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**ARRANGING THE PIECES:
THE RETIREMENT INCOME PUZZLE**

An EBRI Policy Forum

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THE RETIREMENT INCOME PUZZLE**

**An EBRI Policy Forum
June 23, 1980
Edited by: Dallas L. Salisbury**

EMPLOYEE BENEFIT RESEARCH INSTITUTE

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FOREWORD

The retirement income policy debate over who gets how much, who pays, and through what means is it delivered, will become increasingly intense as the U.S. retired population continues to grow.

As a result of a changing economy, advocates who in prior years simply called for more, have come to realize that there may "temporarily" be limits to economic capacity. They now state that in order to have a decent standard of living in retirement, there may well be a need for reducing preretirement living standards.

Gerontologists, and other scholars foresee growing intergenerational pressures as a retired population that "appears" to be living well asks for more of the economic pie. They predict that it will be increasingly difficult to focus attention on the shrinking, yet significant, segment of the retired who remain in or near poverty.

Recognizing the complexity and growing importance of retirement income issues, the Employee Benefit Research Institute (EBRI) began a wide-ranging program of research and educational programs in the area in 1978. The series of programs

and reports have been designed to provide interested parties with the information base needed for comprehensive retirement income policy research and decisionmaking.

A two-volume bibliography published by EBRI in 1979 provides an extensive annotated listing of recent research in the area. An Issue Report published in 1980 provided a basis for determining the adequacy of existing information, an evaluation strategy for assessing policy issues, and identification of major pending policy issues. And, a Review of Research presents a wide-ranging picture of what we do and do not know today.

During 1981 EBRI will publish major studies on retirement program coverage and benefit receipt, funding and capital markets, and retirement income levels. The June Policy Forum, entitled Arranging the Pieces: The Retirement Income Puzzle was designed to assist in the formulation of those studies.

The Policy Forum papers highlight current issues, concerns and critical information needs. They articulately present alternative approaches to meeting the nation's retirement income policy challenges.

The forum would not have been possible without the support of EBRI members or the tremendous amount of time contributed by the authors and participants. To each, special thanks is extended.

Dallas L. Salisbury
Executive Director

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INTRODUCTION

Dallas L. Salisbury

"All progress is based on a universal innate desire on the part of every organism to live beyond its income."

Samuel Butler

The United States is at a critical point in its history. As a nation, we have achieved more economically, and socially, than any other. We have shown an ability to adapt to a changing environment. But, we are now moving into a period where care and resourcefulness may be more important than at any other point in our history. The challenge is to rebuild the economy so that growing income expectations of the population, particularly the retired, can be met.

Those living today will largely pay for these programs and receive their benefits.

- o 85% of those who will receive benefits in the next 75 years;
- o 99% of those who will pay taxes in the next 25 years; and
- o 81% of those who will pay taxes in the next 50 years.

The aged population now are the recipients of 25% of all federal expenditures; of 67% of all social welfare expenditures. The Urban Institute has projected that these programs could claim 32% of the budget in the year 2000 and 63% in the year 2025.

Retirement programs outside Social Security will pay benefits in 1980 of over 75 billion dollars to over 14 million persons. Social Security will pay over 100 billion dollars to over 25 million persons. The rate at which these numbers will grow is exceptional.

IS THERE A CRISIS?

There has been widespread discussion of a "retirement income crisis" in America in recent years. The Citizens Commission on Pension Policy, and Ian Lanoff, Administrator of the Labor Department's Pension and Welfare Benefit Programs, argue that

there is a crisis arising because too little is being done to aid the elderly; too few are receiving benefits; and for those receiving benefits, they are too low.

The President's Commission on Pension Policy gives recognition to future cost pressures on Social Security, the definite need for higher payroll taxes, and then concludes: "The Commission believes that other programs to supplement Social Security's basic floor of protection must be substantially increased."

There are others who believe the crisis to be one of exceptional commitments and promises for the future: the inability to avoid broken promises. The U.S. General Accounting Office has been forthright in such an evaluation of present public programs. John W. Macy, Director of the Federal Emergency Preparedness Agency has noted: "It is a disaster that is on the way. The problem is rooted in the failure to look at the situation from the point of view of financial realities and long-term implications."

Testifying before the President's Commission on Pension Policy, Dr. Harold Sheppard, now Counsellor to the President on Aging, articulated a view of present reality: "If we believe that future productivity and the economic growth will be slow in the context of providing adequate retirement income, and that for political and other reasons it will not be possible to defer the average retirement age, we must face the implications of that scenario, including a downward shift, or stabilization, in the standard of living of the working population, and a slow-down, if not a reduction, in the retirement income of the retired population."

The Interim Report of the President's Commission was able to pay little attention to long-term financial issues due to time constraints. These issues must ultimately be viewed as critical to analysis or definition of what comprehensive national retirement income policy should be.

Columnist David Broder commented upon our changing focus in 1978 when he wrote: "For 40 years, social security was the linch pin of all liberal politics. You

literally couldn't do too much for the elderly, the disabled and the ill. But now the costs of that largess have come home with a vengeance, and the middle class working families have let their congressmen hear from them. Never again will social security taxes or benefits be increased without Congress looking nervously over its shoulder."

Other factors which argue for giving serious attention to the question of economic capacity are (1) the likelihood that inflation, and the high indexing costs it brings with it, will be with us for some time, and (2) the history of relying upon overly optimistic projections of what the future will hold. The Office of Management and Budget Special Analysis of the FY 1979 Budget introduced a discussion of Social Security with the following: "The Social Security Amendments of 1977 (December 20, 1977) made major changes in the financing of this cash benefit system. The tax increases removed the risk that the system might have exhausted its reserves in the 1980s and insures the solvency of the system into the twenty-first century."

A Bureau of Labor Statistics paper issued about the same time proved more accurate when it noted that "the economy seemingly cannot sustain both higher Social Security contributions and personal taxes at their present level without slowing down the rate of economic growth with all its resulting consequences."

Joining the economic pressures that President Carter pointed to in his FY '80 budget message and his recent announcement of economic initiatives will be intensifying political pressures. The growing absolute and relative cost burdens of meeting the needs of an aging population will be joined by an increasing debate over the distribution of limited social-welfare dollars and the intensity of older persons' needs. And, if inflation is not controlled, there will be growing pressure to index all programs for the elderly.

The cost of retirement programs has been increasing at a rate that may not be able to be maintained into the future. Between 1950 and 1977, costs increased from 2.3 percent of GNP to 8.2 percent, and

projections indicate that this could rise to 14 percent by 1990. Financing pressures will intensify on Social Security due to demographic trends. The elderly population will continue to grow at a fast rate, reaching 30 percent of the working age population by 2030, unless birth rates increase. At that time two persons will be contributing to Social Security for each retiree. In a 1978 Harris survey sponsored by Johnson & Higgins, only 15 percent of respondents had a great deal of confidence that they would receive the Social Security benefits they had paid for. Only 12 percent had a great deal of confidence that future generations would be willing to pay higher Social Security taxes.

Taken together these factors reinforce the need to give serious consideration to economic factors; not as an excuse for failing to act, but as a means of designing solutions so that adverse and unexpected consequences are minimized.

EVALUATING THE INPUT: THE FIRST STEP

Each day we are confronted with new survey reports, studies, panel recommendations and policy proposals intended to inform us about, or to alter and improve, public and private retirement income programs. Before any decisions can be made based on this material and the data already available, decision makers must assure themselves that the real problems have been identified, that related issues have not been ignored, and that the treatment of an issue has been adequate and thorough.

Effective evaluation of any existing or forthcoming material on retirement income issues requires precision in three areas. First, the meanings of the terms used to describe a policy issue or proposal must be clear. One term may imply different concepts and consequences under the different types of retirement income programs and confusion over the intended meaning of the term could produce mistaken conclusions.

Second, specific retirement policy issues must be identified precisely so that they are evaluated in light of related issues and alternatives. If an issue was considered to be a problem of determining

who should pay for a benefit, but in fact was an issue of benefit adequacy, then it would not be evaluated in the correct context of information and considerations. Again, mistaken conclusions could result.

Third, it is necessary to determine whether the material presented or available is complete or whether further data or studies are needed. If a decision is based on inadequate information, conclusions also are likely to be inadequate.

This Policy Forum publication is designed to help concerned persons and decision makers identify and understand potential definitional problems, integrate individual proposals into a broader, more meaningful framework, and determine where further research or analysis are needed before a decision should be made. Also, it is intended to provide an overview of the present major issues and proposals for dealing with the issues.

A FRAMEWORK FOR EVALUATION

The trends in retirement income programs have raised a number of complex public policy issues. Specific issues have become the focus of studies by Congressional staff and by individual agencies, advisory councils and commissions in the Executive Branch. We can expect the results of these efforts to improve public awareness of the problems and to provide a range of potential solutions to these problems.

However, before taking action on these proposals, policymakers must ensure that specific solutions address all of the policy issues in an integrated fashion. Such an approach suggested in the forum would organize major policy issues around three fundamental questions:

- o Goals: What retirement income levels should be established for individuals during retirement? This broad question encompasses the two major policy issues of how to determine the adequacy of retirement income benefits and how to define retirement for purposes of establishing eligibility for retirement benefits.

- o Strategy: What mix of private and public programs should be used to achieve these income levels? This question requires an assessment of the adequacy of existing opportunities for individuals to receive a retirement benefit. Where gaps exist, policymakers will have to address the policy issues of whether new alternatives should emphasize mandatory or voluntary participation and whether participants should earn benefits or receive them as a societal right. Where unintended overlaps in programs occur, policymakers will have to determine how to coordinate them.
- o Financing: Who should pay for these retirement income programs? This broad question raises the related policy questions of whether each generation should pay for its own retirement benefits, how different age and income groups should share the costs of these programs and who should bear the risk of funding inadequacies. Addressing these issues will establish whether existing and proposed retirement income policies are affordable and identify how these policies affect the economy.

Organizing the consideration of retirement income issues around these categories permits the consideration of related issues in a coordinated fashion, while reducing the broader issues into individual problems of manageable size.

RETIREMENT INCOME POLICY: CONSIDERATIONS FOR EFFECTIVE DECISION MAKING

The report of this title published in early 1980 by EBRI focuses on the definitional issues, the policy issues and the analytical issues inherent in addressing the problems of retirement income programs. Chapter I reviewed a number of terms and definitions which may have several meanings and which are frequently misunderstood or misused. The discussion also identifies the potential impact of alternative definitions and interpretations.

Chapter II reviewed in greater detail the proposed framework for evaluating policy

issues and proposals in the retirement income area. This section identifies the broad issues and discusses the related sub-issues. This chapter also suggests a series of key questions to assist decision makers in their review of the issues.

Chapter III reviewed a number of policy proposals currently being developed or considered, identifies further research needs and establishes analytical standards for evaluating the proposals and conducting the research.

The report served as the basis of this Policy Forum, along with the Interim Report of the President's Commission on Pension Policy.

WHAT FOLLOWS

The papers contained in the volume provide a provocative assessment of where we are, and where we should be going. "The President's Commission on Pension Policy: What Should Be Versus What Can Be," presents a summary review of the Interim Report, what has been done, what remains to be done, and the challenge faced by the Commission: avoiding a rush to action.

Stanford Ross makes a forceful and articulate statement of the need to avoid inter- and intra-generational rivalries. He places heavy emphasis on the necessary role of private sector; on the financial strain now felt by the Social Security program.

Adrian Collins sets forth a provocative argument for less government involvement and greater individual choice.

John Shoven presents a thorough assessment of the many areas in which we do not know enough, and aren't likely to for some time to come. In addition, he reviews the scope of the major pension project being undertaken by the National Bureau of Economic Research.

Ray Schmitt presents a view from the perspective of an individual long involved in serving the Congress. His paper raises the tough issues and provides insights into the course legislation might take.

Harrison Givens presents the arguments for creating an environment more supportive of voluntary private sector initiatives, and a positive perspective on what private pension programs have already accomplished. A lively discussion of mandatory private pensions followed his presentation.

Kathy Doyle Gill provides a concise and effective statement on press treatment of retirement income issues, and approaches that one should take to achieve informed reporting.

WELCOME

George B. Swick

It is a pleasure to welcome you here today on behalf of the Trustees and Sponsors of the Institute. This is our third Policy Forum; the first dealt with Pension Plan Termination Insurance from an international viewpoint, and the second dealt with Social Investing. Our next Forum is planned for December on the topic of "Retirement Income and the Economy."

Early in the formative days of the Institute, the Research Committee discussed at great length the problems which arise from:

- o 50 years of employee benefit research void,
- o communication problems, and
- o lack of standards against which to measure research -- our own or others.

With the President's Commission also gearing up to study existing research and, indeed, authorize its own research, the need for:

- o uniform communication and
- o measurement standards

becomes even more acute.

From this perspective we authorized development of our EBRI Issue Report entitled Retirement Income Policy: Considerations for Effective Decision Making; which forms the text base for today's Forum.

The Issue Report was designed to provide a public framework against which it could assess the quality and comprehensiveness of existing and evolving research -- including that sponsored by the Institute. In particular, we hope the Issue Report will be useful in analyzing the Interim Report of the President's Commission on Pension Policy.

Today, we want to encourage a dialogue on how complete the Issue Report is and how it might constructively be revised. We at the Institute recognize the dynamic nature of the environment of employee benefits. Our research work is designed to reflect and react to such change.

Thus, we welcome your comments today with respect to this most important report of the Institute.

We welcome your comments on all three sections: definitions, framework, and the agenda with questions.

And -- as the case with our two previous Forums -- we will publish the results of today's Forum.

