]

MARCH 11, 1970

COMMENTS OF MURRAY W. LATIMER, ON PENSION REPORTS MADE TO THE DEPARTMENT OF LABOR UNDER THE WELFARE AND PENSION PLANS DISCLOSURE ACT

Mr. John F. Tomayko, the Director of the Insurance, Pension and Unemployment Benefits Department of the United Steelworkers of America, has asked me to prepare a memorandum responding to a request made in a letter to him dated February 24, 1970, from Senator Harrison A. Williams, Jr. Senator Williams asked for a critique regarding "(1) the availability of data under the Welfare and Pension Plans Disclosure Act, (2) the assistance received from the Department of Labor in securing this data, (3) the adequacy of the data required under the Act, and (4) any additional data that might be required to provide more comprehensive and pertinent information."

(1) The reports of companies under the Welfare and Pension Plans Disclosure Act are filed and made available with reasonable promptness by the staff

of the Office of Labor-Management and Welfare-Pension Reports of the Department of Labor. The files are quickly accessible and members of the staff of the Office are most cooperative. There have been two continuing problems. First, the index of employers is not complete and there are some errors. For example, the United Steelworkers of America has filed, well within the time limits, all the reports required by the Disclosure Act. The published "Register of Retirement Benefit Plans Reported Under The . . . Disclosure Act" lists a United Steelworkers of America pension plan in Cleveland, which is in error, and fails to list the correct plan. When one of the attorneys for the Steelworkers was taxed with the alleged failure of the Steelworkers to observe the requirement of the Disclosure Act we could demonstrate compliance only by finding the files by reference to the number assigned to the Steelworkers' plans. The trouble seems to be, in this and other cases, that in the initial stages the Reports Office failed to record all the numbers which were assigned. When reports come in and there is a file, they can easily be placed in the proper file because they contain the assigned number, but there appears to have been no effort, systematic effort at least, to correct past indexing deficiencies.

Second, there is relatively little policing. On several occasions we have called attention to lack of returns in files and this has on occasion resulted in inquiries which have brought returns. In other cases a report is not in the file even though we are sure that it had been received. We are informed that when reports are used in analyses made by the staff of the Bureau of Labor Statistics, xerox copies are made and the report itself is returned immediately. Whatever the reason, checks for files over periods of months have failed to turn up documents which we wished to examine.

Both these problems are susceptible of correction, but at the cost of multiplying the work load of the Office several times over. While we have made no survey of work methods and loads of the Office and, of course, are hardly in position to do so, our observation is that the methods are appropriate and the load reasonable and fairly distributed.

(2) It has been convenient to discuss staff assistance along with availability of reports in the preceding section.

(3) These comments relate mainly to the annual report which the Act requires each employer to file, for each plan, with the Office of Labor-Management and Welfare-Pension Reports. There is also a requirement that certain plans and documents related thereto be filed. We have had made relatively little use of he document files—none at all where plans covering Steelworkers are involved—because the Union's files are at least as good and we can make certain that they are current. The main drawback of the Labor Deparment's document files is the lack of any method of determining whether all amendments have been filed. It is not clear that the Office of Labor-Management and Welfare-Pension Reports can, even with substantial additional time and effort, do very much about policing amendments to tens of thousands of plans.

The Disclosure Act sets out in some detail data to be included in the annual report which it requires be filed with the Office for plans covering 100 or more participants, such reports to be filed within 150 days after the end of the plan year. I am not a lawyer, and these comments are not based on any assumptions as to whether or not the enumerations in the Disclosure Act were intended to be and are exhaustive or to what extent, if at all, the Department of Labor may, by regulation or instruction, amplify definitions and requirements. But the data available for the steel industry are hardly to be termed satisfactory.

The usual aim of the Steelworkers is to have a single master contract covering all the employees within its jurisdiction who work for one corporation. The pension agreement would parallel the coverage of the master agreement. There are many exceptions to this. For example, a few of the largest steel corporations employ members of the Steelworkers on railroads, subject to the Railroad Retirement Act. The benefits of the Railroad Retirement Act are quite different from those under Social Security, and the formulas in the pension agreements applying to railroad workers differ from those for other employees.

The United States Steel Corporation has pension agreements with many other unions, some of which, notably the United Mine Workers, provide for contributions to an industry fund which pays pensions to retired U.S. Steel employees, some of whom also receive supplements from the general U.S. Steel pension fund from which members of the Steelworkers get their pensions. Where there is not an industry fund it is our understanding that U.S. Steel (and the other large steel corporations) follows the pension terms worked out with the Steelworkers. But there are deviations and, in any event, because of differences in the periods covered by pension agreements, there will be a variety of pension provisions in operation at any given time.

The pension agreement between the Steelworkers and U.S. Steel (and this, I believe is true of all that Corporation's pension agreements with unions) provides that all costs will be borne by the employers. But U.S. Steel also maintains a contributory pension plan for supervisory and executive personnel and perhaps others. Some Steelworkers participated before the first pension agreement was negotiated but, at union insistence, were then made ineligible.

The U.S. Steel Corporation files a single pension report each year. By the usual definition of "plan" the Corporation has many pension plans, though, I assume, for the purposes of the Disclosure Act, there is one plan. However that may be, about all that anyone interested in a particular plan (in the ordinary sense of "plan") can get out of a consolidated report is (assuming that there is a single pension fund) the approximate rate of return on the book value of the fund and realized capital gains. Whatever knowledge about the U.S. Steel pension plan which the Steelworkers have which is useful to members is derived almost entirely from reports made to the union by the Corporation. The only data contained in the reports filed with the Labor Department which were not available to the Union before the Labor Department reports were instituted are the amount of current and past service liabilities and the current service costs. The value of consolidated figures is, however, highly dubious. It also seems to me improbable that any general prescription, whether by statute or regulation, of the contents of reports to be made to a government agency would meet the needs of all of the various interested parties. As regards the Steelworkers, for example, the data needed with respect to the various pension agreements to which it is a party are not identical, and for the same agreement will vary from time to time. It is not to be expected that the Steelworkers will get the needed pension information in any way other than through direct request addressed to the specific employers with reference to particular situations. All such requests will have many items in common; but there will also be many which are relevant under some circumstances and not in others.

