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A
Statement On

"The Current Health and Future Prospects for Defined Benefit Pension Plans"

By
*Dallas L. Salisbury**

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**The views in this statement are those of the author and do not necessarily reflect the views of the Employee Benefit Research Institute, its Trustees, members, or other staff.*

EMPLOYEE BENEFIT RESEARCH INSTITUTE
1920 N Street, NW/Suite 520/Washington, DC 20036/Telephone (202) 659-0670

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Summary

The United States has successfully built a balanced retirement income system. That system has dramatically improved the economic well-being of the nation's elderly.

Private employer sponsored defined benefit pensions and Social Security are unique parts of that system due to their emphasis on:

- the orderly retirement of older workers;
- provision of lifetime benefits; and
- preplanned wealth accumulation over the worker's full career.

All available data indicates that the private employer sponsored pension components of the system are in strong condition. When ERISA was passed in 1974 there were approximately 425,000 plans. By late 1982 there were 745,000 plans. This is an increase of 75 percent over eight years as compared to 219 percent in the eight years before ERISA.

Of this universe of plans 192,000 are defined benefit and 545,000 are defined contribution. Pre-ERISA, approximately 55 percent of net new plans each year were defined benefit; post-ERISA, the annual average for defined benefit plans dropped to 24.2 percent.

o A defined benefit plan provides a clearly stated retirement benefit, with a fluctuating annual contribution, and the risk of poor investment performance resting on the employer sponsor.

o A defined contribution plan provides no clearly stated retirement benefit; a defined annual contribution, and the risk of poor investment performance generally rests with the employee.

Employer pensions covered 73.3 percent of full-time non-agricultural employees between 25-64 who had been with their employer for more than one year in 1979. Just over 68 percent of these persons were active participants, with 69 percent in defined benefit pension plans and 31 percent in defined contribution pension plans. With the aging of the babyboom generation, and the creation of over 277,000 net new plans over the past five years, it is likely that coverage and participation is growing.

Employer pensions provided benefits to 450,000 retirees in 1950 and 8.7 million retirees in 1979, which represents 42 percent of all family units age 65-69. EBRI and government research indicates receipt by over 65 percent of these households by 1995. These numbers understate the value of pensions since they do not include lump sum distributions from defined contribution plans.

The employer sponsored pension system is able to provide benefits because it is financially strong. Assets have grown from $50 million in 1950 to $624 billion in late 1982. EBRI estimates that $451 billion (72.3 percent) was in defined benefit pensions plans. Well over half of these plans are over 100 percent funded. Each year funded strength has been growing.

These advance funded programs make a significant contribuiton to national savings. Pension reserves represented 12.7 percent of total savings in 1950 and 30.9 percent in 1980. Research indicates that each dollar contributed to a pension represents a net addition to savings of between 35 cents and 85 cents, indicating a net addition to savings in 1980 of between $20 billion and $48 billion that would not have occurred in the absence of pensions.

These advance funded programs also are economically efficient with regard to the federal budget. Analysts have frequently focused upon the "tax expenditure" attributable to pensions. If persons insist on using this questionable concept they should also focus upon "outlay equivalents," the direct budget outlay required to accomplish the same results. For employer sponsored pensions the "gain" for the taxpayer was a total of $63 billion for FY 82, 83 and 84.

Private employer sponsored pensions are strong. Defined benefit plans are most prominent, providing known benefits with little employee risk. Past legislative change has encouraged development of defined contribution plans and discouraged defined benefit plans. This has largely resulted because changes in the law that treat all plans the same <u>actually create bias</u>. For example, TEFRA established "top heavy" provisions for <u>all</u> plans with a significant speedup in vesting. Faster vesting in defined contribution plans can produce value. In defined benefit plans, however, research indicates that it produces little benefit value but significantly higher expense.

Economic and legislative uncertainty make employers wary of taking on indeterminable obligations. Of all pension programs, defined benefit plans are the most indeterminable in terms of employer cost because the employer bears the risk of poor investment performance and retrospective legislative changes. Consider, for example, experience with Social Security actual costs versus projected costs.

The full range of legislative proposals now under consideration that would affect pensions act as impediments to employer pension plan growth in general, and defined benefit plan growth in particular. Proposed changes in minimum standards, tax treatment, the plan termination guaranty program and Social Security join together to have an adverse impact. Ultimately, it is the nations retirees who will feel these adverse effects.