In addition, we welcome discussion focusing on the application of the content of these sections to the Commission's Interim Report. Such a discussion should help us to assess the Issue Report and make constructive suggestions to the Commission regarding their future work.

For example: The President's Commission set forth a desirable retirement income goal "from all sources". Has the rather simple term "all sources" of retirement income been identified?

Many terms are used by retirement income programs which can often be interpreted differently, not properly qualified when used or simply misused. This has led to disagreements over the true meaning of terms and the intent of policy actions. Have we been accurate in our specification?

For example: Have we correctly identified the benefit "accrual rate" as it might be useful in designing a more effective reinsurance program, particularly for multi-employer plans -- as currently before Congress?

The pluralistic nature of the current retirement income system may make it difficult to design and implement a comprehensive retirement income policy. This situation is compounded by the complexities of the different retirement income systems and the gaps in our knowledge about their affects. One can, however, still consider individual initiatives as part of a broader framework so that overall effects can be observed. In the past, proposals may have been considered in isolation from broader affects.

Have we articulated a framework that would make comprehensive analysis more likely?

For example: Have we adequately identified the problem of equitable application of the cost burden by generation?

Because of potential problems with current public and private retirement income programs, a wide range of specific initiatives have been proposed or may be proposed in the near term. This range of initiatives comprises the short-term policy agenda facing public and private sector decision makers.

As indicated previously, however, it will be important to consider these issues in a broader framework; to ensure that decisions are as sound as current information and research permit. In the past, this has not been done as adequately as would have been desired. Have we set forth the relevant questions in the report? Have we missed questions?

For example: Have we correctly identified problems raised by changing social mores as illustrated by dual earner households, and single person households?

In short, we hope to refine our work -- and hopefully thereby to refine the work of the Commission by working to:

- o raise specific questions about each issue that any decision maker must answer to ensure that the short run alternatives are consistent with the overall framework for considering the longer term public policy issues;
- o establish an overall framework for the consideration of alternative public policies in the retirement income area; and
- o clarify the definitions and key terms used in discussing retirement income issues, including what is retirement, how to define replacement rates, and what is included in retirement income.

I thank each of you for joining with us.

THE PRESIDENT'S COMMISSION ON PENSION POLICY:

What Should Be Versus What Can Be

Dallas L. Salisbury

The Interim Report of the President's Commission on Pension Policy (PCPP) appears to present a similar confirmation of the value of private retirement programs in 1980, as did the President's Committee in 1965. Beyond that point, there are major differences.

The 1965 report made a series of proposals suggesting adjustments in our retirement system, but not fundamental changes. The 1980 report represents an articulate partial view of what retirement income policy might be in an America unconstrained by cost: What should be. The 1980 report contains suggestions for fundamental changes. The ultimate test of success or failure of the Commission and its final report, to be issued in February of 1981, will be whether that report sets forth goals and proposals for change having fully considered affordability: What can be.

The approach taken in the final report depends 1) on whether needed research on costs and consequences can be completed and 2) on whether the Commission bases its recommendations on such analysis. Further study is specified in 23 areas discussed in the report (see Table I). In addition, the report lists 17 areas

that have not yet been covered and must still be addressed (see Table II). These 40 studies present the Commission with a substantial research agenda with limited time remaining in its life. With regard to the second point, there are indications that the Chairman has already reached several conclusions in areas where critical work is yet to be undertaken.

The Recommendations

The Interim Report, as the July issue of Pension World noted, contains 26 separate recommendations. Among them are five areas that are likely to be at the center of attention:

- o That replacement of pre-retirement disposable income from all sources is a desirable retirement income goal;
- o That a minimum advance-funded pension system be given serious consideration;
- o That tax treatment of retirement savings be equalized and tax incentives increased;
- o That changes be made in plans to assure greater protection for divorced and surviving spouses; and

- o That retirement ages be raised for future generations.

The first four areas would result in increased costs above the over \$200 billion now being contributed to programs that support persons during retirement. The fifth area would result in savings.

In the report, the Commission repeatedly stresses the need for cost and affordability assessments. In addition, they place emphasis on the fact that recommendations in the final report could look very different. It is worth noting that Chairman McColough personally endorsed a minimum advance-funded pension system, faster vesting, and portability, at the news conference at which he released the Interim Report. Such an action leads to the question of whether the Commission will wait for the cost and affordability assessments they call for in the report.

Costs

The Interim Report did not contain likely cost estimates for proposals. These are to be developed in the weeks ahead for presentation. Some cost estimates, related to proposals, however, are available.

For example, a draft paper was prepared on The Cost of Providing An Adequate Retirement Income (under the Commission definition of maintaining pre-retirement disposal income). That paper estimated that in a common case, as shown in Table III, providing "adequacy" with a 75 percent spouse's benefit with age 65 retirement and 40 years of contributions would require 21 percent of payroll. With 30 years of contributions, 29 percent of payroll would be required. With 20 years of contributions, 45 percent of payroll would be required. Were policies to be adopted soon to accommodate the heavy retirement burden projected for 2010, the 25-year figure would be the most likely: 35 percent of total payroll for contributions. Adoption of such a policy should be based on a thorough understanding of economic costs and benefits.

Vesting is another area in which preliminary estimates are available. Were faster

vesting adopted, analysis indicates that the number of vested workers would generally increase, but the value of vested benefits for newly vested workers would likely be relatively low.

The same analysis concludes that benefit levels for those gaining entitlements would be extremely low. As Table IV indicates, fully 72 percent of separated participants under three-year cliff vesting would be entitled to less than \$1,000.

These analyses raise serious questions about the cost and benefit trade-offs of proposed goals and policy changes. They serve to emphasize the importance of considering proposed changes in relation to all other policy changes being considered, and not solely on individual merits.

Initial Criticisms

The Interim Report has already been subjected to analysis by a number of commentators. Criticisms can be classified as fitting two extremes:

1. Those who feel that the report places too much emphasis on affordability and not enough on needs.

2. Those who feel that the report reached toward recommendations before all components of the retirement system had been explored -- without cost and benefit studies, without clear specification of detailed questions remaining to be explored, and without articulating an underlying philosophy or purpose for each component of the retirement income system.

The first position is taken by the Citizens Commission on Pension Policy. A review of the Interim Report does not appear to substantiate the criticism. One has difficulty finding evidence that affordability was a major concern, particularly if one looks to the positions taken by Chairman McColough since the report was issued. Rather than affordability being the focus, the emphasis has been on the choice between pay-as-you-go intergenerational transfers versus advance funding. Rather than affordability being the focus, the implicit assumption comes through, many

times, that a greater percentage of payroll will be dedicated to retirement savings. The end is assumed; the focus appears to be on the means.

The second criticism, that the report is cursory and reaches conclusions prematurely, has found a substantial following. There is intense concern that lessons of the past will not be learned, that major policy mistakes will not be avoided. Three examples are commonly used.

1. The "technical error" in the 1972 Social Security amendments which resulted in over-compensation and higher costs and had to be corrected;
2. The passage of ERISA without adequate attention to costs, consequences, and need for phase-ins, and the resulting high rate of plan terminations; and
3. The creation of a plan termination insurance program without appreciation of potential costs and consequences, and resulting uncertainty over the program's future.

These examples are representative of a stated fear that the Commission will not have time to complete all the studies it has identified as needed and will be encouraged to make recommendations based upon emotion and/or ideology. The stated hope is that the Commission will not make recommendations for policy change in these areas where studies have not been completed.

The Interim Report vis-a-vis the Boston Meeting

Transcripts of the Boston meeting of early May indicate that such hope may be justified. The Commission's discussions in Boston placed much more emphasis on the importance of a strong economy than is evident in the report. In addition, the discussions indicated much greater uncertainty over the merits of proposals, such as a minimum advance-funded pension program and faster vesting, than is indicated in the consensus report.

Individual Commissioners were extremely careful to indicate that the Interim

Report in no way bound them. They viewed conditional statements in the recommendations as being very meaningful. The Executive Summary of the report, therefore, may be the best statement of where a consensus exists. Should this assessment be accurate, it should provide guidance to interested persons on how to interpret the report and how to focus comments and submissions to the Commission, and, it makes clear that the full Boston meeting transcript provides excellent background reading for assessing where the Commission is likely to be in February 1981.

Stated and Unstated Principles

Underlying the discussion of the Commissioners in Boston was the consensus that:

- o Inflation must be solved if our retirement systems are to work.
- o Political considerations should be ignored as much as possible in reaching conclusions.
- o Any tentative conclusions could be totally reversed in the final report.
- o Top priority should be given to providing a balanced system of employee pensions, Social Security, and retirement savings for all workers.
- o Programs to supplement Social Security must be substantially increased.

Beyond these five explicit factors, the conclusions contained in the report appear to have been based upon three important inherent assumptions not yet put to the test of economic analysis:

1. That we will afford all our present retirement promises,
2. That we will afford real increases in the nation's dollar commitment to retirement income programs beyond what present promises will require, and
3. That the type of advance-funded instrument used to provide retirement income is not of central concern.

These points, in addition to the 40 areas referred to above, appear to provide a clear statement of the factors of primary importance to the Commission. They can serve as a clear guide to concerned parties, in both government and the private sector, of the areas in which the Commission could use analytic assistance.

There is one additional sub-part of the report that has not received the attention of commentators: the methods set forth for establishing a minimum advance-funded pension system. The report states:

"Such a program could be thought of as an advance-funded tier of Social Security that would permit contracting out to pension plans that wanted to meet its standards or as a universal employee pension system with a central portability clearinghouse."

The implications of these two approaches could be substantially different. In addition, the policies implicit in this description are deserving of serious study in their own right. Do both alternatives imply immediate participation, immediate vesting, and full portability? If so, are these the only alternatives to be considered? What would the implications be for other existing programs?

The two stated options go to the most "liberal" approach considered by the Commission during its hearings. Quite apart from the question of whether a minimum advance-funded pension system is desirable are the issues of what it would look like. Analysts and commentators should concern themselves with both. While Chairman McColough has said he favors the system, he has not said what form it should take.

Conclusion

The President's Commission may develop its view of what national retirement policy should be assuming a strong economy. In Boston, the Chairman suggested a cover page for the final report: "If the economy is still weak, read no further." As the Chairman appreciates, this would be an unfortunate outcome after two and one half years of work. Those working on retirement issues can help avoid such an

outcome by actively working with members of the Commission. Policy would be made without broad participation, but it is likely to be better policy with it.

Study groups do have a history of dealing with issues on the assumption that today's economic problems will not continue for the longer term. The result has been a series of short-term adjustments in Social Security, a continuous need to adjust the termination insurance program, and a series of bills representing remedial legislation. All parties to the Commission process should work to encourage a recognition of longer term structural and economic considerations.

There are also other questions not yet considered by the Commission. How tightly can solutions be tailored? Is the proper role of private plans to cover seasonal workers, low service workers, part time workers, temporary workers, and the very young? How does one reconcile the tradition of provision of private plan benefits tied to service, and what are the consequences of a dramatic change? How much can be achieved with the tailored goal of increasing the likelihood of benefit receipt for those covered by or participating in existing plans? How much can be achieved through additional tax incentives?

If we are to avoid haphazard policy changes, there is a need for "coordination" of all retirement income systems. Such coordination can most readily be achieved within the framework of an articulated national policy. To reach a consensus on such a policy, and then make responsible decisions, the need exists for thorough and time consuming study, analysis and policy formulation: the need exists for articulating how policies might differ under varying economic assumptions. Such work cannot be undertaken in a vacuum. It must give recognition to both our present and future economic prospects and to the goals we seek to achieve. Numerous issue areas need more and better information for better understanding. Raising such questions is not nitpicking. At stake are the future of our retirement income system, faith and support for Social

Security, and harmony among generations. We must not allow ourselves to rush to conclusions because a report must be issued on February 27, 1981. The issues are too large, the consequences of our actions too great.

The issues cannot be resolved in the abstract. They must be viewed in the context of existing explicit and implicit retirement income goals and in relation to the current mix of retirement income programs and funding mechanisms. They must be examined in light of the trade-offs implied by selecting one alternative over another. A major criterion must be the costs of each alternative, including an estimate of the expected costs and consequences of continuing our current policies.

Interim and final reports of the President's Commission may provide only a "starting point" for serious discussion rather than conclusions surrounded by a consensus for adoption. If so, it will heighten, rather than bring to an end, the debate over who gets what from whom. As it focuses the debate, however, it will force public and private sector policy-makers to deal with the most central and important issues.

It is in the interests of those in the public and private sectors, as well as individual citizens who are concerned about the provision of retirement income, to participate at each stage of the process: to push for decisions where action can be justified, to question proposed decisions where action cannot be justified.

When Stanford Ross was Commissioner of Social Security, he stated:

"A further significant lesson from the experience of foreign countries (such as France, Finland, and Sweden) is that we must avoid overcommitting the future. Social Security planners everywhere suggested that politicians had often been prone to promise too much to the people in terms of delivering generous benefits for which there are inadequate resources and which will cause even greater strain

in the future. There is increasing concern that younger generations must not be overly burdened if solidarity with older generations is to be maintained in the long term.

The temptation during a time of so much activity is to put forth proposals and counter-proposals, even if adequate research has not been possible. The demands of time cause organizations and individuals to rush to action. - This may well be the time to learn from the foreign experience; to proceed with deliberate speed, not haste, in our search for policies which will allow our retirement programs to be programs of fulfilled promises."