While no union can reasonably hope to acquire all the data it needs for the pension activities on behalf of union members from government reports, any union will be interested in the contents of such reports and will wish them to be as full and as accurate as is reasonably possible. From the point of view of anyone who is interested in the operation of private pension plans, the pension reports to the Labor Department can be substantially improved.

(4) There are some data which are perhaps called for by the existing statute and forms, the precise content of which can usefully be clarified. Other data are not called for. But it would not serve any useful purpose for a layman to attempt to make a classification involving conclusions as to the exact meaning of either law or regulations.

a. The definition of "plan" should be such that each set of provisions involving differences as to eligibility to participate, or as to requirements for receipt of pension, or as to the method or methods of calculating the amount of benefit, or as to any other factor requiring the segregation of groups of employees for the purpose of calculation of actuarial liability and cost would constitute a "plan." If there were a separate fund or a separate account in an overall fund which is allocated to the particular employee group, the actuarial liability, current service cost and reserves should be reported as at present. If there is an unallocated fund, the aggregate fund should be reported in a summary which would refer to the aggregate of the liabilities and costs for the several plans.

Many employers now report on essentially this basis. The practice varies and uniformity is needed.

b. The present report form calls for employment data at two points, one which separates former employees with vested rights to a deferred pension from currently active employees, and one which makes no such separation.

These two items are almost always, except for the separation, identical. It would be more useful if the average number of active employees during the fiscal year were reported (as is required for unfunded plans), together with the number, as of the date of the latest actuarial valuation, of former employees with vested rights and of active employees.

c. The present report calls for the number of participants which "will most reasonably reflect the number covered by the Plan during the reporting year." It is inconceivable that this instruction produces comparable data. The preceding paragraph covered employees. Three pensioner numbers are needed: the average during the fiscal year, the number on the latest valuation date (as mentioned in the preceding section), and the number who retired during the year.

The present report asks for a single amount of benefits paid in a fiscal year by plans financed through trust funds. This may consist entirely of pensions. But it may also have death benefits, withdrawal benefits and, in most plans operated under employer pension agreements with the Steelworkers, lump-sum payments of from 9 to 18 weeks of vacation pay. It is legally permissible also to pay benefits for sickness, accident, hospital and medical expenses of retired employees from a pension fund. Use of total benefits and of a number of pensioners selected on the basis of some unstated criterion as "representative" to construt some index of the level of individual pensions is about as likely to be misleading as helpful. What would be useful would be:

i. Amounts of benefits paid in the fiscal year, divided as between life pensions, temporary pensions, the various types of lump-sum benefits, and benefits to cover health expenses;

ii. The number of lump-sum payments of the various kinds, and the number of pensioners, if any, who received various forms of sickness-related expense benefits;

iii. The average number of pensioners receiving life pensions, temporary pensions, and both.

Until now the number of pensions for survivors has not been large enough to warrant a separate category. Widows' pensions are beginning to spread, and the proportion of joint and survivor elections has been increasing. Separate categories for employee and survivor pensions will probably be desirable soon.

These suggestions involve a substantial increase in information about pensioners, other beneficiaries, and pension and other benefit payments. The Steelworkers have found it most helpful to secure from employers a much greater volume of data in these areas. The overall data conceal highly important differences between the various types of pensions and the rate of increase in the level of pensions over time. It may be emphasized again that in the area of benefits and beneficiaries, reports tailored to specific situations cannot be replaced by general inquiries such as a government agency may appropriately make.

d. There are five types of insured pension plans. Of these, the deposit administration type of contract is much the most important. But the reports on this type of plan are gravely defective in that no benefit payments are called for, and the greater part of the operating expenses of many, probably most, such plans is combined with the cost of benefits in the charges for annuity purchases. The suggestions as to classifications of pensioners, beneficiaries and benefit payments made above are applicable to all types of insured plans.

e. One of the purposes of the benefit plan reports to the Labor Department is to make certain that participants in the plans are able to get some idea as to the extent to which their benefits are assured. Information on the book value, usually cost, of pension fund assets grouped in very general categories is included in the annual reports filed with the Labor Department. But there is no indication of actual market value. And a report on market value of most real estate and unlisted securities is not of much use unless the method by which the reported market value is determined is indicated. In general, securities listed on an exchange or for which an over-the-counter quotation is available, and mutual funds listed in the Wall Street Journal or New York Times, should be separated from securities not so listed; government insured mortgages should be separated from those not so insured; and there should be appropriate places for reporting securities in default on interest or both interest and principal. A market value should be given for each category, along with the book value, and where the market value cannot be ascertained by reference to an actual market, the basis of the valuation should be stated.

f. In the original report form respondents were required to reconcile year-end trust fund balances. In the present form no reconciliation is called for. As often as not it is impossible, on the basis of data reported, to effect a reconciliation. In my judgment, unless such a reconciliation is possible, a calculated rate of investment return (with and without realized capital gains) is probably subject to a large margin of error. The reconciliation requirement should be reinstated. One other change would be useful in connection with the rate of return. It is not possible to ascertain whether or not receipts from investments include interest which had accrued when a security was purchased. The fact that the instructions for the financial returns are very general hinders understanding of the content of the various items and increases the probability that practices are not uniform.

g. Some employers, including major corporations, reduce actuarially calculated contribution requirements by a formula or an arbitrarily determined amount having some relation to unrealized capital gains. If the market values of pension fund assets are reported, the significance of such values cannot be completely comprehended unless there is information as to what extent, if at all, contributions have been reduced because of any excess of market over book value. This would be particularly important in periods of declining market values.

h. Most pension plans, when the pension funds are valued at cost, as is usually the case in actuarial valuations, have an unfunded past service liability. Decisions as to the amount of gross contribution to be made (that is, contributions before capital gains or other offsets, if any) involve some specific period in which assets to cover the unfunded liability are to be accumulated. For a thorough understanding of the finances of a pension plan the way in which the amount of the reported employer contribution was determined is essential. This would involve not only any capital gains offsets but also reference to the amortization period (or periods if there are different periods for different segments of the liability) is needed. In some union pension agreements the method by which the contribution is determined is spelled out. In the case of the Steelworkers, contributions are determined under no more than one in five (measured by covered participants) of the pension agreements.

i. Any judgment as to the adequacy of contributions to a pension plan must be made in relation to the liability involved in the payment of the plan benefits, and the reasonableness of the liability depends on the actuarial methods and assumptions on which its measurement is based. There is a wide variation in the quality of the description of these methods and assumptions. In some cases there is a statement to the effect that the information is available in the plan office. This is not particularly helpful when the interested party looks to the files of the Labor Department in Washington for the information. The instructions might well specify that unless a complete actuarial report is filed (we have yet to find such an actuarial report attached to a report to the Labor Department), a complete statement of actuarial assumptions is to be supplied. At present the descriptions are frequently so brief that it is impossible to determine whether the valuation fails to take into account some provisions of the plan or whether the statement of assumptions is incomplete.