The growth of IRAs also promises to complicate the environment as decisions are forced on employer versus individual provision.

As the Congress considers changes in retirement income programs, it must act with great care if the nation is to avoid unintended but irreparable harm.

- *The differences between what can be achieved with defined benefit and defined contribution plans must be understood.*
- *The differences between the stability of employer provision and the risks of individual provision must be understood.*
- *The differences in the effects of policy changes on different types of plans, and the relative prospects of their continuation, given changes, must be understood.*

Conclusion

The Employee Benefit Research Institute stands ready to be of assistance in evaluating the consequences of proposed policy changes. Additionally, we will work to expand knowledge of employee benefit programs through projects such as the census bureau survey.

It has been a pleasure to appear before you today and to be a part of this discussion of the American retirement income system.

This Committee takes a giant step forward by beginning discussion today of our multi-faceted retirement system's strengths, the implications of policy change on each component, and the retirement income provision implications of "non-neutral" policies which lead to fewer defined benefit pension plans.

STATEMENT

Introduction

Mr. Chairman. It is a pleasure to appear before you today to review the status of the American retirement income system. This nation has been successful in building a balanced system that has dramatically improved the economic well-being of the nation's elderly. If nurtured, the system will continue to do so in the future.

I appear today in my capacity as Executive Director of the Employee Benefit Research Institute, a non-profit, non-partisan public policy research organization founded in 1978. EBRI sponsors research and educational programs to provide a sound basis for legislative and regulatory decisions. EBRI as an institution does not take positions on public policy issues. Prior to joining EBRI I served as Assistant Executive Director of Policy at the Pension Benefit Guaranty Corporation and Assistant Administrator for Policy, Planning and Research at the U.S. Department of Labor's Pension and Welfare Benefit Program.

THE RETIREMENT INCOME SYSTEM 1/

Social Security has grown to be the primary source of retirement income in this nation, having become a mature program which provides benefits to over 92 percent of retiree households. Private employer sponsored defined benefit pensions and Social Security are unique parts of the retirement income system due to their emphasis on:

- *the orderly retirement of workers;*
- *provision of lifetime benefits to enhance economic dignity; and*
- *preplanned wealth accumulation over the workers' full careers*

All available data indicates that the private employer sponsored pension components of the system are in sound financial health, judged against the laws in effect today and the criteria of meeting benefit promises.

Other components of the system that add to economic security of the elderly include:

- *life insurance and health insurance;*
- *Medicare, Medicaid and Supplemental Security Income;*
- *personal savings and home equity;*
- *senior citizens discounts, in-kind benefits and food stamps; and*
- *family transfers and income from employment*

Over 95 percent of all retirees receive economic value from these sources, making their inclusion in analyses of retirement well-being essential.

The Private Employer Sponsored Pension Universe

The first non-governmental private defined benefit pension program in the United States was established in 1875 by the American Express Company. When the Employee Retirement Income Security Act of 1974, popularly known as ERISA, was passed there were approximately 425,000 employer sponsored pension plans. By September 30, 1982, Internal Revenue Service records indicate that approximately 745,000 employer plans were in operation (Table 1). This represents a 75 percent increase in the number of pension plans sponsored by employers during this eight year period, the slowest annual growth rate in history (Table 2). During the prior eight *year period (1966-1974), the total number of plans increased by 219 percent. Looking behind this number may provide an understanding of the influence of ERISA.*

The universe of approximately 745,000 private employer-sponsored plans is made up of approximately 192,000 defined benefit plans and over 545,000 defined contribution plans (Table 3). Defined benefit plans are 98 percent single employer and 2 percent multiemployer. Employer sponsored defined contribution plans are 99.9 percent single employer and .1 percent multiemployer. The multiemployer defined benefit plan universe consists of approximately 2,600 plans.

What all defined benefit and all defined contribution plans do, and the risks they create, are distinctly different (this applies to employer sponsored plans as well as Individual Retirement Accounts and plans for the self-employed).