TABLE I
Studies To Be Undertaken on Items Covered
in the Interim Report

1. Universal minimum advance-funded pension system
2. Shortened vesting and participation alternatives
3. Employment problems of older workers
4. Single person's budget
5. Pre-retirement earnings base and replacement rates
6. Indexed bonds for retirement plans
7. Proposals for tax credits for low and moderate income persons
8. Deductability of contributions to Social Security and taxation of benefits
9. Equalizing the tax treatment of all forms of retirement savings
10. Earnings sharing for Social Security
11. Spouse inheritance of a deceased spouse's Social Security credits
12. Defining pensions as property
13. Prorating benefits for divorced spouses based upon years of marriage
14. Providing higher pre-retirement death benefits
15. Using unisex mortality tables for all plan options
16. Alternatives to universal Social Security coverage that might remedy windfall benefits and benefit gaps
17. Single disability program for all public employees
18. Placing a ceiling on total income replacement from disability programs
19. Methods of encouraging labor force re-entry by persons receiving disability benefits
20. Development of an occupational disability program for older workers
21. Early retirement and very early retirement
22. Eliminating the Social Security earnings test (in conjunction with tax changes)
23. Establishing the areas of law relating to ownership and control of pension assets in need of further discussion

TABLE II
Items Not Covered in the Interim Report

1. Portability and vesting
2. Role of savings and assets in retirement income
3. State and local sector and PERISA
4. Social Security financing
5. Social Security benefit structure
6. Overlaps in pension plans
7. Pension plans and collective bargaining
8. Federal employee retirement systems
9. Actuarial and accounting standards
10. Effects of demographic shifts on savings
11. Pensions and personnel management policy
12. Trade-off between pensions and wages
13. Macroeconomic effects of savings on investment capital
14. Costs to individual and nation of providing adequate retirement income
15. Retirement income distribution
16. Effect of in-kind benefits on income of the retired
17. Organization of executive and congressional branches of government to deal with retirement systems

TABLE III
Annual Cost as a Percent of Payroll

<u>Retirement Age</u>	<u>62</u>	Male Employee <u>65</u>	<u>70</u>
20 years of service	48	45	40
25 years of service	38	35	31
30 years of service	31	29	26
35 years of service	26	24	21
40 years of service	22	21	18
45 years of service	19	18	16

Source: The President's Commission on Pension Policy

TABLE IV
Distribution of Benefits for Newly Separated Participants with
Less Than 10 Years of Service Under 3-Year Cliff Vesting
(3/100)

<u>Lump Sum Benefit</u>	<u>Percentage of Separated Participants Receiving Benefit</u>
Under \$1,000	72%
\$1,000 to \$1,750	19%
\$1,750 to \$3,000	7%
\$3,000 to \$4,000	1%
\$4,000 to \$5,000	1%
Over \$5,000	<u>0%</u>
Total	100%

Source: ICF, Incorporated

THE NEED FOR CONSENSUS ON GOALS

Stanford G. Ross

There is no more important subject of domestic policy than that of providing adequately and equitably for the income security of all Americans. I would like to try to outline briefly for you today what I see as the key issues in this area and how your work, and that of others like the President's Commission on Pension Policy, relates to clarifying these issues.

Let me start by identifying what I see as a growing consensus from a variety of perspectives by those who are taking the time to study retirement policy issues carefully. Some of these areas of consensus are as follows:

1. There is a need to make provision today for programs that will provide adequate retirement income for the American public in the long-term future.

A major difficulty here relates to the concept of "adequacy". The American public has ambitious expectations for retirement income and public opinion leaders almost all assert that these ambitions can be fulfilled. More particularly, a large portion of the American public hopes to retire at a relatively early age, for example, 62 or younger, with the same standard of living enjoyed prior to leaving the workforce, and to maintain

this standard of living through a long period of retirement, perhaps as much as 20 years or longer.

I think it is clear to those who have studied these problems analytically that there may well have to be redefinition of what retirement goals are realistic so that both the public and its opinion leaders arrive at expectations of retirement that can be reflected in programs that are capable of fully meeting those expectations. Such is not always the case today since expectations often far exceed the capability of various programs to satisfy them.

2. A national income security system requires a skillful meshing of public and private programs. Social Security, private pensions, individual savings, and other government pensions and assistance programs are all vital to achieving an adequate overall system.

There are several missing elements in the income security picture today. Most significantly, there is a lack of recognition by the public that the government is essentially responsible for shaping the entire income security sector, including private pension programs and individual savings. Direct expenditure programs like

Social Security are obviously a responsibility of government. But the government, through its tax and regulatory policies, determines the shape of the whole system. The magnitude and seriousness of government's manipulation of the entire income security sector has not been adequately communicated to the general public.

The most difficult aspect of meshing public and private income security related functions is determining the proper relationships between the various aspects of the system so that they work together to achieve overall goals. Much more work on this aspect of the problem will be called for in the years ahead.

3. Virtually all aspects of the income security system are not working well today and must be reshaped.

Social Security is plagued by recurring financial crises. The tax base for the system is simply inadequate to meet the demands of the benefit structure which was put in place in a previous era of expansion and optimism. The private pension system is inadequate to meet the needs of the public at large and is threatened at its very core by rampant inflation. The level of individual savings is too low and is making only a marginal contribution to future retirement needs. Other government programs, such as general assistance and government pensions, generally are vulnerable to their own financial problems and structural difficulties.

Clearly it will be necessary to strengthen each of these programs in the years ahead as we attempt to mesh them into an overall income security system.

4. As we reshape our retirement programs to achieve greater adequacy, we will need to create greater equity among all segments of the population.

Considerations of equity and fairness of treatment among individuals require focusing on who is paying for these programs as well as who has the need for the benefit payments made by these programs. Historically, the tax mechanisms that finance retirement programs have been

generally ignored and the focus has been almost exclusively on the benefit side. Traditional Social Security thinking, for example, has considered an individual's earnings replacement ratio as the standard of equity against which the program should be measured. Equity in terms of the taxpayer's interest has been largely ignored. A greater balance between the interests of the beneficiary and the interests of the taxpayer must be found if we are to have a sound system. We must clarify the financing mechanisms appropriate for programs that target benefits to those most in need and which mechanisms are appropriate for programs whose benefits are tied to tax and earnings levels.

Perhaps the most important aspect of equity is the need to focus on issues related to the treatment of broad segments of the population, such as women. As the Social Security system changes, the premises on which the program was built have given way -- and will continue to give way -- to new circumstances, disrupting what once may have been equitable arrangements for providing benefits. Retirement programs must be regularly reviewed to ensure that internal equities remain consistent with external realities.

5. As we reshape our income security system in the interests of adequacy and equity, we need to produce results that are compatible with other major national goals such as increased capital formation, increased worker productivity, and fiscal and financial stability.

We are increasingly aware that we knew far too little in the past, when laying the foundation for our present income security system, about its consequences for the rest of the economy. We have little better idea now about the impact this huge and growing sector of the economy will have on other sectors. Prudence requires much more intelligent planning in this very important area.

Based upon these growing areas of consensus that I discern, it seems to me that one can identify three areas where problems must be addressed. First, technical analysis, development of information, and dissemination of basic

knowledge is vitally required. At this level, the work of EBRI is of the utmost importance and the documents you have produced to date are an impressive start.

Second, there is the need for policy formulation where the information that has been accumulated is translated into creative ideas that might help to identify, anticipate and solve problems. Here the work of the President's Commission on Pension Policy and other bodies such as the Advisory Council on Social Security and the National Commission on Social Security are vitally important. Other groups, such as yours, must also play a role in policy formulation, for it is an illusion to think that policy in this area will evolve other than as the outcome of the clash of conflicting and widely divergent viewpoints.

The third problem area and perhaps the most important is the political obstacles created by identifying issues, formulating new policies and taking action to implement those policies. Change is inevitably painful, even if it is necessary, and creates serious political repercussions.

The most troublesome source of political resistance is the special interest forces that surround each aspect of the system. But there are some hopeful signs. Disability reform legislation recently before Congress was the product of many years' careful study and was shaped with the aid of data and information gathered on past experience with the program. It was enacted over the opposition of numerous special interest groups, showing that the political process can be made to work constructively.

But much more needs to be done to provide the public with insight into the clear and present danger that business as usual in the income security area will not solve our problems, but that only principled change based on imaginative new ideas will help.

The parts of the Interim Report of the President's Commission that I think are most promising and need to be developed and debated, and with which your own work can help, are the following:

First, the concept of mandatory private pensions is an appealing approach to finding a middle ground between further Social Security expansion and the inability of private pensions to contribute sufficiently on a purely voluntary basis to an adequate overall system. Further expansions of Social Security could be curtailed if private systems were maximized and augmented to play a larger and more stable role in the income security system. But many problems will need to be solved if this concept is to fulfill the promise it holds.

Second, the Commission correctly identifies the critical nature of tax policy and the need to have more equitable tax policies if we are to produce a sound retirement income system. Much more needs to be done to clarify the importance of this for the public.

Thirdly, and most importantly, the Commission emphasizes the need for comprehensive, long-term planning. Even if changes are made incrementally, it is important to make them in the context of a long-term posture on income security. The Commission has attempted to stake out the parameters of such a plan and it behooves us all to try to help them develop and shape that plan between now and the time of their final report.

Discussion

DR. SCHOTLAND: There was a statement, if I got it right, that benefits will be paid. That, in a sense, is consistent with the approach we have been taking, which is the inadequacy of the coverage, vesting, however you want to treat it. We are seeing in a number of state and locals I am aware of, an explicit scaling back of benefits. Throughout the private sector and in the vast majority of state and locals we are seeing a scaling back of benefits much worse than inflation. So instead of talking about where we ought to be, we would really be doing a great thing if we could stand still. It would be a tremendous achievement. I think we are a little bit naive in some of our approach. Everybody, of course, is going to agree you have to take cost into account. The trouble is we are going backwards.

MR. ROSS: Well, let me just respond to make sure you understood what I said.

I was referring solely to Social Security benefits that are called for to be pumped out by the computer, you know, this month, next month, this Congress. I do agree with you that all of these things can be affected in the longer term, and I would include Social Security benefits in that. I think that if you are talking about what

you can do to affect the level of benefit payments 10, 20, much less 50, years out, yes, it can be altered and adjusted. But the one thing you can't do is wait for that Congress to produce the money. Therefore, I guess I basically agree with you; I don't regard it necessarily as bad per se to see things being scaled back. You have to ask the next question, which is, is it right or is it wrong?

For example, in the disability area, I thought we made a fairly compelling case despite -- I know Larry Smedly is griping because he doesn't agree -- to shift the emphasis from certain kinds of benefits and disincentives to other kinds of benefits and incentives. If you looked at that one piece of it, it was a scaling back. If you looked at another piece, it was an increase in certain benefits. The approach was to look at how the whole was working and see where you needed to reshape the program to try to make it operate better.

I think that is probably true throughout this whole area. All of these programs have grown up piecemeal. Once you get enough experience with them, you ought to go back and see if they are working well. If they are not, regardless of how you politically categorize it, you ought to go

in as a surgeon and try to make the changes that are needed as surgically as you can to make the things work better.

MR. SMEDLEY: I would like to ask Mr. Ross a question. You made the observation about the high expectation of the elderly who expect to retire close to their pre-retirement income. You thought that was a highly unrealistic expectation. You have to consider that when a person retires, their standard of living vis-a-vis the rest of the population starts to decline because they are not sharing in the productivity. The decline is very, very significant over 15 or 20 years.

MR. ROSS: That isn't what I said. What I said was that the retirement income expectation I talked about was a more generalized one for even younger people today of being able to retire very early at a very high level and being kept at that level a very long time.

In terms of the specific one of elderly today retiring, I agree with you, the law provides that they are going to be indexed; they should. The only issue I see there is that you really do need to go back into the indexing mechanism and make sure that you are doing it on some basis that is right.

I don't know whether the CPI is the right measure. I think you can go in and take a look at what you are doing there, but obviously that expectation has been created and ought to be honored. But those are different things, if you will.

MR. SMEDLEY: You said a very early age. Can we assume that is 55?

MR. ROSS: Well, it depends on how much you have withheld and not enjoyed current consumption for. I can conceive of somebody retiring very early who is willing to take a very high proportion of their current consumption and turn it into a retirement benefit mechanism. But, my sense is that people don't want to pay much now but they do want to retire early. Like everybody else, we all want as much as we can get. I don't think anyone has put together cost estimates for the broad mass of the public of what it would cost

to allow everyone to retire at age 62 with the current standard: what you have to effectively pay now to get that. Certainly nobody retired today under Social Security, by and large, has paid for the level of benefits they are getting.

MR. SMEDLEY: Well, what do you expect them to do?

MR. ROSS: I am not criticizing that. I am just saying to you that those things have built up a level of expectation which may or may not be realistic for the future. Somebody has got to translate that concretely for the mass of people in this country.

PENSION RESEARCH OBJECTIVES INTO THE 21st CENTURY

Adrian A. Collins

It is my pleasure as a representative of a major multinational corporation devoted to the fulfillment of world oil, gas, nuclear, and solar energy needs, to respond to the invitation of the Employee Benefit Research Institute to comment upon its recent publication Retirement Income Policy: Considerations for Effective Decision Making, and upon the Interim Report of the President's Commission on Pension Policy. I have spent most of my active career as a tax attorney in private industry. I have focused most of my energies upon creating and maintaining tax-qualified pension, profit-sharing and other retirement plans, during the past 20 years. Also, both my doctoral dissertation at the George Washington University, "Pension Regulation; An Analysis of Need and Feasibility" and the authorship of my book Federal Income Taxation of Employee Benefits required me to research almost every aspect of our U.S. retirement system. I am among those who acknowledge that research in the retirement policy area has only begun to tap the surface of a challenging social phenomenon.

My comments call attention to what I believe are the three most important areas in pension research that appear to need emphasis beyond what they have been given.