This is particularly important for the Steelworkers' pension agreements providing for the payment of immediate pensions for certain employees who lose their jobs because of extended layoffs or the permanent closing of a plant or department. Some actuaries calculate pension liabilities as if these provisions did not exist. Others take them into account in different ways, but very rarely do the actuarial assumptions specify what has been done. Similarly, actuaries may value pension liabilities as if a provision for a large lump-sum payment at retirement had not been adopted, but without mentioning the omission in listing the actuarial assumptions. There needs to be a question which would elicit information as to whether or not the liabilities of the pension plan cover all the provisions of the plan and, if not, why.

MURRAY W. LATIMER.

Appendix B

LETTERS AND STATEMENTS FROM INDIVIDUALS AND ORGANIZATIONS

ITEM 1. LETTER FROM GEORGE P. SHULTZ, SECRETARY, DEPARTMENT OF LABOR, TO SENATOR HARRISON A. WILLIAMS, DATED FEBRUARY 17, 1970

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, February 17, 1970.

DEAR SENATOR WILLIAMS: This is in further response to your letter of January 23, 1970, requesting this Department's comments on a statement by Dr. James H. Schulz of the University of New Hampshire. Dr. Schulz asserted the importance of adequate information on private pension benefit levels in evaluating the impact or role which private pensions will play in providing income security during retirement. Dr. Schulz further stated that despite the requirement in the Welfare and Pension Plans Disclosure Act that provisions of all pension plans covering more than 25 workers be filed with the Department of Labor, the information remains relatively unanalyzed, and we do not know what the level of private pension benefits is and how they are changing over time.

This Department is keenly aware of the need for reliabile information on benefit levels. Accordingly, we have prepared estimates of benefits paid under current benefit formulas, given various income and service assumptions. The first such study for 1962-3 was based on the reports filed under the Welfare and Pension Plans Disclosure Act and was reported in detail in BLS Bulletin 1485, Private Pension Plan benefits. It was summarized in the *Monthly Labor Review* for July 1965. A fresh study for 1969 is now in preparation.

I should point out that there are certain limitations on these estimates because the reports which we receive do not show the distribution of retirees by type of retirement benefit which they receive (disability, early, or normal) or by their age, length of service, or earnings.

As soon as the pending study is complete, we will be happy to furnish you with the information.

Sincerely,

GEORGE P. SHULTZ,
Secretary of Labor.

ITEM 2. LETTER FROM GEOFFREY H. MOORE, COMMISSIONER, BUREAU OF LABOR STATISTICS, DEPARTMENT OF LABOR, TO SENATOR HARRISON A. WILLIAMS, DATED MARCH 6, 1970

U.S. DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D.C., March 6, 1970.

DEAR SENATOR WILLIAMS: The working paper on "pension aspects of the economics of aging," prepared for the U.S. Senate Special Committee on the Aging and the testimony presented at the recent hearings of the Committee have been brought to my attention. Your leadership in providing a forum at which attention can be focused on these needs reflects your concern and the concern of the Committee about the economic security of our elderly. I was, therefore, particularly sorry to realize that in a few instances, either because of a misunderstanding or misinterpretation, the work of the Bureau of Labor Statistics was misrepresented. It is my hope that this letter, which I should appreciate your having printed as a part of the hearing record, will set the record straight by reaffirming the Bureau's position.

We at the Bureau of Labor Statistics appreciate the concern about the needs and the economic security of the aging. We also recognize the need, that you addressed in your opening statement at the hearing, for factual information about the present realities and future potential of private pensions. To meet this need we have a quite limited but highly competent staff. Within the past five years, this staff has published about 20 *Monthly Labor Review* articles, reports and comprehensive bulletins which have examined one or more facets of this complex subject.

We are now concluding another in a series of studies of private pension plans. The early results of this study, which I hope you will find interesting, are presented in the enclosed release. Copies of this release have previously been sent to the Committee staff. A detailed report will be issued later this year. This study is a reexamination of the material filed with the Department of Labor's Labor-Management Services Administration under the provisions of the Welfare-Pension Plan Disclosure Act. It updates the study reported in the July 1965 *Monthly Labor Review,* to which Professor James H. Schulz referred on page 31 of his paper. That study was presented in more detail in BLS Bulletin 1485, *Private Pension Plan Benefits,* and BLS Bulletin 1407, *Labor Mobility and Private Pension Plans.*

The current study also updates the study on growth and vesting changes in private pension plans, which appeared in the May 1968 issue of the *Monthly Labor Review.*

Professor Schulz' working paper and Professor Merton C. Bernstein's statement have raised questions regarding the Bureau's analyses of pension plans filed under the Disclosure Act and of its digests of negotiated pension plans. They are particularly concerned about our treatment of benefit levels and the assumptions on which our illustrative benefits are based. Professor Bernstein's paper also raised some questions about our analysis of the data we published on terminated pension plans. Allow me to discuss each of these points.

Our studies based on the Disclosure files are limited because the reports filed do not show the distribution of retirees by benefit amounts or by type of retirement benefit (disability, early, or normal) or by their age, length of service, or earnings. We should like to obtain such information and on several occasions have unsuccessfully requested funds for such a project. Nevertheless, being keenly aware of the need for some reliable information, we have prepared estimates of benefits paid under current benefit formulas using various uniform income and service assumptions. Our estimates may not completely reflect the benefit formulas current at the time the plans are studied. This occurs because of the time-lag between the introduction of a plan change and the time of filing. In the current study, where we know of such a situation, we have attempted, and in the case of the large plans succeeded, in obtaining the latest plans from the parties. These were then used in our study in place of those in the Disclosure file.