- *The defined benefit plan, provides a clearly stated retirement <u>benefit</u> which can be adjusted for inflation.*
- *The defined contribution plan, provides a clearly stated retirement plan <u>contribution</u>.*
- *In the defined benefit plan, the contribution is aggregated, is worked out over time, and is generally indeterminable before retirement for a specific employee.*
- *In the defined contribution plan, the contribution is made on a per employee basis and is allocated to individual accounts.*
- *In the defined benefit plan, the risk of poor investment performance is borne by the employer.*

- *In the defined contribution plan, the risk of poor investment performance is borne by the individual.*
- *A defined benefit plan can be both prospective and retrospective in order to accommodate older workers.*
- *A defined contribution plan can be prospective only, necessitating a long period of contributions.*

Each type of employer pension program has been in existence since the early 1900's. The largest defined contribution program was created in 1918 for educators, the Teachers Insurance and Annuity Association (TIAA). This money purchase type plan provides for specific contributions which are used to purchase a pension annuity upon retirement.

Most defined contribution programs are of the profit sharing type, thus contributions fluctuate with profitability of the firm. During the 1970's and 1980's there has also been growth of tax sheltered annuities, Keogh (HR-10) plans for the self-employed, target benefit plans, individual retirement accounts (IRAs), thrift-savings plans, employee stock ownership plans (ESOPs), and salary reduction or 401(k) plans.

Before the passage of ERISA 27 percent of all employer sponsored pension plans were defined benefit, with 73 percent of all employer pension plan participants. The period since 1974 has been marked by inconsistency and instability.

The defined benefit plan proportion of all net new employer plans created between 1956 and 1974 was approximately 55 percent. For the *period 1975 to 1982, the defined benefit proportion averaged 24.2 percent. This is a 56 percent reduction in the historical proportion of net new plans that are defined benefit.*

Pension Plan Growth by Type of Plan 1/

Years	*Percent Defined Benefit*	*Percent Defined Contribution*
1956-1966	*54.4*	*45.6*
1967-1974	*55.3*	*44.7*
1975-1982	*24.2*	*75.8*
1979-1982	*28.5*	*71.5*
1982	*32.5*	*67.5*

Source: EBRI Tabulation from Table 4
1/ 1982 is for 1/1/82

In 1976, the number of defined benefit plans actually dropped, with 100 percent of net new plans being defined contribution (Tables 4 and 5).

In 1977, only eight percent of net new plans were defined benefit; in 1978, 10 percent; in 1980, 26 percent; and in 1981, 28 percent; during the first nine months of 1982, 40 percent.

The unsettling nature of the major legislative change represented by ERISA is clearly shown by these numbers, with the rate of net new employer plan creations dropping to an annual average rate of less than eight percent, about one-half the historical pre-1975 rate. In the presence of ERISA, however, the size of the private pension universe has grown significantly.

ERISA had the clear and immediate result of retarding the development of employer sponsored pensions. That result was most severe for defined benefit pension plans. In the absence of major policy and economic change, this trend can be expected to continue.

Four points will significantly influence development of the pension system in the future: First, the restructuring of our economy now taking place; second, proposed changes in the plan termination insurance programs; third, proposed changes in the tax treatment of pensions and the minimum standards they must meet for tax qualification; and fourth, the development of Individual Retirement Accounts. Before turning to these issues, however, further exploration of the current status of pensions is desirable.

Plan Coverage and Benefit Receipt 2/

The most recent data available on the scope of pensions was collected in 1979 by the U.S. Bureau of the Census. The survey indicated that 54.8 percent of all civilian workers were covered by a pension, i.e., they would begin earning credit toward a benefit if they remained with their employer. Just under 46 percent were participants in plans, i.e., they were earning credit toward a benefit. This compares to 9.4 percent participating in 1940, 15.5 percent in 1950, and 30.6 percent in 1960.

Pensions are not a first priority for new businesses. Pensions, by design, tie benefits to years of service and level of earnings, and recognize that it takes a career to earn meaningful pension benefits. Defined benefit plans can, however, provide for past service credit to produce higher benefits if needed.

Therefore, in recognition of job turnover rates at young ages, among part-time workers, and among casual labor, plans have been designed to cover older, stable, full-time workers. In 1979, for example, 49.7 million of 95.4 million workers were civilian, non-agricultural employees ages 25-64 working more than 1,000 hours per year and with their current employer more than one year.

For pension purposes this can be viewed as the "relevant" workforce: those who could expect to earn a meaningful benefit. Of these workers, 73.3 percent were covered in 1979 and 68.3 percent were active participants in employer sponsored plans. Over 55 percent of participants had a vested right to a benefit.