These areas hold the key to meaningful conclusions for improvement in the U.S. retirement system. These three points are critical to our research in any attempt to improve the system or remedy any perceived defects. They are:

1. Before research of the retirement system can begin, the researcher must formulate Research Hypotheses or Pension Objectives. The Objectives or Hypotheses must be agreed upon before meaningful research can proceed.
2. Such research must focus upon and emphasize all aspects of cost to the economy of any improvements to the pension system. No one can expect that we can afford as a nation to finance any labor cost (which pensions must truly be) unless our industrial productivity is severely affected; and
3. Researchers of the U.S. retirement system must consider the need for flexibility in the system and resolve to maintain such flexibility if the U.S. is to remain a strong and free nation. The concept of freedom includes the freedom of the worker to change jobs, the freedom of the employer to pay a just wage and a just pension only for work performed, and

not to shoulder the burden of retraining workers inordinately where workers change jobs whimsically or with undue frequency.

In research of the U.S. retirement system, I urge researchers to first formulate meaningful Pension Objectives as Research Hypotheses. Second, pension research must thoroughly and expansively consider the cost of pensions - how and when such costs are to be paid and the level of funding required. Third, in research and in conclusions allow for flexibility in the pension system. Flexibility means choices. There must be choices for employers and employees, for industries and government, for the finance and capital markets, and for the taxpayer. Pension plans (if legislative norms are to be injected), must permit flexibility if the U.S. economy and work force is to remain strong. A fat cat catches no mice.

I. Research Hypotheses: Pension Objectives

For purposes of example, I have listed a few research Hypotheses that I have not seen mentioned in current work, and appear to a businessman to be vital as Pension Objectives.

Hypothesis #1. Pensions are related to work. A pension is monetary compensation to a former laborer when he can no longer be actively employed because of his age. Thus, if a person never worked or worked only a few years, or for a low level of pay, we can agree as a nation to pay him a welfare or transfer payment but not a pension. Sickness or disability or lack of retraining ability for a former laborer may be related to advanced age. So, we may agree that such a worker can cease his active employment and begin to receive a pension. In all events the pension will be based upon the former employment, both length of service and wage received for that former labor performed. This hypothesis leads to at least two corollaries:

Corollary #1.A. A pension may never exceed the level of the prior wage.

It should never exceed the total value of all real wages the worker

received over his lifetime divided by the number of years of active employment and adjusted by compound interest for the employment period when expressed as an annual amount. To pay more than this as a pension means that the value can never be a function of labor costs, but must be associated with something else and paid for by someone other than the consumer of the product or service that the worker furnished. This is simple economics.

Corollary #1.B. If the pension is not related to former labor and attached as a cost of such labor, the pension system will contribute to inflation and ultimate bankruptcy for the nation as a whole.

This corollary is not as farfetched or exaggerated a statement as it appears at first impression. A promise to pay a pension that cannot be paid by the promisor must be paid by someone else: ultimately the consumer or the taxpayer. If neither the consumer nor the taxpayer wants to pay the hidden cost it will not be paid. This is so because the consumer will buy less of, or do without, the now expensive or inflated product and the taxpayer will vote the obligation away or duck it. Now we see how excessive labor, benefit and government costs erode our dollar's value. The dollar is only representative of one promise to give a day's work for a day's pay. If a day's pay is given in exchange for no work or less than a day's work, the promise eventually loses its value or becomes meaningless. The dollar becomes an inflated transfer mechanism in our economy. The result is inflation which is a nation's partial or total "bankruptcy". Perhaps an oversimplification, but one that has a dramatic effect upon the pensioner and every citizen.

Hypothesis #2. Every unit of production of goods and services must be burdened with its proportionate share of pension and welfare benefit costs as identified and quantified labor costs.

To fail to identify the real cost of goods and services sold is to "hide" the true cost from the consumer and to underprice goods and services in the marketplace. The result is that as a nation we hide from ourselves the true expenses of our economy. If we recognized these expenses as increased costs of our products, we would quickly agree as consumers that we are unwilling to "sacrifice" enough of our current demand to afford to pay them.

Corollary #2.A. Consumers will be unwilling to pay for goods and services that are burdened with excessive pension costs.

Experience has shown that 1 to 1-3/4% of the active payroll is about the maximum affordable pension a consumer is willing to pay. Such a level (in "real" or "non-inflated" terms) will produce a pension that amounts to 45 years x 1% or 45% of average pay for a worker from age 25 to age 70; 67.5% of pay if a benefit of 1.5% is financed for 45 years. Pensions of any higher level in real terms must then depend for their funding not upon the cost of products or services produced and sold, but upon the effect of compound interest upon "advance funded" pensions over the 45 working years. This then becomes a pension not for units of work produced, but as an investment return on savings or invested assets (which are "stored" promises to consume or dollars not spent currently).

Hypothesis #3. Human Nature is Imperfect. Given a free choice, only a segment of the active workforce will choose less current spendable income in order to reserve 1 to 1.5% of total labor cost to fund his own pension 45 years away.

As the adage goes "we grow too soon old and too late wise". Because human nature is imperfect and we have hidden the real costs of the social benefit levels we are beginning to believe we "need" or "want" as a nation, we have lulled ourselves into the belief that we or "they" the taxpayer can afford to pay them. As realists we know this is not true. To fund a pension

at over 1/2 pay or 1/2 mean career wages means to burden the cost of the product with more expense than the consumer will be willing to pay. When it is recognized that "a day's work" includes a great deal of nonproductive time (time for coffee breaks, extra holidays, vacation and so-called "sick" leave: products that are not of real value to the consumer), then we begin to see that inflation is a product of all these meaningless promises. Thus a pension system must be based upon real labor and related to standards of work that are attractive to the consumer.

Corollary #3.A. Laborers must be both forced and encouraged to reserve enough from current spendable income to provide for a pension at the end of their career.

This is done in a "free country" such as the United States by "carrot and stick" legislative policy (permit some tax relief for advance funding of pensions by both employers and employees) and by requiring that a certain amount of spendable income be reserved to finance pension costs (such as is done through the FICA or Social Security withholding tax and mandatory base coverage).

Corollary #3.B. To lower inflation and improve productivity and our nation's financial health, every citizen must be educated in the basic economics of pensions and labor costs.

If we all take pride in our products and our pension system, then we can as consumers learn the mechanics of our financial sacrifices and eliminate inflationary progressions.

Such Research Hypotheses or Pension Objectives must be formulated and proved or disproved by the researcher in order to assure valid conclusions in altering the present U.S. retirement system.

II. Cost of Pension Alternatives

Some of the points made above referred to pension cost. Much needs to be done in research to establish a valid statistical

data base for conclusions regarding the true cost to the nation of various pension system alternatives. Some pension costs are in fact welfare costs for dependents of workers or others who were never employed. Others were formerly employed but the goods and services they produced were not charged with pension costs, or burdened with adequate levels of pension costs to provide for now retired individuals.

It seems that macro-economics tells us that any pension mistakes of the past can only be remedied as a "social cost". The researcher could begin with the premise that like Social Security benefits, such "pension" costs are really transfer payments that require all citizens to sacrifice current spendable income of their own by giving it or transferring it to an otherwise destitute individual who worked once but can no longer.

But for the future. Little research has been done on the exponential value of advance funded costs on expanding our economy by means of capital formation. Dollars saved today for pensions tomorrow must have increased value as capital formation dollars. If the pension system is to provide coverage for more than half of our present population as retired lives, then the funding factor must have a dramatic influence on our entire national economic system. Little concrete research has been done on the advantages of advance pension funding for our capital markets versus mere transfer payments.

Also, little research has been done to assess the level of pension benefits that could be funded if individual pension savings were encouraged. Under present policy our savings as a percentage of GNP are declining yearly, as is the U.S. productivity index and the capital investment index.

These trends must be reversed if the health of our retirement system (and the U.S. economy) is to be assured. Research and public education can accomplish this. Focus on costs. Gather data. Do not accept any data that cannot be verified

as reliable. Additional pension coverage of the workforce (if it is to be an objective) brings with it an additional cost to the economy. What is this cost? How will it be funded to greatest advantage? More rapid vesting means an inherently greater cost and tends to eliminate a deterrent to more frequent job transfers. Can we afford this cost? What is its predictable limit for various vesting schedules?

Cost-of-living adjustments to pensions cost the economy and individuals enormous sums in terms of spendable income that consumers are truly unwilling to sacrifice. The result is continued lowering of dollar value and greater inflation as the underlying "promise to pay" is worth less and less.

III. Flexibility

As a researcher, as a tax lawyer, and as a social scientist, I must confess that relatively fixed rules and constant values have a certain appeal for me. I can depend upon them and plan my business decisions accordingly. But the real world, and other members of our workforce do not face identical conditions. It cannot be assumed that all individuals will want to make the same choices. Our U.S. economy is strong because of individual freedom of choice. Let us keep that strength by design. Design sufficient flexibility into the pension system so that it will "bend" to the needs of every industry, every segment of our population. There will be those who want to work hard and long for greater rewards, and also those who won't want to work as much, knowing they will not receive as much. Presume that such freedom of choice will continue to give the system its continued strength. Then you can rest assured that the results of pension research will have been worthwhile: a meaningful pension for every worker related to his contribution to the economy and related to his means to produce.

Only in this way, as researchers, will our work product and judgment bear fruit with maximum potential.

Discussion

MR. GIVENS: Mr. Collins said that pensions should be related to earnings and should replace earnings that stop at retirement. Such an obvious comment, so frequently ignored. There was a startling comment in a Department of the Treasury report in the mid-seventies that no matter what you did with private pensions, they were no damned good because they didn't do anything for people who didn't work. It is true. Even in the Interim Report of the President's Commission, it is hard to bear down on the concept of a pension as replacing income that is lost. If the government declares that, "Poor fellow, you need \$15,000 at least to survive," what do you do about the person who has been surviving in some wretched garret on \$8,000 a year? When he hits the point of retirement, do you then promote him to \$16,000 or \$15,000, or do you leave him in penury at \$8,000 or \$6,000 or \$5,000? Those are important distinctions.

It seems to me the role of a pension is what Adrian said. It is to be related to income he was making and not to something independent that the government thinks he ought to be making which he wasn't making when he was working.

ARE WE READY TO MAKE DECISIONS?: The NBER Pension Project

John B. Shoven

The EBRI Issue Report on retirement income policy and the President's Commission Interim Report are both valuable documents. The EBRI paper presents us with a very useful glossary of pension terms, a survey of the important issues, and a framework for thinking about them. The concept of concentrating on three fundamental questions: goals, strategies, and financing, is appealing, although I would note that most strategies have consequences other than costs and goal achievement. Most pension proposals affect the manner in which both labor and capital markets perform, and these consequences must be examined. Studied carefully, the EBRI report sets forth an immense research agenda. I might note that even so, it does not concentrate much on another large set of issues regarding the capital market aspects of pensions. This would include the role of the Pension Benefit Guaranty Corporation, the ERISA funding rules, and the tax advantages of funding. Nonetheless, the report does lay out a vast array of important issues and will serve as a useful guide for those studying pensions.

The President's Commission Interim Report is a much narrower document, already beginning to focus on solutions -- prematurely so, in my opinion. For example,

universal coverage in a minimum level advanced-funded pension program is proposed. This is explicitly given a higher priority than inflation indexing. The evidence has yet to be assembled on how such a universal pension plan would affect total saving in the economy, worker mobility, retirement, and, perhaps most importantly, the wage structure. If workers are currently paid the value of their marginal products, then requiring pension accumulations for those who do not now have them will either cause unemployment or reduced take-home pay. Most likely, such a plan would cause some pay reductions and some unemployment. The Interim Report documents that lower income people have not taken advantage of such retirement programs as Individual Retirement Accounts. There is an unanswered question as to why. Is it a lack of information or is it that they view provision for today's needs as a higher priority than provision for future retirement income?

The Commission report also favors the principle of shortening vesting requirements. It does this without an analysis of the costs and benefits of different vesting formulas. Gradual or deferred vesting does give employers some leverage on worker mobility, thus permitting them

to invest in the training of skilled workers. On another topic, the report pays little attention to inflation-adjusted pension annuities, a topic I consider to be very important. What would be the demand for real retirement annuities? What terms (i.e., rates of return) could be offered on them? This is a subject which my colleague, Zvi Bodie, has already examined in considerable detail. Failing to offer indexed annuities, why not at least consider titled annuities whose nominal payouts increase at some arbitrary rate per year, say 5 percent. Finally, little mention is made about the important differences between defined contribution and defined benefit plans in times of inflation. Inflation changes the sharing of risks between the worker, the firm, and the Pension Benefit Guaranty Corporation differently for the two types of pension programs.

Basically, there is a lot to agree with in the President's Commission Interim Report, but it does seem to me that it is arriving at (admittedly tentative) conclusions prematurely. The first returns from the survey which has been commissioned are just now coming in and have yet to be thoroughly analyzed.

I am the director of a new NBER program of research in pensions. Perhaps I can cover a few of the topics we will be addressing.

1. Pensions and Savings We will be examining whether private pension accumulations add to total savings or merely alter the form of savings.

2. Adequacy of Pension Funding We are calculating the unfunded liabilities of corporations using a consistent set of actuarial assumptions. We are particularly interested in the sensitivity of these numbers to the assumed earnings rate on pension fund assets. Relatedly, we are investigating the capitalization of unfunded liabilities in the stock market. Does the value of the common stock of a company reflect its unfunded pension obligations?

3. Demand for and Supply of Indexed Pension Annuities Vehicles for funding

such programs would include short-term money market instruments and (possibly) purchasing power bonds.