The uniform income and service assumptions used in our benefit level computations place all plans on a common footing so that prevailing differentials and central tendencies are revealed. They provide benchmarks against which change can be measured. They do not, however, provide an indication of the benefits actually being received by those already retired nor do they forecast benefits to be paid those newly entering the firm's employ. These limitations were noted in the study reported in the July 1965 *Monthly Labor Review* article cited by Professor Schulz, as well as in each of our bulletins and digests dealing with pension plans.

We have been well aware of the importance of providing comparisons of the results of pension benefit formulas not only for formulas applicable to future service but also for those applicable to earlier periods of service for employees now retiring. Both types of comparisons are useful and within the limits set by available resources, we ar planning to provid both types in the future. As a beginning, we have asked employers with plans included in our digest of 50 selected pension plans for salaried employees to give us, in addition to the usual illustrations of benefits based solely on future service, illustrative pension benefits for those currently retiring after 25 and 30 years of service using all applicable formulas. These illustrative benefits, which are subject to all of the limitations previously noted, will be published this year. Similar information will be provided for pension plans under collective bargaining, although in this case, it should be noted that most of these plans have only a single benefit formula, applied to both past and future service.

In our study of "Terminations of Pension Plans: 11 Years' Experience," to which Professor Bernstein referred in his testimony, we included all of the 8,069 qualified retirement plans that terminated during the 1955-65 period. It may be true, as was asserted at the hearings, that employee separations in some firms are particularly heavy for several years before plan termination. However, the conclusion that only a small fraction of all plan participants are in terminated plans, even allowing for heavy attrition in employment during the few years prior to termination, is inescapable. The fraction may, as Professor Bernstein points out, be more than .01 percent a year. All available data, however, point to a fraction substantially less than 1.0 percent.

Unfortunately, as indicated in the article, only the most fragmentary data are available on the extent of participant losses of expected benefits through plan terminations. Recognizing the need for some objective on the frequency and magnitude of accrued benefit losses, we selected a sample of 100 terminated pension plans for which reports are filed under the provisions of the Welfare-Pension Plan Disclosure Act. This sample included about one-third of all pension plans terminated during the 1955-65 period that were required to file financial reports with the Department of Labor. Information about the potential participant losses, however, could be developed for only 26 of these plans.

The study pointed out that the general lack of pertinent financial information frustrates any effort to determine the value of benefits lost through plan terminations. Some evaluation, however, was made for the 26 plans for which data were available. That evaluation showed that 10 plans appeared to be fully or almost fully funded. Participants in the other 16 plans would have sustained a loss if their coverage had been discontinued on plan termination. In six of these cases, however, coverage was transferred to other plans. Thus those that transferred coverage did not sustain an apparent loss. They may, nevertheless, have sustained a loss in credits transferred or in other factors affecting their final benefit. As the study concluded, reasonably accurate estimates of the magnitude of benefit losses cannot be obtained from any government reporting system now in operation. Unless such reporting systems are changed, only a special survey program can produce more reliable data.

My staff and I are most interested in the work of the Special Committee on the Aging. Please do not hesitate to call on us if we can be helpful to the Committee in the future.

Sincerely yours,

GEOFFREY H. MOORE, *Commissioner.*

[Enclosure]

U.S. DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D.C., February 13, 1970.

PRIVATE PENSION PLANS COVERED 25 PERCENT MORE WORKERS IN 1969 THAN IN 1962; VESTING COVERAGE INCREASED 29 PERCENT

Growth of multiemployer pension plans from 1962 to 1969 outpaced the growth of single-employer plans, and coverage of noncontributory plans increased faster than contributory plans, according to a study by the Labor Department's Bureau of Labor Statistics.

The study shows a striking 29-percent increase in the proportion of workers covered by plans with vesting provisions.

Private pension plans reporting to the Labor Department covered about 19.5 million workers in 1969, almost 25 percent more than in 1962 and about 12 percent more than in 1967.

The Bureau's study was limited to those private pension plans covering more than 25 participants for which the plan administrator filed a report with the Labor Departments' Labor-Management Services Administration under the provisions of the Welfare and Pension Plans Disclosure Act. Plans providing noncomputable retirement benefits (such as profit-sharing plans) are excluded.

Multiemployer plans covered 5.6 million workers in 1969, almost 30 percent of all participating workers. Back in 1962, multiemployer plans covered less than 4 million active workers, or 25 percent of the total.

Noncontributory plans covered 15.4 million workers in 1969, almost 80 percent of all private sector employees participating in pension plans. The 1962 coverage by noncontributory plans extended to 11.8 million workers, or 75 percent of the total.

The growth in the number of workers covered by private pension plans is primarily attributable to the growing employment in firms with pension plans rather than to the adoption of new plans.

Plans with vesting provisions covered 76 percent of all participating workers in 1969, compared to 63 percent in 1967 and 59 percent in 1962. The prevalence of vesting in multiemployer plans and in noncontributory plans increased at a faster pace over the 1962-69 period than in either single-employer or contributory plans.

In 1969, 87 percent of the workers covered by single-employer plans were in plans with some form of vesting, compared to 51 percent of the workers covered by multiemployer plans; 89 percent of the workers under contributory plans and 74 percent of the workers covered by noncontributory plans were in plans with some form of vesting.

About 10 of every 13 workers in plans with vesting can receive a vested nonforfeitable right to all of their accrued benefits immediately upon meeting the plans' age and service criteria for vesting. The remainder are covered by plans which provide for graded, or gradual, vesting.

In 1969, plans with either vesting, early retirement, or both, covered 91 percent of all active workers participating in private pension plans reporting to the Labor Department. Plans with both vesting and early retirement covered 73 percent; those with only early retirement covered 14 percent; and those with vesting provisions alone covered 3 percent of all participating workers. Early retirement provisions of private pension plans have certain similarities to vesting provisions. Both provide participants who meet certain criteria for nonforfeitable rights to pension benefits prior to their normal re tirement age.

In single-employer plans, 84 percent of the workers were covered by both vesting and early retirement provisions while only 47 percent of the workers in multiemployer plans had such coverage in 1969. The incidence of both provisions in plans requiring employees to contribute was about 10 percent greater than in noncontributory plans.