This means that in 1979, 26.7 percent of the relevant workforce did not have employer pension coverage. The decision of an employer to sponsor a pension plan is related to a number of factors. First, a firm adds benefits only as it ages and grows, with a pension being a late addition. Just over 26 percent of employees in firms of under 25 employees were covered in 1979 as compared to over 91 percent of employees in firms with more than 1,000 employees. The limited data available indicates that firms start a plan as soon as they can afford to, with progressive tax rates making it more advantageous as firms grow.

Second, industry plays a major role in the level of coverage due to (1) plan creation decisions and (2) employee turnover rates. For example, manufacturing, transportation and mining are generally large, have high coverage rates (80-90 percent), and low turnover (15-18 percent). Trade construction enterprises vary in size, have lower coverage rates (55-60 percent), and have high turnover (28-42 percent). Some industries such as finance have shown significant increases in coverage as firms have aged and grown.

Third, union status is also correlated to pension coverage, with over 88.2 percent of union members in the relevant workforce covered as compared to 60 percent of their nonunion counterparts.

There are also employee characteristics related to pension coverage. Low earners, for example, are least likely to have employer pensions. There are several reasons. First, many low earners are part-time workers. Second, many low earners work in small firms where plan sponsorship is least likely. Third, low earners are frequently young and will gain pension coverage as they age. Fourth, low wage earners are generally concerned with current consumption and know that Social Security will provide high final wage replacement.

The noncovered population is relatively concentrated. Characteristics indicate, however, that policy actions would have to be carefully crafted to increase coverage beyond what current plans and demographics will produce. Of relevant workforce respondents to the 1979 CPS:

- 19.2 percent were working for firms with fewer than 25 employees, yet they represented 48 percent of noncovered workers;
- firms with less than 100 workers accounted for 31 percent of jobs but 67.1 percent of noncovered jobs;
- trade and service employees generate 38.7 percent of jobs, but they account for 58.4 percent of all noncovered employment; and
- 27 percent had earnings below $10,000; however, this group represents 44.1 percent of all noncovered workers.

Of all plan participants, approximately 53 percent (28 million) are in single employer defined benefit plans and 16 percent (8.5 million) are in multiemployer defined benefit plans. 30 percent (15.8 million) are in single employer defined contribution plans and one percent (.5 million) in multiemployer defined contribution plans.

With the aging of the baby-boom generation, and the creation of over 277,000 new employer sponsored pension plans over the past five years, it is likely that coverage levels are increasing. To determine the facts on current coverage and participation, EBRI has committed several hundred thousand dollars and contracted with the U.S. Census Bureau to re-survey the nation in May, 1983. This survey will provide a clear picture of the employer pension universe as of early 1983. This will allow a comparison to the system of 1979, as well as serving as an evaluation base for assessing system adjustments in response to TEFRA.

The receipt of pension income is also increasing as the system matures. During 1950, 450,000 retirees received employer pension checks as beneficiaries. During 1979 there were 8.7 million beneficiaries. This represents growth from 13 percent of those receiving Social Security also receiving private pension plan income to over 30 percent, representing over 42 percent of all family units age 65-69. Research conducted by the government and EBRI indicates that the number of beneficiaries is growing each year, with over 65 percent of family units age 65-69 expected to receive private pension benefits in addition to Social Security by 1995. It should be noted, since the government does not effectively count dollars taken from plans in the form of lump-sum distributions, these receipt rates are probably low. And, it should be remembered that only defined benefit plans allow post-retirement inflation adjustments (provided on an ad hoc basis by 85 percent of sponsors).

Judged against a standard of delivering meaningful benefits to a growing number of America's elderly, private employer sponsored retirement income programs are playing a major role and represent a major success.

While ERISA and other regulatory actions may have slowed pension growth, the system is none the less strong and growing.

Plan Financial Status 3/

The employer sponsored private pension system is also financially strong. It has shown significant historical asset growth due to: (1) the advance funded nature of defined benefit plans, and (2) the "fully" funded nature of defined contribution plans.