4. The Effect of Pensions on Retirement and Labor Mobility Both retirement and mobility should be considered as functions of the design of pension plans. We cannot make fixed assumptions about these and then examine a variety of pension plans. Pensions, retirement, and mobility must be looked at simultaneously.

5. Capital Market Aspects of Pensions We are looking at the funding of pensions as part of the overall financing decisions of the firm. Should a firm have internal (pension obligation) debt or external bond financing. An investigation will be made into the apparent tax advantage of funding and why this advantage is not exercised as much as theory would suggest.

6. Special issues regarding Executive Compensation.

7. The funding and capitalization into bond values of State and Local Pension systems.

8. Pension Insurance The implications of modern contingent claims analysis on the valuation of pension liabilities and the optimal structure of pension insurance.

We see our research program lasting up to five years. We realize that some of the policy decisions cannot wait so long. We regard ourselves as consumers of the data generated by others (such as the President's Commission survey) and may engage in some data collection of our own.

We hope to have our first public conference, reviewing our studies, in roughly 12-18 months. At that time, we hope to make a contribution.

Discussion

MODERATOR SALISBURY: Are there any questions or comments at this point?

DR SCHOTLAND: You mentioned state and locals. What are you doing with them? Maybe I missed that.

MR. SHOVEN: Well, the first thing we are planning to do is study what is available from a study being conducted by George Peterson of the Urban Institute. The study includes development of a large data set on plan funding and other characteristics.

Also, we are interested in calculating the balance sheets for state and local governments. Are the unfunded liabilities balanced by capital assets of the state and local governments? Are they building sewer systems and so forth?

MODERATOR SALISBURY: Everett?

MR. ALLEN: You mentioned the indexation of pensions in the studies. Are you focusing on the mechanisms for delivering relief or are you exploring other issues such as the adequacy of the CPI for elderly, the true need for inflation protection and so forth?

MR. SHOVEN: I am personally quite interested in this issue. The cost of

living of the elderly must include consideration for Medicare and other programs which diminish costs and reduce the importance of that factor in a cost of living index for the elderly.

Otherwise on the indexation issue, we have been mostly interested in the supply side. How could they be funded?

MR. BODIE: We are looking differently from the way it has been looked at in labor negotiations. Essentially what labor unions are demanding is existing starting levels of pensions plus a cost of living rider on top of that. If one is looking at that as the pattern for the future, it would seem that would bankrupt private pension plans.

What we are trying to do is come with the alternative designs for indexed pensions which will not bankrupt firms, but which, in effect, will cost the firms the same. The relevant comparison is between a conventional retirement annuity versus an indexed annuity which starts at a lower initial level and rises with the rate of inflation. That kind of annuity is probably feasible right now without any additional cost to the companies funding the pensions. But it would mean a different asset base. The traditional asset

base for conventional annuities is long-term bonds and mortgages. If we are talking about indexation, we need something like variable rate bonds, variable rate mortgages, if not CPI indexed bonds.

MR. ALLEN: Implicit in your approach is an assumption that a need exists and that need is measured by a conventional standard, such as the CPI. Does your research take you into the relative role of Social Security, for example?

MR. BODIE: Yes, it does, but the research is really just starting.

MR. ALLEN: Different consumer patterns of the elderly?

MR. BODIE: We have not done any work on that specifically yet.

MR. ALLEN: Just as a for instance, real estate and housing costs are about 43 percent of the index. The typical retiree--assuming home ownership--has a fixed cost in terms of that. Real estate tax advantages are made available, and so forth.

MR. SHOVEN: In fact, the typical retiree is on the selling side of real estate instead of the buying side.

MR. ALLEN: Exactly. This is what I am getting at. Are you looking at the need issue as opposed to the delivery issue?

MR. BODIE: On the supply side, so far.

MODERATOR SALISBURY: Mr. Givens?

MR. GIVENS: Didn't I hear you say that most plans are underfunded?

MR. SHOVEN: Most plans report that they are underfunded.

MR. GIVENS: Everytime you see that, let's step on it. (Laughter)

MR. GIVENS: A perfectly good case can be made for the fact that any plan that has no unfunded liability is overfunded. The presence of an unfunded liability doesn't mean the plan is underfunded. There is no connection between the two.

MR. SHOVEN: Okay. I see your semantic point.

MR. GIVENS: That is an important point.

MODERATOR SALISBURY: Mr. Smedley?

MR. SMEDLEY: I was interested in your statement that you are studying the effect of Social Security and pensions on savings. I was wondering what you are doing and what the involvement of Dr. Feldstein is.

MR. SHOVEN: Well, I would state that we do not take the prior positions of the NBER President into account when we study these issues.

MR. SMEDLEY: I always take the strong opinions of my President into consideration when I do something ----. (Laughter)

MR. SHOVEN: Well, we are a somewhat different organization in the sense that we are not employees in the normal sense.

I would expect this to be an empirical study. I expect one of the primary data sources to be the President's Commission's data set.

There is another data set that I have become aware of coming out of the Stanford Research Institute. Even though they are processing the President's Commission, they have a separate data set which has information about savings and pension accumulations.

I would thoroughly expect it to be an econometric study based on cross-section data.

MODERATOR SALISBURY: Mr. Dreher?

MR. DREHER: Your comments about studies of the cost of vesting create a conventional implication that it is expensive to have turnover for obvious reasons, such as training costs and acquisition costs, but there are also costs of people accumulating barnacles and settling into conventional patterns where they get routine increases in wages which may well outstrip any incremental productivity that they bring to their organizations. There might

be a case to be made that more rapid vesting would stimulate mobility and would in fact capture a higher fraction of the potential value of our labor force by stimulating fresh careers and higher standards of accountability, and so forth.

MR. SHOVEN: I don't disagree with that. In fact, I was simply commenting on my reading of the Interim Report which didn't mention evidence about either the costs of benefits of shorter vesting or portability.

Like most academics, I tend to see the ideal system as similar to TIAA-CREF: a defined contribution plan which is immediately vested and fully portable.

I was just commenting that the Interim Report seems to reach conclusions without a lot of documented evidence supporting them.

MR. DREHER: My point wasn't to argue to the conclusion, but to raise a research question. We may be in a situation where our distribution of possible outcomes is in fact optimized somewhere in between the extremes. How does one define those issues and investigate the implications?

MR. SHOVEN: Absolutely. My comments were somewhat one-sided comments which emphasized the cost of workers leaving jobs and losing training, but there are also costs of locking them into jobs and not letting the labor market be mobile and efficient.

MODERATOR SALISBURY: Bill Dreher?

MR. DREHER: Just a general question. There seems to be a disposition to view pension benefits as part of labor costs. We see on one side claims that coverage is inadequate and benefits are inadequate, either in formulas or in the absence of purchasing power protection; on the other side we know that there have been inadequate returns on invested capital for a number of years and concerns about restoring some reasonable risk adjusted rewards. The total economic pool has to satisfy both of these needs. There seems to be an issue which I don't think has

been dwelled on today about the distribution between returns to labor and returns to capital.

The presumption one would make is that if both have claims that are greater than are presently being satisfied, you are only going to get where you want to go by having more in total resources available, which would get you back to productivity arguments.

You could make a claim that one way to solve this dilemma is to say that we will simply consume less by reduced real wages today in order to provide the mechanisms for meeting all of these other transfer payments and deferred needs. You could make the case that the smaller employer who tends not to have the benefit plan because his profits aren't adequate has to compete for the workers who need housing and food. This represents a natural trade-off of the interests of those workers and those employers given the limits of their abilities to finance all of their objectives.

This pluralistic system of ours has a lot going for it, including the ability to struggle toward quite different objectives with different capacities to cope.

I am not sure in my mind that the ultimate outcome of the President's Commission should be to require mandatory coverage. It doesn't strike me as though it is necessarily in the best current interests of many of the people who supposedly would be benefited by it in the long run.

MODERATOR SALISBURY: A provocative comment for so little reaction.

MR. BERGER: Silence is acquiescence.
(Laughter)

RETIREMENT INCOME POLICY

Achievable Goal or Holy Grail?*

Ray Schmitt

Fifteen years ago the President's Committee on Corporate Pension Funds issued its report to President Johnson on "Public Policy and Private Pension Programs." In terms of its formal history, the Employee Retirement Income Security Act of 1974 (ERISA) can be traced to that very report which recommended that Federal standards be imposed on the private pension system. Interestingly, practically every recommendation in the 1965 Cabinet Committee report became law.

Now we have a new Presidential Commission, with an even broader mandate -- to develop national policies for retirement, survivor, and disability programs that can be used as a guide by public and private programs.

The tentative conclusions and recommendations in the President's Commission on Pension Policy Interim Report did not really come as a big surprise. The report established broad, long-range policy objectives that define what the Commission's focus will be in the coming months. The identification of the major problems and issues facing the retirement

income system appear on target and the possible solutions to the problems pointed out in the report appear to have merit. One such possible solution -- the Commission recommendation that serious consideration be given to the establishment of a universal minimum advance funded pension system to supplement Social Security -- is bound to be the most controversial of all. However, questions left unanswered make it difficult to judge how much merit these proposals have. In particular, questions of costs, affordability, and economic ramifications will have a profound effect on ultimate policy recommendations.

The Commission concludes that at this time top priority should be given to providing a balanced program of employee pensions, Social Security, and retirement savings programs to all workers. In other words, we should not put all our eggs in one basket. Yet, with inflation soaring at unprecedented rates, private pensions are losing their relative importance. Unless private pension plans increase their role in the retirement income mix, there may be even greater reliance on Social Security.

*The views expressed are the views of the author and not necessarily those of the Congressional Research Service.

The Interim Report argues that the determination of national retirement income goals is essential to the development of a comprehensive national retirement income policy and to the assessment of how our pension systems can be expected to contribute to these goals. In order to carry out its mandate, the Commission developed such goals as the starting point for effectuating retirement income policy.

The recent EBRI report, Retirement Income Policy: Considerations for Effective Decision Making is consistent with this approach. This report also emphasizes the necessity of establishing retirement policy goals.

The report organizes the major policy issues into three fundamental questions:

1. Goals: What retirement income levels should be established for individuals during retirement?

2. Strategy: What mix of private and public programs should be used to achieve these income levels?

3. Financing: Who should pay for these retirement income programs? This last question will undoubtedly be the most difficult to answer. In fact, it is difficult to see how goals and strategy can be decided without having agreed on financing.

The Commission, while recognizing the issue of costs, believes that the replacement of preretirement disposable income from all sources is a desirable income goal. After taking into consideration work-related expenses and changes in tax liability, the Commission report shows that the single worker making the minimum wage (\$6,500) would need approximately 79 percent earnings replacement whereas a higher income worker with gross preretirement income of \$50,000 would need approximately 51 percent earnings replacement. They caution that these are only approximate averages. Interestingly, the replacement rates necessary for married couples were only about 5 percent higher. The necessary retirement income would be derived from a combination of Social Security, public or private pension, and savings. While someone making the minimum wage was

presumed not to have any savings or investments, individuals with \$50,000 gross preretirement earnings were assumed to set aside 15 percent of their disposable income.

The EBRI report points out the term "replacement rate" requires substantial precision to reduce potential ambiguity that can result. It points out the sensitivity of replacement rates to the level and composition of income prior to retirement. It is very important to know exactly what is or is not in the numerator and denominator of this ratio. For instance, in a paper that I am preparing for release this summer by the Joint Economic Committee on an analysis of earnings replacement rates under pension plans that are fully integrated with Social Security, only federal, state, and local personal income taxes were taken into consideration as well as the employee's share of the FICA payroll tax. However, retirement income equivalents necessary to replace net preretirement income as shown in the Interim Report take estimated work related expenses and savings and investments into consideration as well as taxes.

As the EBRI report correctly points out, effective executive decision making requires definitional precision in order to identify real problems and select appropriate alternatives. I am sure all would agree with the desirability of definitional clarity and the need to ensure that proposed solutions address all the policy issues.

Although many critics of the private pension system are calling for automatic benefit indexing, the Commission concludes that the greatest emphasis should be placed on expanding pension coverage rather than providing full inflation protection to some at this time. The EBRI decision making framework might lead other policymakers to the same conclusion.

For instance, an analysis of the benefits received by retirees would show that plans have very different benefit formulas. It would appear inequitable to require all plans to be indexed unless some sort of parity is reached -- especially since employers are presently not required to provide pensions in the first place.

One plan could clearly be replacing more preretirement earnings than another for workers with the same work and earnings histories. Furthermore, just because the benefits some retirees receive from a private pension plan are low, does not mean that the benefit formula is inadequate. The retirees may have had short work histories under the plan or the benefit formula may have been integrated with Social Security. However, the major cause of low benefits may be the lack of pension coverage throughout one's working life. The Interim Report points out that people who have been adequately covered by pension plans before they retire rarely experience poverty. But those who were not covered in their adult lives, or were covered but did not vest, may have had little opportunity to prepare adequately for their retirement. The solution to this problem seems simple -- mandate private pension coverage, so there are no coverage gaps, and call for earlier vesting. However, this opens up a whole new door of issues and problems which the Interim Report does not deal with but which hopefully will be analyzed by the Commission and others. We need to know more before we act. For instance, what is the effect of pensions on private savings and capital formation? Can all employers afford to provide pensions? Answers to these questions as well as data from the Commission's National Household Survey on the "noncovered" workforce are going to be critical in addressing the mandatory pension issue.