More than one-third of all plan participants could receive a nonforfeitable right to a vested or early retirement benefit at age 40 with 10 years of service, and more than half would receive such rights at age 40 with 15 years of service. By age 55, all but about 10 percent of the workers covered by private pension plans who had 15 or more years of service under the plan would have a right to either a vested or an early retirement benefit. More than half of all active workers in plans can elect early retirement at age 55 if they meet the plan's service requirement. At age 55, the most frequent service requirements were 10 and 15 years.

About one-third of the workers under plans with early retirement can retire, after meeting the plan criteria, and immediately receive a benefit from the plan equal to the private plan benefit plus social security. Under such plans, the private pension is reduced when the worker qualifies for benefits under the OASDHI program.

(See attached tables for statistical detail.)

TABLE 1. NUMBER OF PRIVATE PENSION PLANS, AND NUMBER OF COVERED WORKERS AND PERCENT OF WORKERS IN PLANS WITH VESTING PROVISIONS BY SELECTED PLAN CHARACTERISTICS, 1969, 1967 AND 1962–63

Characteristic	1969	1967	1962–63
Number o plans [1]	17,403	17,091	16,031
Number of active covered workers (000) [1]	19,511	17,485	15,787
Single employer plans	13,869	12,553	11,802
Multiemployer plans	5,550	4,929	3,985
Noncontributory plans	15,368	13,351	11,784
Contributory plans	4,051	4,134	4,003
Percent of active covered workers in plans with vesting provisions	76	63	59
Single employer plans	87	77	71
Multiemployer plans	51	26	23
Noncontributory plans	74	57	51
Contributory plans	89	80	78

[1] Data relate only to those private pension plans covering more than 25 participants for which the plan administrator filed a report with the Department of Labor's Labor-Management Services Administration. Plans providing noncomputable retirement benefits (such as profit-sharing plans) were excluded from all studies. The active worker count in each study is for a period about 2 years earlier than the study's reference date. The totals presented here for 1969 include 529 plans covering 92,332 workers, for which complete information was not available in the Department's files at the time the study was conducted; all subsequent data for 1969 exclude these plans.

TABLE 2. PREVALENCE OF VESTING AND EARLY RETIREMENT PROVISIONS IN PRIVATE PENSION PLANS, 1969

Type of provision	Total		Type of employer unit: Single employer		Type of employer unit: Multiemployer		Method of financing: Noncontributory		Method of financing: Contributory	
	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
	Number (workers in thousands)									
All plans [1]	16,874	19,419	15,230	13,869	1,644	5,550	12,482	15,368	4,392	4,051
Plans with either vesting or early retirement provisions	14,902	17,619	13,515	13,315	1,387	4,306	10,535	13,733	4,367	3,886
Vesting and early retirement	12,309	14,241	11,631	11,641	678	2,601	8,526	11,003	3,783	3,236
Vesting only	632	640	478	418	154	223	523	284	109	356
Early retirement only	1,961	2,738	1,406	1,256	555	1,482	1,486	2,446	475	292
Plans with neither vesting nor early retirement provisions	1,972	1,799	1,715	555	257	1,244	1,947	1,634	25	165
	Percent									
All plans	100	100	90	71	10	29	74	79	26	21
	100	100	100	100	100	100	100	100	100	100
Plans with either vesting or early retirement provisions	88	91	89	96	84	78	84	89	99	96
Vesting and early retirement	73	73	76	84	41	47	68	72	86	80
Vesting only	4	3	3	3	9	4	4	2	2	9
Early retirement only	12	14	9	9	34	27	12	16	11	7
Plans with neither vesting nor early retirement provisions	12	9	11	4	16	22	16	11	1	4

[1] See footnote 1, table 1.

NOTE: Because of rounding, sums of individual items may not equal totals.

TABLE 3. HIGHEST AGE AND ASSOCIATED SERVICE AT WHICH THE WORKER ACQUIRES A NONFORFEITABLE RIGHT TO A PRIVATE PENSION BENEFIT PRIOR TO NORMAL RETIREMENT AGE, 1969

[Workers in thousands]

Minimum service requirements [1]	Total		Minimum age requirements [1]: No age requirement		40 and under		45 [2]		50 [3]	
	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
All plans [1]	14,901	17,404	5,885	8,090	2,524	3,692	862	832	857	1,699
Less than 5 years	610	277	366	120	100	15			102	11
5 to 10 years	5,826	7,033	2,957	4,817	1,099	1,098	236	311	112	185
11 to 15 years	4,734	6,639	1,526	1,421	1,304	2,537	278	343	457	1,078
16 to 20 years	2,742	2,136	726	923	18	39	347	172	165	319
21 to 25 years	698	748	287	364	3	3	1	7	19	96
Over 25 years	291	573	23	445					2	10

Minimum service requirements [1]	55 [4]		60		62 [5]	
All plans [1]	2,893	1,850	1,531	863	349	378
Less than 5 years	38	100	4	31		
5 to 10 years	1,027	381	259	193	136	48
11 to 15 years	1,027	381	259	192	136	48
11 to 15 years	622	816	408	219	139	225
16 to 20 years	788	418	653	192	45	73
21 to 25 years	177	111	182	135	29	32
Over 25 years	241	25	25	93		

[1] See footnote 1, table 1. Age and service requirements shown are those at which the worker first acquires a nonforfeitable right to a benefit prior to the normal retirement age. The term service as used in this table is defined to include preparticipation service. The distribution includes 1,010 plans, with 2.3 million workers, that provide vested rights as shown in the table only in the event of involuntary separation (including continulous ayoff—but excluding retirement mainly at the employers request); almost all of these plans also provide for the attainment of nonforfeitable rights, prior to normal retirement, in the event of voluntary separation. In such cases, the eligibility requirements are typically more stringent than those for involuntary separation. Plans which provide for special early retirement—essentially those providing for early retirement at the employer's request with an unreduced or higher than normal retirement benefit are excluded from this table.

[2] Includes 1 plan with 4,458 workers at age 46 with 11 years' service.

[3] Includes 52 plans with 440,287 workers at age 52 with 15 years' service.

[4] Includes 2 plans with 20,400 workers at age 57 with 20 years' service and 6 plans with 12,900 workers at age 58 with 10 years' service.

[5] Includes 20 plans with 6,500 workers at age 63 with 25 years' service.

NOTE: Because of rounding, sums of individual items may not equal totals.