Private employer sponsored pensions held $50 million in assets in 1920, $5.5 billion in 1950, and $42 billion in 1961. Securities and Exchange Commission data placed private employer plan assets at the end of 1981 at $520.2 billion. While data for 1982 is not available, EBRI estimates that private employer plan assets exceeded $624 billion at year-end. EBRI estimates that $396 billion (63.7 percent) was in single employer defined benefit plans, $55.1 billion (8.6 percent) in multiemployer defined benefit plans, and $173 billion (27.7 percent) in employer sponsored defined contribution plans (Table 6). Both the Securities and Exchange Commission and the ERISA agencies have stopped developing and publishing statistics on plan assets. EBRI encourages the Committee to find a means to rectify this situation.

The benefit security of defined benefit pension plans is a function of the relationship of asset levels to the benefits promised. By this measure the aggregate of plans are in good health, but there is variance by plan size and type.

- *Large Single-Employer Plans are securely funded. These plans, with over 1,000 participants each, account for over 78 percent of all defined benefit plan participants. On average, this universe of plans was 81 percent funded in 1981, as compared to*

65 percent in 1976. Over 50 percent of large plans were 100 percent funded in 1977, and only 5 percent of large plans had unfunded vested liabilities that exceeded 30 percent of the sponsors' net worth in 1981. Continuing significant plan asset growth justifies an assumption that the situation is even better today. While causation cannot be proven, as plans have matured, their funding has improved.

- *Small Single-Employer Plans are even more secure based upon the most recent available studies. Over 65 percent of small plans were 100 percent funded and 81 percent of plans were 75 percent or more funded.*
- *Multiemployer Plans were generally not as well funded in 1978 as single-employer plans, even though a significant portion were over 75 percent funded. Between 28 and 48 percent were fully funded, between 48 and 70 percent were 75 percent or more funded, and between 80 and 90 percent of these plans were 50 percent or more funded.*

Experience of the PBGC indicates that plans are even better funded on a termination basis than these numbers indicate.

Pensions and the Economy

A question that must be asked in evaluating the strength of the pension system is the effective economic value received by the nation at large from the employer sponsored pension system. One indicator is particularly worth noting: advance funded private pensions provide a significant contribution to national savings. As a proportion of total national savings, pension reserves represented 12.7 percent in 1950, 20.3 percent in 1970, and 30.9 percent in 1980. Research indicates that each *dollar contributed to a pension represents a net addition to savings of between 35 cents and 85 cents. This means a savings increase of $1.35 to $1.85 for each dollar contributed, indicating additional savings of between $20 billion and $48 billion in 1980 beyond what would have occurred in the absence of pensions. 4/ Further, if dollars contributed to pensions were instead contributed to Social Security, there would have been an equivalent reduction in national savings.*

Employer pensions also reduce demands upon Social Security and the government. The Budget and Reconciliation Act of 1974 required that the budget contain estimates of "tax subsidies" or "tax expenditures." 5/ These "expenditures" are estimates of the revenue that would be raised if favorable tax treatment were removed and no behavioral change occurred. This last assumption, and the calculation techniques provide reason to question the entire concept. A government decision has been made, however, to base policy decisions upon them. This decision has been made inspite of the fact that the budget notes: "The tax subsidy estimates are not estimates of the increase in Federal receipts that would accompany the repeal of the special tax provisions." The FY 1983 and FY 1984 budgets also contained estimates of "outlay equivalents." This is an estimate of the direct budget outlay that would be required to accomplish the same results as the programs being given special tax treatment. Again, there is reason to question numeric validity. Because credence is placed in these numbers, however, they are interesting to compare.

To the extent that the "outlay equivalent" exceeds the "tax expenditure," one might argue that all taxpayers are benefiting, not just those who take advantage of the special tax treatment (those receiving pension benefits). Current national policy clearly aims to provide people with adequate retirement incomes, indicating that direct budget outlays would be made in the absence of private pensions.

The FY 1984 budget indicates, assuming that the government provided benefits of equal value, that this would have increased FY 82 outlays by $65.8 billion, FY 83 outlays by $70 billion, and FY 84 outlays by $78.8 billion: a total of $214.6 billion over these three fiscal years.