It appears that the Commission may be recommending a defined contribution approach if it formally recommends a minimum advance-funded pension system. The arguments in favor of defined benefit plans are well known, but defined contribution plans also have advantages, particularly if our information is correct that those employers currently without pension plans are small, nonunion employers. A defined contribution plan would mean that the benefit was fully funded and portable. It may also be easier to administer particularly if earlier vesting is called for by the Commission as present signs indicate. Furthermore, the employers would not have to deal with the complexities and

costs attendant to defined benefit plans under ERISA such as employer liability, accounting and actuarial reports, and insurance premiums.

In conclusion, the Interim Report is a starting point which lays out the major issues facing the retirement income system and provides a focus on possible solutions. The tentative conclusions and recommendations as they should be at this time are very general. Therefore, the EBRI report on considerations for effective decision making is timely. It lays out a very cautionary and useful approach in examining these retirement income issues. While congressional policymakers cannot always make decisions in a Utopian setting, hopefully the report will be used by policy makers in both the public and private sectors as a framework for further defining and analyzing the retirement income issues facing the Nation in an objective, rational, and integrated manner.

Discussion

MR. GIVENS: Why were you surprised that the replacement ratio needed for the married person differed only slightly from the single person with the same earning?

MR. SCHMITT: Well, I guess basically because of the policy of the Social Security program to provide 50 percent extra for a spouse.

MR. GIVENS: Basically people are paid according to at least their perceived value, whether they are married or single.

MR. SCHMITT: Correct.

MR. GIVENS: And the tax treatment is not so very different, as people who get divorced on December 31 and remarried on January 1 well know. So it is only the difference in taxes that makes the replacement ratio needs different.

The 50 percent increase in Social Security is what is distracting. Go back and ask why that is done.

COVERAGE GAPS UNDER THE RETIREMENT INCOME SYSTEM

Harrison Givens Jr.

I. Introduction

Last month's Interim Report of the President's Commission on Pension Policy puts its principal emphasis on a "lack of pension coverage for many," and urges consideration of a "universal ... pension system to supplement Social Security and incorporate employee pension plans." I will aim in this brief paper to identify the areas where pension coverage is lacking.

First, however, let me caution you about too easy a use of the expression, retirement income system. It implies, quite without justification, that we now have a real system -- some overall design and purpose, in which the individual parts are designed consciously to mesh with one another and advance an explicit purpose agreed upon by all.

The facts are quite the contrary.

The American "system" for retirement security is not simple, uniform, homogeneous, or compulsory; but complex, multifaceted, and voluntary. In addition to pension plans providing lifetime income, there are profit sharing plans

principally providing single sum distributions. There are other employment-based mechanisms, some old and some new: HR 10s, IRAs, and tax-sheltered annuities. There are private savings in institutional repositories -- savings banks and mutual funds -- and other substantial accumulations through home ownership, life insurance, and annuities.

The strength of this present system is that no one tool is used alone, by all, for every purpose; rather, individuals use them collectively as their resources and inclinations determine. This point is crucial. If we view pensions, not as a system, but as a series of specific reactions to specific circumstances, then proposals for improvement can be tailored to specific situations rather than aimed broadly at all existing mechanisms. In short, there is no panacea, no single grand design to the provision of retirement income. Rather, there are people who receive adequate retirement income for a variety of reasons, and those who do not for an equally varied set of reasons. A useful purpose of this Forum is separating those who do from those who do not, so that we may recommend remedies for the deficiencies that become apparent, without damaging what already works so well.

II. The Present Elderly

A recent study done by the Hoover Institute indicates that the standard of living for older Americans is constantly improving:

- o The number of "poor" elderly, as defined by the government, has fallen since 1959 from 33% of the elderly population to 6% when noncash benefits are added to greatly increased retirement benefits.
- o 70% live in their own houses; and 8 out of 10 homeowners over 65 make no mortgage payments.
- o Those over 65 accounted for only 9.4% of the population, yet the Internal Revenue Service reports that they had 41.5% of all interest from savings accounts reported on personal income tax forms.

Private pension plans have contributed increasingly, of course, to the improved economic status of the aged. A recent study by the Brookings Institution found that, as of 1978:

- o Private pension plans were a significant source of income for almost 4 million couples and individuals aged 65 or over.
- o The average income received from private pension plans was \$3,150.
- o The number of retired couples and singles 65 and over receiving income from private pension plans increased 80% between 1970 and 1978 (from 1.6 million to 2.9 million retired couples and singles covered).
- o The median total income for retirees in 1978 receiving both private pensions and Social Security benefits was found to be \$11,440 for couples and \$6,680 for singles, almost double the income of retirees receiving only Social Security benefits.
- o Middle income retirees received a greater portion of their retirement

income from private pensions than did lower income retirees.

- o The retirement income of nearly everyone who received a private pension was above the official poverty line.

These are hardly the statistics of failure of our nation's retirement "system."

III. Present Coverage

The most often cited estimate of coverage by private pension plans comes from the Social Security Administration survey of 1972 households. This survey concluded that 23 million full-time workers in private wage and salary jobs -- almost half of those then employed -- were covered by a private pension plan.

Another survey, by the American Council of Life Insurance, concluded that 56% of full-time employees at the end of 1976 were covered by private pension plans.

Both surveys were conducted with a scientifically selected sample of households designed to represent the civilian noninstitutionalized population age 16 and over. Is it reasonable to include high school and college age employees in developing the coverage rates? Present public policy as set by ERISA is that employees over 25 years of age should be covered by a private pension plan after they have attained one year of continuous service with the same employer. William M. Mercer, Inc. has used the same Social Security data and adjusted for that age and service condition to develop a coverage rate of 65%. Similarly, a Louis Harris and Associates, Inc. 1979 survey for Johnson & Higgins of the adult civilian population 21 years or older reported that about 7 out of 10 employees in the private sector are covered by private plans.

IV. Where Is This Coverage?

An industry survey conducted by the U. S. Department of Labor of the private nonfarm economy in 1972 found that 65% of all establishments had expenditures for private pension plans. Private plan

coverage was higher in manufacturing industries than in nonmanufacturing (81% vs. 58%), and office workers were more likely to be covered than nonoffice workers (72% to 57%).

The Labor Department Survey has been analyzed and updated by ICF Incorporated under a contract for the Pension Benefit Guaranty Corporation. Their analysis provides an interesting profile of who is covered and where they work.

First, expanding the previous point, the percentage of workers covered by pension plans varies greatly among industries. Coverage is 80% of workers in manufacturing while only one-half of the workers in the trade and service industry, 67% of construction workers, 70% of mining workers, 75% of workers in finance, insurance and real estate businesses, and 77% of transportation workers.

Second, coverage depends greatly on the size of the establishment. The bulk of pension coverage is accounted for by large employers. Of the firms employing 500 or more workers, 94% provided pension coverage. Of the firms employing between 100 and 500 employees, 77% had pensions, while of the firms with less than 100 employees, only 40% provided pensions.

Third, coverage rises sharply with earnings: Of workers earning less than \$3 per hour, only 12% are covered; of those earning between \$3 and \$5 per hour, 55% are covered; between \$5 and \$7, 72%; between \$7 and \$9, 83%; between \$9 and \$11, 87%, and for \$11 or over, 89% are covered.

Fourth, coverage is substantially lower for part-time employees than for full-time employees.

Fifth, union status may also be a factor in pension coverage. In 1974, only 9% of union members worked in establishments without pension plans. Coverage of union workers is about twice as high as nonunion coverage.

V. What Does Coverage Mean?

The word "coverage" means different things to different people. If you are secure now in your understanding of the word, perhaps you can help us with the following distinctions.

A person receiving retirement income from a plan is surely covered. Does that include not only the original employee, now dead, but his surviving spouse under a joint and survivor form? If so, when did the survivor become covered -- when the employee died, or when the employee retired?

If we count joint annuitants while the retired employee is still alive, should we count joint annuitants protected under the qualified joint and survivor pre-retirement option?

If an employee receives a total distribution in a lump sum, do we count him as covered thereafter?

The vested employee should surely be counted -- whether he is still working for the employer or has moved on.

What about the nonvested employee who is accruing benefits?

What about the employee who has not yet satisfied the participation requirements of the plan, and hence is not yet accruing benefits, but lacks only age or service? The Social Security Administration does not count him, but the Bureau of Labor Statistics does.

Finally, what do statistics of coverage read off at a moment of time tell you about the proportion that will end up with a benefit? For example, the October 1979 survey of 6,100 households, sponsored by the President's Commission and others, finds that, of all active workers 18 years and older, 48.1% are covered, but only 25.5% of the total are vested. Then will 48% get pensions, or only 25%?

Of that difference between the 48.1% who are covered and the 25.5% who are vested, which is 22.6%, some, of course, will leave before vesting. Most, probably will reach vesting, somewhat as most people age 25 will reach 35. Of course, whether vested or not, an employee could die before retirement and make the coverage point moot.

To give you a sense of the relative magnitudes, let me suggest a hypothetical stationary model of 100 employees between ages 20 and 65. Each year some employees terminate, die, or retire, at rates that are constant from year to year, and the total decrement is exactly compensated by hirings at age 20. (With only 100 employees, of course, we must have fractional exits and entrances; if this bothers you, think of a constant population of 100,000 employees.)

Using a common mortality table, a common table of turnover rates, and a reasonable assumption as to early retirement, plus the ERISA eligibility requirements of age 25 and one year of service, and ten-year cliff vesting, I find that 52 of the 100 employees are vested, 23 are nonvested but accruing benefits, and 25 are not yet eligible. (The proportion vested is heavier than real life, of course, because this is a stationary group.) Now, how many of these particular 100 employees will receive a benefit? The answer: 85% of those who live to retirement will have a benefit. Note that this is more than the 52 who are vested plus the 23 who are accruing but nonvested, which totals only 75. Of the 15% who reach retirement without a benefit, one-third withdraws before meeting the eligibility requirements and the rest withdraw after participating but before vesting.

VI. Conclusion

What do all these figures come down to? First, a number of surveys have been cited, and they are reasonably consistent if different definitions of coverage are accounted for. It can be said, for example, that only half the work force is covered, or that 70% of those who are over 25 are covered. Second, the proportion of the present work force that will actually

get a private pension benefit is higher than the proportion now vested, or even than the proportion now included in a plan and accruing benefits, because many of those not yet eligible will ripen into vested benefit status later.

The conclusion I draw is that where we have plans the present ERISA standards already produce good results. What is needed is more plans.

Growth in coverage of firms has been dramatic over the last thirty years. Many of the firms willing and able to support pension plans already have them. Therefore, the highly desirable continued growth in coverage will depend on whether government policies support or discourage the private pension system.

Discussion

MR. WOODRUFF: I was sort of disturbed by the tone of your presentation, in part because I think you are guilty of exactly what we are criticizing others of doing. You combined in your presentation coverage figures that included both the assumption that if an employer was contributing to a plan, all employees of that company were participating, and use that data to compare against other historical data that was asking people whether they actually do participate. I think to a large extent through your presentation you are sort of back and forth, comparing apples and oranges.

I don't really disagree with your conclusions in terms of what all of these numbers mean. Whether you want to read that 50 percent of the private sector are covered by one definition of workforce or whether it is 65 percent, doesn't matter in the end in terms of where we are heading. But, in the future you should be a little more careful in making both the historical comparisons to the system. We tried in our data on the DOL and Social Security survey to make the historical comparisons on a consistent basis. That is very important.

MR. GIVENS: Tom, if you found my comments disturbing, I guess they were intended to

be. But I didn't do what you said. Let me get the record straight, and you can read the comments and see what they really were.

I said that there are many different surveys and I told you what they were. I didn't point out at the time I was telling you that we were apples and oranges. I waited until you had absorbed those, and then pointed out that we are talking about apples and oranges and showed you where the differences were.

MR. WOODRUFF: That isn't very constructive. It leads us to conclude that you can't learn anything from those numbers.

MR. GIVENS: I think you can learn something. I tried to show you what you can learn, Tom.

If you are going to put in people from 16 and on and include part-time workers, you are going to get lower percentages of a certain magnitude than if you count people 25 and over who are full time. I can show you which percentages you will come up with depending upon the year of the survey and upon your definition.

So I am encouraging you to think about looking at these several studies and

realizing that if you or anybody else says 48 percent of the people are covered and only half of those are vested is in good measure, in a growing population, smoke in the eyes. A lot of people are going to get benefits beyond those who are now vested, even beyond those who are now accrued, as this simple model tried to show you.

MR. WOODRUFF: Well, but I think --

MR. GIVENS: I gave you questions, I gave you distinctions, I gave you the sources and told you what they did, and I encourage you not to believe that we are at the end of the road, but that you know better where you are going.

MR. WOODRUFF: Well, I think that all the surveys indicate that if you look at the entire labor force, that the proportion of the labor force in the last 10 or 15 years that participates in plans, people actually in plans, has not been growing.

MR. GIVENS: I don't think it is a game, Tom. My 19-year-old daughter works part time in the summers for the security police at her college. She doesn't have a pension. I am not disturbed by that at all. She is 19 years old. I don't think she really has to be accruing a pension at this stage in life.

But the problem I think is much larger than what the pension numbers are, though I think you are missing--I hope not deliberately--a very important point. The vesting percentage hasn't much to do with it, and indeed even the number of people earning benefits today in a plan hasn't much to do in the way of telling you who is going to get a benefit. The number of people who will get a benefit pumped out of the plan is larger than those two populations.

The larger point behind it is this: The President of our company some years ago, Henry Smith, came up with what is known--around the company, at least--as Smith's Law. He was very active in the health insurance business. Before Medicare came along, when in 1948 Harry Truman made a point of urging national health insurance, Smith postulated the following political

law. The probability of a rational solution is inversely proportionate to the size of the problem. As long as less than half the people in the country were covered by health insurance no one said much of anything. But when you crossed 50 percent, people began to say there ought to be a law requiring everybody to be covered. And when you really got in danger was when you covered 75 percent of the population; and you can be sure that when we have crossed 85, we will have a national law requiring 100. That was his forecast and it came out beautifully for Medicare. We have yet to see it in national health insurance, but I think it is only the fact that his is a simpler law than politics is. But he told us, "You fellows in the pension business are going to really have a problem when you cross 50 percent coverage because from then on the pressure will increase exponentially as you cover more people." I am afraid that is the problem.