TABLE 4. TYPE OF VESTING PROVISIONS IN PRIVATE PENSION PLANS WITH VESTING BY TYPE OF EMPLOYER UNIT AND METHOD OF FINANCING, 1969

[Workers in thousands]

Type of employer unit and method of financing	All plans		Plans with vesting						Plans without vesting	
			Total		Type of vesting					
					Deferred full		Deferred graded			
	Number	Workers	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
All plans [1]	16,874	19,419	12,941	14,882	10,277	13,017	2,664	1,865	3,933	4,537
Single employer	15,230	13,869	12,109	12,059	9,596	10,942	2,513	1,117	3,121	1,810
Noncontributory	11,080	10,098	8,365	8,668	7,238	8,144	1,127	524	2,715	1,429
Contributory	4,150	3,772	3,744	3,390	2,358	2,797	1,386	593	406	381
Multiemployer	1,644	5,550	832	2,823	681	2,075	151	748	812	2,727
Noncontributory	1,402	5,270	684	2,619	563	1,963	121	656	718	2,651
Contributory	242	279	148	204	118	112	30	92	94	75

[1] See footnote 1, table 1.

NOTE: Because of rounding, sums of individual items may not equal totals.

TABLE 5. PROVISIONS FOR VESTING AND EARLY RETIREMENT IN PRIVATE PENSION PLANS BY TYPE OF EMPLOYER UNIT, TYPE OF VESTING, AND CONDITIONS FOR VESTING, 1969

[Workers in thousands]

Type of vesting and conditions for vesting	All plans		Type of employer unit					
			Single employer					
			All plans		With early retirement		Without early retirement	
	Number	Workers	Plans	Workers	Plans	Workers	Plans	Worker
All plans [1]	16,874	19,419	15,230	13,869	13,037	12,897	2,193	973
With vesting	12,941	14,882	12,109	12,059	11,631	11,641	478	418
Deferred full	10,277	13,017	9,596	10,942	9,378	10,557	218	384
Any separations	9,524	11,027	8,876	9,256	8,681	8,887	193	369
Involuntary separation	753	1,989	720	1,686	695	1,670	25	15
Deferred graded	2,664	1,865	2,513	1,117	2,253	1,084	260	34
Any separation	2,407	1,525	2,262	832	2,002	798	250	34
Involuntary separation	257	340	251	285	251	285	---	---
Without vesting	3,933	4,537	3,121	1,810	1,406	1,256	1, 15	555
			Multiemployer					
All plans [1]			1,644	5,550	1,233	4,081	411	1,467
With vesting			832	2,823	678	2,601	154	223
Deferred full			681	2,075	579	1,939	102	136
Any separations			648	1,771	557	1,654	91	118
Involuntary separation			33	304	22	286	11	18
Deferred graded			151	748	99	661	52	87
Any separation			145	693	94	636	51	57
Involuntary separation			6	55	5	25	1	30
Without vesting			812	2,747	555	1,482	257	1,244

[1] See footnote 4, table 1.

TABLE 6. SELECTED CHARACTERISTICS OF PRIVATE PENSION PLANS WITH EARLY RETIREMENT PROVISIONS, 1969

[Workers in thousands]

Characteristics	Number		Percent			
	Plans	Workers	Plans		Workers	
All plans [1]	16,874	19,419	100	....	100	....
Plans with early retirement provisions	14,270	16,979	85	100	87	100
Single employer plans	13,037	12,897	77	91	66	76
Noncontributory	9,003	9,579	53	63	49	56
Contributory	4,034	3,317	24	28	17	20
Permitting early retirement:						
Solely at employee's option	7,597	9,139	45	53	47	54
With employer's consent	5,440	3,757	32	38	19	22
Multiemployer plans	1,233	4,083	7	9	21	24
Noncontributory	1,009	3,870	6	7	20	23
Contributory	224	213	1	2	1	1
Permitting early retirement:						
Solely at employee's option	1,122	3,937	6	8	20	23
With employer's consent	111	146	1	1	1	1
Plans without early retirement provisions	2,604	2,440	15	....	13	....

[1] See footnote 1, table 1.

TABLE 7. MINIMUM AGE AND SERVICE REQUIREMENTS FOR EARLY RETIREMENT IN PRIVATE PENSION PLANS 1969

[Workers in thousands]

Minimum service requirements	All plans		Minimum age requirements					
			No age requirements		50		55	
	Number	Workers	Plans	Workers	Plans	Workers	Plans	Workers
All plans with early retirement [1]	14,270	16,979	301	1,523	432	528	9,280	10,638
No service requirement	398	871			2	16	322	494
1 to 4 years	783	925	2	9	8	46	698	774
5 years	565	562			8	15	488	194
6 to 9 years	503	212			20	3	363	198
10 years	3,912	4,121	1	7	24	54	2,870	2,726
11 to 14 years	1,062	400			5	19	995	335
15 years	3,404	4,120	21	12	178	43	1,688	2,950
16 to 19 years	960	285	12	3	7	11	626	220
20 years	1,456	2,067	11	18	120	69	587	1,270
21 to 24 years	348	137	104	22	51	25	161	82
25 years	430	681	77	111	4	172	146	156
26 to 29 years	333	53	10	5	2	10	301	33
30 years	113	2,518	62	1,330	3	45	35	1,006
Over 30 years	3	28	1	6				

Minimum service requirements	60		62		Others	
All plans with early retirement [1]	3,666	3,319	423	762	168	210
No service requirement	74	361				
1 to 4 years	28	42			47	55
5 years	55	134	4	11	10	8
6 to 9 years	100	7			20	6
10 years	851	1,195	154	106	12	32
11 to 14 years	8	21	53	20	1	5
15 years	1,310	755	152	301	55	58
16 to 19 years	315	51				
20 years	686	394	50	295	2	20
21 to 24 years	32	8				
25 years	174	210	9	25	20	7
26 to 29 years	20	5				
30 years	13	136				
Over 30 years			1	3	1	19

[1] See footnote 1, table 1.

TABLE 8. DISTRIBUTION OF PRIVATE PENSION PLANS WITH EARLY RETIREMENT PROVISIONS BY SELECTED CHARACTERISTICS AND SOCIAL SECURITY OPTION, 1969

[Workers in thousands]

Characteristic	Total		With social security adjustment options [1]		Without social security adjustment options [1]	
	Plans	Workers	Plans	Workers	Plans	Workers
All plans with early retirement [2]	14,270	16,979	6,310	5,364	7,890	11,616
Single employer	13,037	12,897	6,121	4,146	6,916	8,750
Multiemployer	1,233	4,083	259	1,218	974	2,865
Noncontributory	10,012	13,449	4,108	3,963	5,904	9,416
Contributory	4,258	3,530	2,272	1,401	1,986	2,121

[1] Under this option the worker's benefit is adjusted so that his monthly payments are the same before and after the receipt of his social security benefit.
[2] See footnote 1, table 1.

ITEM 3. LETTER FROM EMERSON H. BEIER, SENIOR ANALYST, AUTO INSURANCE AND COMPENSATION STUDY, DEPARTMENT OF TRANSPORTATION, TO SENATOR HARRISON A. WILLIAMS, DATED MARCH 31, 1970

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C., March 31, 1970.

DEAR SENATOR WILLIAMS: I have read with great interest the recent testimony before the Special Committee on Aging concerning private pensions and their contribution to the economic security of the elderly. However, one of the witnesses, Professor Merton C. Bernstein, criticized an article reporting on a Bureau of Labor Statistics study of pension plan terminations (Terminations of Pension Plans: 11 Years' Experience, Monthly Labor Review, June, 1967). Although the Bureau should respond to this criticism, as author of the article in question, I would like to make a few observations.

The Professor's most fundamental criticism seems to be based on a misunderstanding. He apparently labors under the impression that the BLS claims to have studied how employee separation has affected pension rights. The pertinent testimony begins with the statement that "'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." The witness continued by complaining that "the study limited itself to the plan participants *at the time of the plan's termination* despite the fact that . . . employee separation often is heavy both before and after the kinds of occurrences that typically accompany plan terminations." In reality, the article does not make such a claim. It reports that the BLS "studied the causes and effecs of [plan] termination and the characteristics of plans closed out between 1955 and 1965." Incidentally, a study of how employee separations are affecting pension rights could not be based on termination records of the Internal Revenue Service (Form 517T). The separation of employees and the termination of pension plans are frequntly intertwined, but either may occur without the other.

The remaining criticism is less important. The testimony quoted above states that the BLS study "purports to show that company mergers have not adversely affected pension rights to a substantial degree." In fact the article does not state or infer that mergers have such a limited effect.

When a pension plan is terminated by a merger or sale, participants may lose both the opportunity to earn benefits for future employment and their accrued pension rights. The opportunity to earn benefits for future employment is only assured when coverage is continued in another plan. Accrued pension rights may be preserved by their transfer to another plan or by accumunlation of assets to fund them. The article reported, "In at least a third of these terminations by merger or sale, pension coverage of employees was not continued." It was also noted that "most pension plans do not, at any one point in time, have sufficient resources to fully discharge all of their liabilities." Unfortunately, IRS termination records do not contain the information needed to determine the extent of lost pension rights.

Professor Bernstein completes his criticism by questioning the treatment of participant losses among 26 plans. He states, "I quite disagree that under the circumstances liabilities are overstated to the extent the article suggests." The article's basic contention is that benefit losses among 10 of these plans were probably, on the average, less than the difference between the reported value of their assets and liabilities. A footnote points out that liabilities generally exceed the cost of accrued benefits. Liabilities may not be overstated to the extent the footnote suggests; however, most actuaries are likely to agree with the basic contention concerning benefit losses.

The witness also disputes the study's finding that there was no apparent losses in 6 of the 26 plans in which participants were transferred to other plans. He finds this "utterly mystifying because the new coverage would not compensate for former years' credit unpaid." In fact past service promises are frequently taken over by succeeding plans. This is likely to be arranged on an ad hoc basis, but some pension agreements specifically provide for such transfers. The pension agreement between the Steelworkers and companies in the basic steel industry, for example, provides benefits for "service in the employment of any company whose stocks or properties shall have been heretofore acquired." Returning to the 6 plans discussed in the report, the past service promises of 4 of them were definitely preserved and a similar result seemed likely in the remaining cases, but available information was not conclusive.

Sincerely,

EMERSON H. BEIER,
Senior Analyst.

ITEM 4. LETTER FROM RODNEY W. MARKLEY, JR., VICE PRESIDENT, WASHINGTON STAFF, FORD MOTOR COMPANY, WASHINGTON, D.C., TO SENATOR HARRISON A. WILLIAMS, DATED APRIL 10, 1970

FORD MOTOR CO.,
Washington, D.C., April 10, 1970.

DEAR SENATOR WILLIAMS: Thank you very much for seeing Hy Biegel and me yesterday with respect to the work of the Special Committee on Aging. As we told you at the time, we are part of the Washington Pension Report Group. This is not a formal association, but consists of representatives from approximately 150 major companies in the country who get together from time to time to discuss their common problems in the field of pension legislation.

We have studied and are deeply concerned with the paper entitled "Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions", prepared by Professor James Schulz for your Committee. We are aware that the study was printed by the committee to illicit comments for further discussion. However, we believe that the study is not completely objective and that there are aspects of the problem which merit further consideration by non-partisan experts.

In the latter connection we suggested that a further study might be undertaken by an organization such as the American Enterprise Institute for Public Policy Research. The Institute is a non-partisan research and educational organization which studies national policy problems. I am attaching a copy of a Legislative Analysis entitled "The Debate on Private Pensions."* As you can see, the Institute has a high degree of competence, not only within the membership of its overall Advisory Board, but also on the Advisory Committee on Pension Studies which prepared this particular analysis.

We hope that you and the members of your Committee will see fit to write to the Institute and request a study of this subject which could, like the Schulz paper, be printed as a Committee document. We believe such a course of action would give balance to the record of your Committee and would afford additional information which would give credence to the ultimate findings of the Committee.

Sincerely,

R. W. MARKLEY, JR.

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*Retained in committee files.

ITEM 5. LETTER FROM ROBERT TILOVE, SENIOR VICE PRESIDENT, MARTIN E. SEGAL COMPANY, NEW YORK, N.Y., TO SENATOR HARRISON A. WILLIAMS, DATED APRIL 17, 1970

MARTIN E. SEGAL CO.
CONSULTANTS AND ACTUARIES,
New York, N.Y., April 17, 1970.