If we could agree that we had 75 or 85 percent of full time working adults getting a pension, we would probably have to give in and have compulsory pensions.

MR. WOODRUFF: I don't know if the solution is to cover more people. Maybe that is true, I don't know. But in terms of the future, I find it somewhat interesting that, in going around discussing the Interim Report with some of the employee benefit consulting firms, they seem most concerned about extending private pension coverage. I find that a little bit ironic.

MR. GIVENS: You find it ironic that they --

MR. WOODRUFF: Seem to be saying, "We're happy the way things are."

MR. GIVENS: If I'm not mistaken you also found some consultants who are urging mandatory coverage.

MODERATOR SALISBURY: Dr. Schulz.

DR. SCHULZ: There has been a lot of discussion with regard to Social Security and with regard to the changing nature of the economic roles of women on the society.

My reaction to the conference paper and parts of the comment is that there wasn't very much sensitivity to that research issue. And the way you see that played out very often, apart from the fact that most of the surveys look at full-time employment and ignore part-time employment, which is predominantly female in nature, is in terms of not paying attention to the fact that women can, and very often do, contribute economically to the total economic welfare of the family. And the 19-year-old woman may not be the most typical woman, for example, in terms of the kinds of issues we want to confront in the pension area.

So when we are talking about coverage, it seems to me that there is a very important research area which has been ignored and is ignored in the paper with regard to the extent and the need for coverage among part-time employed people, especially women.

MODERATOR SALISBURY: Mike Romig?

MR. ROMIG: I would just like to commend the speaker for his interpretation of some of the statistics that we see. In my own opinion, I think that we are suffering from static surveys in a dynamic system. As you well know, ERISA hasn't been here long enough for new vesting standards to fully play out.

When Tom Woodruff points out that the percentage of people covered under the work force has remained fairly static, that may be fine for the data, but the terms that we are talking about are changing. Perhaps that best example is the Xerox Corporation itself. Twenty-five years ago it was called, I believe, Hailoid. Now, Hailoid didn't have a pension plan, and today, 25 years later, it does have a very sufficient and a very generous pension program. For many of the small enterprises, where we have had a growth in the private sector labor force, there will be pensions in years to come. It is just a matter of priority for the employees and where they are headed. To the extent that the Commission develops a retirement policy and incentives that make firms want to move in that direction

as part of their compensation package, I think we will get there faster.

MR. PAUL: It is all very interesting, obviously, to discuss endlessly what coverage means, but the real issue is not who is covered by pension systems, but what is your probability of receiving a benefit. You enter the workforce at 25 with one year of service getting a private pension, which, together with Social Security, will provide an adequate standard of living and keep you off the poverty roles.

You play with numbers, Harrison, and talk about 100 people in a stationary population. Let's talk about the real question. The real question here is do we wish to provide an adequate level of retirement income which, together with Social Security, will keep people off the poverty roles; and, if we do, how do we choose to do it? The discussion of how many people are or are not covered by a private pension plan is interesting, but it really doesn't contribute, I don't think, to the basic policy question, which is what we need to address.

MR. GIVENS: Bob, why is it playing with numbers? I don't understand the point.

MR. PAUL: I thought you said that your group of 100 was going to be replaced as people left.

MR. GIVENS: So it is always 100 people.

MR. PAUL: Yes, but it is 85 -- not of 100 people, but 85 people who are going to be replaced all the time. It is not the same hundred people you started with.

MR. GIVENS: It is a stationary population. The same number of people are working today at age 20, 21 and so on to age 65 as will be working at those ages a hundred years from now. It is a perfectly stationary population and every year, as there are decrements, you replace them at age 20 and they walk through. So that you look at it today or look at it fifty years from now or a hundred years from now, you are seeing the same thing.

MR. PAUL: But, Harrison, how many people entered that population?

MR. GIVENS: Whatever the sum of the decrements is.

MR. PAUL: Exactly.

MR. GIVENS: It is a stationary population by definition, Bob. It is a teaching tool.

MR. PAUL: I understand.

MR. GIVENS: It isn't playing with numbers. It is teaching you something. It is teaching you that there are going to be people getting retirement benefits from that plan far more than those who are currently accruing benefits. You take any given set of a hundred people, 85 will get benefits, even though 75 are accruing benefits. That is important for you to understand.

MR. PAUL: It is not the same hundred people, Harrison.

MR. GIVENS: Understand first what I said. Of these hundred people with a hundred different names; let's not change the people. Down the road, count them when they get to retirement. Even though, at the moment you looked at them and first met these hundred people, only 52 were vested and only 23 were nonvested but accruing. Eighty-five percent of those who reach retirement from that fixed group will get a retirement benefit.

MR. PAUL: It seems to me, Harrison, the relevant point is not whether given a hundred people who are always replaced and stay in a population for a hundred years, that 85 percent of the people who enter that population will get pensions. I grant you that.

My question is for the entire economy, not for the one group of a hundred people. What is the raw probability of working forty years and getting an adequate pension which, together with Social Security, will keep you off the poverty roles? Now, if there are numbers that will demonstrate that, I would like to see them. I haven't seen them.

MODERATOR SALISBURY: Dr. Schulz.

DR. SCHULZ: In answer to the question, the Social Security Administration studies and the projections that we have for the future have indicated, in terms of the total labor force, that the proportion of the people that ultimately get a benefit is under 50 percent, not close to 85 percent, and that is a reflection of the issue that is being discussed back and forth. The people who are moving are not covered by plans; when you mix those with the people who are covered, you get a low percentage. And then what our study showed, of course, was that the people who did get the private pensions did relatively well with regard to the adequacy standard, but the people who did not have a private pension fell far below the adequacy standards that most people talk about.

MODERATOR SALISBURY: Larry Smedley?

MR. SMEDLEY: To follow up Bob Paul's comment, I think one also has to look at the level of benefit to be received.

MR. GIVENS: That is a legitimate point, Larry. The fact that a person gets a benefit doesn't mean that the benefit is adequate and it doesn't mean that 10 years of pension earned 30 years ago will buy very much. That is a perfectly legitimate point, but we didn't open up the whole subject of pensions for this little narrow discussion of who is covered.

MR. WOODRUFF: I think another point is that just because the data seems to indicate nonexpansion, it may be that the system was never intended to do that. It doesn't necessarily indicate that the private pension system should be criticized. I think the intent, in looking at these coverage numbers, is to see whether we are buying trouble by not providing for those who are not covered.

MR. COLLINS: Could I make a comment here, too, that comes off something you said? You have looked particularly at the makeup and the movement of the coverage numbers over the last 10 or 15 years. If that's the period you are focusing on and you are trying to explain to yourself why the

private pension system has not responded by increasing coverage look at the legislative climate over the last 10 or 15 years.

In my experience, employers of medium size who would have had the ability to establish a plan have walked away from it. They have done so because they say the effort and the administrative costs of complying with the law are something not profitable enough to undertake on the long-range basis. They let their employees do IRA accounts or something else of a voluntary form.

This is the area of the population of employers that you are looking to add to the base which ties in to where Harrison came out when he said, given a plan we are doing very well, but we need more of them. So if you want to explain why the system has not responded more adequately as it stands, look to see what are the factors, economic factors, that haven't responded to encouraging that kind of growth.

I know of many clients that, where there was a pattern before the legislation of doing all kinds of things on a routine basis every two years, they stopped because they wanted to sense what was going to settle in as far as legislation was concerned. And the expense of just complying absorbed what they had available to pay increased benefits. There can be controversy about that, but to a degree it exists.

MODERATOR SALISBURY: John?

MR. SHOVEN: I was just going to amplify something that has already been said about the interaction between coverage and adequacy.

It seems like it might be interesting to know what the coverage is in the final preretirement job; that is, with inflation and with defined benefit plans. If the one job which you kept long enough to vest was one which you left at age 40, then you really have very little pension rights when in fact you retire at age 65 or 70. So it might be interesting to know that the coverage is in the last job, the last preretirement job, where inflation has not

had several years or many years to erode your benefits.

MODERATOR SALISBURY: Is there any data that you are breaking out specifically on that from any of the surveys, Tom?

MR. WOODRUFF: Yes, from the Household survey.

MODERATOR SALISBURY: Paul Berger?

MR. BERGER: The question raised by Mr. Collins is, are there significant disincentives to coverage? He stated as a fact that ERISA and government regulation have prevented expansion of coverage. That may be or it may not be, and I think it is an important area of inquiry. Are there significant disincentives to expansion of coverage which are antisocial, if you will, as compared to their objectives? That, it seems to me, is an important question to be considered whenever you consider the issue of coverage.

I don't know that the Pension Commission, for example, or other studies at this time are adequately addressing the issue of disincentives.

We are now looking at export trade because we feel we need more export trade.

MR. ALLEN: A corollary of that is the issue that since ERISA has passed, over 80 percent of all new plans have been defined contribution in nature. And I think this is a point Mr. Shoven made earlier, that there ought to be a fairly significant study of the characteristics of defined contribution plans and their capabilities of addressing retirement income objectives and the degree to which they transfer investment risk and inflation risk to employees.

This is one of the things that concerns me about the Universal Private Pension Coverage that was recommended by this group of five individuals. It focuses in heavily on a defined contribution approach. I am not saying it is bad. I think it needs to be evaluated.

MODERATOR SALISBURY: John, could you comment on what assumptions were built into

the model that Tom referred to that projected static coverage into the future?

MR. VALIANTE: It is a fairly lengthy list of assumptions. I can give anyone who is interested a copy of them. I think that while coverage is an interesting question, the real question is: if you are covered will you receive a benefit? A portion of the people who are covered, won't see a benefit. The same point holds in reverse: If you are not covered, that does not necessarily imply that you won't receive benefits. So I think that in the discussion about coverage earlier all parties were correct. It is just that we were observing different aspects about what coverage does.

I think that one question you might want to address here is whether coverage per se is an objective of retirement income policy or whether it is a strategy of achieving the objective of retirement income. I would be interested in individual comments about whether we really are trying to achieve coverage per se or whether the primary one is improving retirement income using broader coverage as a way to get it.

HOW CAN A REPORTER COPE IN SUCH A COMPLEX AREA?

Kathy Doyle Gill

I am a member of the press. I am not an accountant, an actuary, or an attorney, and I think that is why I am here.

This forum represents a wonderful example of what it is like for the press to deal with this area of coverage. I will today address the EBRI report. It was written for policymakers, but I think it has an application to the press. To the extent that persons dealing with retirement policy are interested in obtaining accurate coverage of the issues, I think the EBRI report is a valuable tool.

Chapter 1 discusses the need for precise and clear definitions. I can't think of a better example of the need for that than this forum this afternoon. Imagine a reporter, who is perhaps a general reporter and not in the trade press, sitting here and listening to the discussion of coverage: Who is covered and who isn't? Who is a participant and who isn't? What is adequate and what isn't?

An understanding on the part of the press that the terms used in this area, in the retirement area, are not always clear or do not always have one meaning; or, even more important, that very precise technical terms are used which can be easily misunderstood. I think that the EBRI

report bringing this out, at least for my purposes, is very important. In an ideal world for us, and I think for all of you, we would have one set of terms and we would all know what we are talking about. But we don't.

I think any reporter covering the pension area could use Chapter 1 and the ideas behind it. It provides a clear understanding that there is more than one meaning for key terms. This approach is very valuable, should be applied to any other document or any other proposal, and testimony, that is being given.

I think Chapter 2, which organizes the issues into a framework, would be useful for the policymakers for whom the report was addressed. It is less immediately useful to a reporter, not because we shouldn't break down proposals or issues we are considering in terms of goals or financing or strategy, but simply because as a practical matter we don't have the time to do it because we are under deadlines. However, as the retirement issue becomes a more important area in the news--as it will become and is becoming already--in the 1980s, I think the use of that kind of a framework can help put the issues into perspective, especially in preparing in-depth articles and

analyses. I would predict that you will be seeing more of those over the next few years. I think the recent series in the New York Times is an example of the kind of article that is going to be appearing more and more often in the press.

If, as a reporter, I wanted to take a proposal or testimony and try to put it into a framework in order to make my coverage presumably more accurate or more complete, I would add a couple of categories. In addition to goals and strategy and financing, I would look to a category of need. It seems to me that implicit in the Commission's Interim Report and in the EBRI report is a need to consider these issues and to revamp the retirement system. I am not referring to that need, but to a process of looking at individual proposals and seeing if there is a need for them.

As a reporter, I must have anywhere from five to fifteen reports come to my desk a week. That is in addition to congressional testimony bills, and other items. There are hundreds of those that we deal with. We are often reacting to a situation as it exists, without giving adequate thought to what is going to happen 10 or 12 or 20 or 50 years from now if we enact a proposal; or, for that matter, 2 or 3 years from now. So if I were analyzing an area, I would look to the need and try to figure out if the need is real. Whether it is long-term or short-term and whether it is a need that affects the entire population or a segment of the population.

Another thing I would consider is the source of any proposal, because we have a reputation at least for looking at things with a jaundiced eye. So I would look at the source before I wrote my article. I think that the set of key questions that begin on Page 52 in Chapter 2 is an excellent tool for anybody who is trying to evaluate a proposal, and I include the press in that. It is not complete and those questions may not fit a particular proposal, but it is a good way to start. Also, it is a good indicator of how complex a particular issue can be.