DEAR SENATOR WILLIAMS: I appreciate the opportunity to comment on Dr. Schulz's paper "Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions."

There is no substitute for an adequate Social Security system.

Whatever the growth of private pension plans, it is bound to be true that at least one-quarter, more likely one-third, and perhaps two fifths, of the employees in private industry will remain without effective coverage by private plans. Their economic security will require an all-embracing public system that provides at least a minimum standard of health and decency.

Social Security benefits should be bolstered against erosion by inflation. While it should take account of the number of years of covered employment, the benefit formula should be based on wage levels in the years immediately preceding retirement. This does not mean, necessarily, a formula geared to each worker's final five or ten years of employment; it could be a formula for correcting the benefit amount for changes in the *general* level of wages so as to wash out the effect of price and salary levels more than five years out-of-date.

Attention ought also to be directed to a cost-of-living adjustment of Social Security benefits after retirement.

Moreover, it should not be assumed that the basic levels of Social Security are so adequate as to need only the addition of anti-inflation measures. The formula itself should seek to provide the life-long wage and salary worker with something he can really live on.

It is not a question of how much each person *wants* to allocate out of current income in order to provide security when he is old. It is precisely the unreasonableness of expecting an individual worker to protect himself adequately, in the light of the vast uncertainties of our economy, that makes the Social Security System inevitable.

The case for adequate Social Security is so strong that it is puzzling to understand why some advocates spend so much effort in attacking private pension plans. The working paper by Dr. Schulz is unfortunately marred by that animus.

The Preface offers Dr. Schulz's paper as providing 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 pension projections are based more on wishful thinking than upon hard fact."

The question is, of course, difficult to debate with precision, because it is hard to say what is "commonly assumed." Nevertheless, there is something worth saying. Dr. Schulz takes pot-shots at private pension plans that are far off the mark.

He presents figures that in 1964, some 60 percent of pensioners were receiving less than $1,000 a year and even by 1980 with a "significant upward trend" (3% a year), about three-quarters will be getting less than $2,000. This projection is remarkably obsolete. Late 1969 was a perilous time for projections of this kind; it was a time when wage settlements broke out on to far higher territory than ever achieved before. The projection overlooked that contemporary fact.

"Three" percent increase per year? In 1969, the East Coast longshoremen pushed their normal monthly pension up to $300 from $175. Mass production contracts moved the normal benefit up to $5.00-$6.00-$6.50 per month per year of service ($150 to over $200 a month for 30 years of service). Shoe workers raised a 7 cents-an-hour employer pension contribution to 11 cents-an-hour.

Construction industry plans that were based on contributions of no more than 10 cents to 20 cents an hour only a few short years ago are now getting $1.00 to $1.75 an hour and paying commensurately increased benefits.

The greater failure, however, is not to appreciate that private pension plans are developing institutions, the result, so far, of incessant growth since 1950. More to the point, they will clearly be something different tomorrow from what they are today.

Criticism is leveled at the fact that negotiated pension plans have generally been directed toward the interests of the "old-timers," said to be the mainstays of the union, with the result that the plans provide relatively high amounts for that group, at the expense of restrictive eligibility rules. The point has factual basis, but when all the evidence is in, it nicely illustrates several of the essential advantages which the vigorous growth of private plans has provided—flexibility in attending to felt needs, responsiveness to the desires of individual groups, and the achievement of new levels without waiting for public consensus.

It is true that, by and large, the plans which burgeoned in the 1950's gave first attention to the needs of the superannuated and the older workers. That made good sense—the use of limited resources for the most urgent need.

With successive waves of improvement, the next most important purposes are being served—vesting to meet the desires of the younger workers; survivors' pensions and other death benefits to meet the needs of widows. This is a simple history of first things first.

The idea that unions are dominated by older workers, who write the demands for pensions, is also rather obsolete. Such an observation is bound to bring a wry smile to the face of any union leader who has seen a negotiated settlement voted down by young men who want to know what the union has done for them lately and who want complete vesting if anything more is to be added to pensions. The latest development in the building trade is the spread of "annuity funds" that represent immediately and fully vested individual pension accounts, on top of the traditional pensions.

Are private pensions worth very much? Yes, they are. In fact, one could say they are worth almost half-a-trillion dollars.

That may sound like a simplistic answer. It is not. It has, in fact, a quite sophisticated meaning.

Pension plans in private industry hold assets worth about $130 billion. That is less than the value of the pension benefits accrued by service to date by the workers coverd by these plans. The present value of their accrued benefits—*after* discounting appropriately for forfeitures by death or employment turnover before retirement—is probably on the order of $160 billion. If one were to place a present actuarial value on *all* the benefits which present covered employees will accrue by the time they retire (*after*—to repeat—making due allowance for forfeitures due to death and withdrawal before retirement) the aggregate would be on the order of $400-$500 billion. A value of that magnitude, realistically determined, cannot fairly be considered a myth or a mirage.

The role of private pensions is to make retirement income more adequate while Social Security is still inadequate and to improve still more the living standards of a large percentage of the aged when Social Security becomes more adequate. The case for a better Social Security system has a validity quite independent of the ever more valuable role which private plans fulfill for the millions of workers they cover.

Sincerely yours,

ROBERT TILOVE.

ITEM 6. LETTER FROM MRS. HELEN SZYMASZEK, CHICAGO, ILL., TO DR. SCHULZ

DEAR MR. SCHULZ: I read your article in the Sun Times on February 16, 1970. About how little some people benefit from private pension plans. May I tell you of other ways a person does not benefit by them. My husband worked for Wilson Sporting Goods for 25 years. At the time of his death December

23, 1968, he was 51 years old. He would of been 52 in February 17. I was told that had my husband worked only 18 years but was 55 years old I would be eligible for the widow's pension. This to me is so unfair a man that worked for 25 years and a good reliable worker at that. His wife is not eligible for none of the benefits but a man that worked 18 years his wife would be eligible, because he was 55 years old at time of death. It does not matter if the woman would be younger than I. My husband and I are the same age. I would like for you to tell this Special Committee about women I should say widows like me. I'm sure they'res a lot of them in the same situation as I am. We were married for 25 years. Thank you for reading my problem and I'm sure a lot of other widows, too young for Social Security and husband's not old enough at time of death.

MRS. HELEN SZYMASZEK,
Chicago, Ill.

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