A look at any policy issue should include consideration of the series of questions in Chapter 3. Again, I believe it is a good indication of the kinds of questions that ought to be raised.

The report itself is not of value for day-to-day use by the press. As a research tool, however, I think it is a very good piece and I would recommend it to any reporter in the area.

One of the difficulties the press finds, including press, covering a subject in a news magazine or a trade journal, is that you have to have one reporter who covers labor news, one who covers taxes, one who covers financing and economics. They each approach a story in the pension area with that point of view in mind. They seldom see the whole. That is another reason that I think the report has merit for us.

I would say that the bottom line for all of this is that any person in the press needs to use a number of resources in order to do an adequate job. I am not sure that we are doing that job now just because it is such a massive area to cover and, as we know, very complex.

In doing a story we would look to several sources and I would think that the EBRI Issue Report would certainly be a good source to use.

FORUM DISCUSSION: Major Issues

MR. LINGUA: I think the EBRI report is excellent. I wonder why, however, it did not more fully deal with the relationship between systems and productivity; not just industrial productivity, but the productivity between two people. If convincing research could be done which would bring this out more clearly to all the people, this vital relationship, I think that is the key to the whole thing.

I agree with Mr. Ross that the expectations that have been created, very pervasive expectations, for retirement income which is significantly above the poverty level have grown greatly and are not going to go away. People can doubt whether much of this can or should come from income transfer mechanisms, and well they should.

But, I think some may have given up a little bit on the potential for increasing productivity in this country. Mr. Ross said since 1972 it has been very tough to make growth gains and we have to settle--as I inferred from what you said--for a lesser rate of growth. We all know the conventional reasons why: lack of cheap energy, scarce renewable resources, all of those things. But isn't the real answer that we have to restructure the Gross National Product in a very different way? Let me suggest that some

of the things that we worry about every third year, as we find out later we should have been worrying about other things. Go back to the push for early retirement which came out of, I think, the false premise in the 1960s that there are great improvements in technology, the computer, in the health care field and nuclear power and that it was all going to be so easy that we had better work on ways to get people to retire sooner.

I am just suggesting that we often are worried about the wrong thing; we are reacting too much to what has been happening lately. By the year 2000, in a very different kind of economy, we could be satisfying legitimate retirement income expectations that might even be higher than they are now, but they should be related the work that people have done.

MODERATOR SALISBURY: Ken Keene?

MR. KEENE: George's 30 years reminded me of another 30-year comparison. Today we are mindful about the very high rates of inflation in this country. Thirty years ago long-term interest rates were about 3 percent compared to 11 percent today. Things do change and that is just a 30-year period of time. Hopefully, it will go back down that way at some point.

On the matter of mandatory private pensions, Johnson and Higgins commissioned a survey approximately two years ago which had interesting responses. Employees were asked, "What do you think about providing private pensions which provided minimum levels of benefits to supplement Social Security?" By a margin of 80 percent to 16 percent, employees thought that would be a great idea. Business leaders were asked the same questions and, as you can imagine, their response was a little bit different. They said by a margin of two to one that they were very much opposed to mandatory pensions. The field work for this was done in August of 1978. Since that time we have had two additional years of rather heavy inflation and are now in a recession. If you were to take the same survey today you would probably find that employees by an even larger margin would favor mandatory pensions, and employers by an even larger margin would be opposed.

We took the view that the way to get expanded coverage in a private sector was to come up with extra tax deductions and tax credits. In this country when employees are asked to contribute to a pension plan, they have to pay for it and it is before tax income. Going back again to the surveys, the tax incentives might be sold to employees because the surveys basically say that the employees would like to help. Now, there is a large difference, of course, in answering a survey as a theoretical exercise and actually getting people to act. But, leaving that aside, it does look as though the employees would like to set aside pre-tax dollars. In my own view it would be nice to go the voluntary route with these additional incentives, but if that proves politically impossible, then perhaps the idea of a mandatory approach might be the next solution. As Mr. Ross pointed out, the byproduct of that could be the salvation of the Social Security System, the long-range salvation.

MODERATOR SALISBURY: Roy?

DR. SCHOTLAND: Mr. Ross mentioned the low savings rate which is a characterization, I think, that certainly I and the others would share. I noticed in the

President's Pension Commission paper on replacement ratios that it is assumed that at \$50,000 gross income, savings runs at 15 percent of disposable, which I think Mr. Schmitt or somebody else mentioned earlier.

I wondered if it would be useful to hear a little bit from people who might know what information we do have about actual savings rates.

MODERATOR SALISBURY: John, you mentioned another SRI data base. Do you know anything about what it shows or what its source is?

MR. SHOVEN: It is a survey of about 5,000 households on the use of financial services. It originally was designed for paying clients only. It is a little hard to get this out into public information. Part of the survey deals with the use of brokerage services, use of banks and credit unions and so forth. It does have asset and savings information and does have pension information. I have not managed yet to negotiate this survey out of them, but we are in the process of doing that. I think they have roughly 50 clients who pay somewhere on the order of \$20,000 apiece to get access to this, so it is hard for us academics to get it for less or nothing.

DR. SCHOTLAND: Since I raised the question and there doesn't seem to be a thunder of answers, it might be that nobody here is aware of the Japanese household surveys which are taken every five years. If I remember correctly, a smaller survey is taken every year. They are published in English as well as in Japanese. It is extraordinary how far behind we are. We keep talking about savings rates of Japan, Germany and England and so forth, but the quality of information the Japanese have is mind bending.

MR. SHOVEN: Also, almost all of our surveys tend to be a static snapshot. People follow a life cycle. Old people dissaving, but they saved when they were younger. We don't have very many of these longitudinal studies.

MR. WOODRUFF: I guess some of my point was that one of the most useful recommendations that EBRI and the Pension Commission could make would be that the government get away from these snapshots and initiate the Japanese survey approach. I don't know why the Joint Economic Committee hasn't gotten into this thing. At least, to the best of my knowledge they haven't. The government probably is the only one that could do such an ongoing survey.

MODERATOR SALISBURY: Jim?

MR. SCHULZ: I think we ought to emphasize that with respect to retirement age there are many contradictions within the society with regard to it. People don't understand and have unrealistic expectations because society and its institutions have created that situation. We have created pension systems that allow people to retire at 62. That is the least liberal of the systems. Most of the systems allow people to retire at 50 and 55, and the public employees at even earlier ages. And, in the military at even earlier ages. So there is a great deal of difference from neighbor to neighbor when they look around in terms of what the opportunities are. But if you look across a broad spectrum of people, you would see that the incentive was created to encourage people to leave at an earlier age. And that is where that expectation, I think in part, comes from.

Regarding productivity, there doesn't seem to be much evidence that workers like working, and part of that is the quality of the work place. Many workers want to get out early because of health. They may not die at earlier ages, but there is a lot of evidence that indicates rising instances of chronic disability and not feeling very well. When given the opportunity workers get out. If you are going to encourage workers to stay in, then you have to confront the work quality issue.

Finally, the point is that in terms of the conference paper and in terms of what other people have been saying, you don't get much documentation of this institutional environment in which pensions and early retirement and pension age takes

place. I know the literature well and I have never seen it documented very well. Yet the talk about raising the retirement age in an economic and macroeconomic environment where you have 6 to 8 percent of the labor force unemployed, really creates a lot of problems in terms of the validity of the retirement decision research and analysis.

Mr. Ross' number one consensus, is a non-consensus. We haven't sharpened the issue for workers. We have a spear behind them and we are sticking them in the back side getting them out of the labor force today. This issue has to be confronted in the literature and in policy discussions. In the past we have tended to slide away from it.

MODERATOR SALISBURY: Ken Keene?

MR. KEENE: From the limited evidence so far available since the mandatory retirement amendments have passed, it would seem that the retirement age is reversing itself and people are retiring a little bit later on the average. This may have come from several things, one being the fact that if you have nonindexed private pensions, some people are going to fear going on to retirement.

But there is the element that there are some people, at least, that like to work beyond what has been considered the normal retirement age.

MR. COLLINS: My private statistics bear that out, and we are very surprised. We have a fairly stable work force. We have had a pattern of retirement over a number of years which has been fairly predictable under what we consider a liberal pension plan in terms of early retirement choices available to the employee. It does not carry a cost of living index rider on it, but the pattern of cost of living adjustments have been fairly well in place over the last five or ten years. The work force knows this. In spite of that, once ADEA came into force a much larger number of workers than we had originally estimated, have continued right on working and have said, "Just take your pension and you know where you can put it."

MR. SMEDLEY: What is the average age of retirement?

MR. COLLINS: It has been between 58 and 59 by choice.

MR. SCHULZ: I might just point out that the BNA Pension Reporter has been very good about reporting all the studies that have been done. There have been many surveys of businesses since ADEA and every one has reported very little change in terms of retirement policy. So even if you see the change, as the gentleman correctly points out, a part of it is an abnormally high rate of inflation which we would expect to influence it. It is a researchable kind of question. Go to your employees or other employees that are staying on and find out how many of them are staying on because they enjoy working and how many of them are staying on because they are afraid to leave because of the uncertainty being produced by the current high rates of inflation and the relatively small number of companies that are adjusting for that inflation.

MR. COLLINS: I just couldn't say on that. As I say, this is rather private data. It has been shared with me because I am in tax and we deal with the employee relations people. I doubt that they have ever made a formal survey of "Why are you staying on" sort of thing. The law doesn't really give them a need to do that.

MODERATOR SALISBURY: Kathy?

MS. GILL: If I could capsule some of the surveys that we have covered, I would say that there is mild surprise on the part of industry at the number of people who are remaining on the job past normal retirement age. If you separate the white collar jobs from the blue collar jobs, you find that in the assembly line situation, where there is a good early retirement program with some adjustment for inflation, that the early retirement age seems to be remaining stable. People are still retiring and inflation hasn't frightened them off. But if you look at the white collar sector, job enrichment and inflation and other issues seems to indicate

that people are staying on the job longer and not retiring. By longer, I mean past age 65 in some cases.

MODERATOR SALISBURY: Yes, Mary.

DR. HARPER: While we are speaking of surveys, I would just like to mention one that the National Institute for Mental Health has been making in relationship to stress of the executive in relationship to retirement. It has indicated that there are high rates of retirement associated with stress and conflicts and values in the job.

Even though I am from the National Institute for Mental Health, I am on leave to the White House Conference on Aging, and I wanted to ask the panelists, what do you see for the elderly, the persons already retired, besides the traditional Social Security and the second career?

MR. COLLINS: One of the interesting questions we have been focusing on involves employees leaving employers. I think there is another question in a macro sense of people leaving the work force, and certainly the treatment of people receiving Social Security benefits who choose to go back to work obviously has some bearing on that. We have an opportunity not to view retirement in perhaps a less traditional sense, we try to change some of those expectations. We might encourage second careers, third careers, or job corps for retired people.

MR. ROSS: One institutional change which might help the existing retired would be the reverse annuity mortgage which has been instituted in England to some extent.

A number of the elderly groups always advocate getting rid of the retirement earnings limitation in Social Security. How many people would work if they could keep the Social Security, I don't know. Interestingly, if you had benefits subject to tax, you get a trade-off on revenue, your Social Security System probably wouldn't cost anymore if you let the elderly work, but then put the benefits in the tax stream. But, my guess is you wouldn't get that package put together.

MODERATOR SALISBURY: As we move towards the end of the afternoon, are there any closing comments or points that anyone would like to raise?

MR. HARTMAN: I want to ask Stan Ross: You started off by talking about the need to present the public with the real costs of early retirement and the consequences of high expectations about retirement. Later you seemed to favor a mandatory minimum pension plan by the government. Isn't one of the problems in this area that people don't really realize that there is a social cost to these wonderful retirement programs and don't we, by hiding things in the form of mandatory programs, worsen the situation? If so, isn't a sort of proper course for the future to leave a lot more to individuals, but to make it very clear to them that if they want to retire early, then they are going to have to postpone consumption their whole life? Looking toward the future, shouldn't we be looking toward individual programs that would also allow for a lot of diversity? Some people don't want to retire early, some people do. Shouldn't we allow people to choose how they live their lives?

MR. ROSS: I guess I basically agree with you. I think what it turns on is ultimately political judgment. Do you think that society will ultimately leave somebody alone who hasn't saved? I mean, if you started with a premise that most people left to their own resource will not, despite having all the information, put away enough acorns for a rainy day?

MR. HARTMAN: I shouldn't be the one who is saying this, but that is why we have Social Security.

MR. ROSS: Exactly. And that is why it has been ever-expanding and probably will be in some ways, because it is there now and it does provide a mechanism for taking care of some real needs. The question is whether you can break out of that.

MR. HARTMAN: I am afraid that the public really never has been told in any clear way that you set this thing up to be a minimally adequate social protection for

retirement and that is it. After that, you are on your own.

MR. ROSS: It is a base amount, but I would say it goes beyond being minimally adequate today. It is meant to provide a base, and for the average worker maybe most of what they need.

MODERATOR SALISBURY: I thank you all for joining us today.

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Employee Benefit Research Institute

The Employee Benefit Research Institute (EBRI) was established in 1978 to contribute to the development of effective and responsible public policy in the field of employee benefits. EBRI is a tax exempt trade association with the overall goal of promoting the development of soundly conceived private and public employee benefit plans.

A non-profit organization, EBRI sponsors and conducts research in the employee benefit field. It publishes research results and other information on employee benefits, and sponsors lectures, forums, and workshops. By acting as an information clearinghouse, EBRI helps to provide private and public sector decision-makers with useful information.

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