Comparing the "outlay equivalents" to the "tax expenditures", the FY 1984 budget indicates that the existence of private employer sponsored pensions provided the taxpayer a net savings of $63 billion, while simultaneously increasing net private savings by between $52 billion and $126 billion over these three fiscal years. One might label this difference between "tax expenditures" and "outlay equivalents" as an "efficiency gain" for the nation's taxpayers. This would mean a 41 percent efficiency gain from retirement income programs as compared to a 14 percent gain on the aggregate of all other "tax expenditures" when measured against "outlays equivalents" (Table 7 and 8). Additionally, while employer pensions represent the greatest "revenue loss" and the greatest "outlay savings", the Treasury Department reports that nearly 75 percent of the benefit goes to taxpayers earning less that $50,000 per year. This compares, for example, to 5.9 percent of taxpayers under $50,000 who benefit from the exclusion from tax of interest on state and local bonds.

Private retirement income programs make a significant positive contribution to holding down government outlays; through increased savings *they strengthen the economy; and through the payment of benefits they increase economic well being.*

Plan Benefit Levels 6/

Private employer sponsored defined benefit pension plans, like Social Security, have a clearly specified benefit formula tied to years of service and level of earnings. The ability to determine the benefit to be received helps individuals plan for retirement. The employee can annually review the income that can be expected in retirement by estimating expected salary and the years of service expected under the present plan. The employee can look forward to possible inflation protection through post-retirement adjustments. The employer can also use the plan to manage the size of the workforce in troubled times.

Employers have indicated recognition of these defined benefit plan values through the creation and maintenance of defined benefit plans. Companies such as Sears accepted the value of benefit certainty in the mid-70's after profit sharing assets dropped dramatically with a dramatic drop in the price of Sears stock. The defined benefit plan was essential. It provided the benefit certainty needed by employees to allow retirement.

Repeatedly, the federal government and private employers have accommodated organizational restructuring and economic change by providing retirement incentives through defined benefit plans. And, the military holds that the defined benefit plan is essential to maintenance of a volunteer army.

Employer sponsored defined benefit pension plans may be a crucial instrument for this nation in making the economic and industrial transitions now in progress.

Defined benefit plans have been designed in different ways to meet benefit delivery objectives. Hourly (unit credit) plans define benefits by multiplying a given dollar value times the employee's years of service. This produces a benefit that is not directly related to employee earnings (Table 9). Salaried plans define benefits as a percentage of earnings. This produces a benefit that varies with income level (Table 10).

The Pension Benefit Guaranty Corporation (PBGC) now guarantees benefits upon plan termination of up to approximately $20,000, providing full benefit security to the vast majority of workers.

As noted, however, building a right to pension plan benefits takes time. The effectiveness of pensions can only be judged fairly by what they provide in cases where there is a substantial period of employment with the plan sponsor. The lower an individual's income, the truer this becomes. For this reason, the age at which an employee begins participation in a defined benefit plan is less meaningful than some believe, and a short vesting requirement may not be a guarantee of "meaningful" benefit provision. 7/

For example, a 1980 EBRI study of an IRS proposal for three year vesting indicated that 62 percent of those departing with less than 10 years service would have accumulated vested benefits with a total value of less than $1,000, and an additional 23 percent, a total value of less than $2,000. For these workers, a cost/benefit comparison by the pension plan would lead to a cash payment, having the effect of creating a severance pay plan. Were the cash-out level raised to $3,500, as some in the Senate *have proposed, over 97 percent of all terminating employees would receive a cash-out. The same study indicated that moving to three year vesting, while maintaining current benefit formulas, could increase costs by as much as 12 percent. A study for the Carter Commission on Pension Policy found that costs could increase by as much as 30 percent. The alternative to increased cost would be to reduce all benefits promised by the plan.*

For "public policy" reasons Congress might wish to require earlier participation or faster vesting for defined benefit pension plans. It should be understood, however, that it would not lead to significant new retirement benefit delivery. Due to cash-outs it could actually reduce total retirement income.

Multiple Plan Sponsorship

Employers and employees have made other adjustments in recognition of the career benefit nature and common ten year vesting schedule of defined benefit pension plans.

That response has been to develop plans which complement defined benefit plans, generally providing a specified contribution and a much faster vesting schedule. The most recent available data indicates that of firms with only one plan, 60 percent have defined benefit plans and 40 percent defined contribution plans. Over 26 percent of all plan sponsors, accounting for over 60 percent of all plan participants, however, provide more than one plan. Of multiple plan firms, 55 percent (14 percent of all firms) sponsor both a defined benefit and a defined contribution plan.

The evidence indicates that multiple plan sponsorship was increasing as a means of more effectively meeting employer and employee needs through

1982. The TEFRA change, reducing the total contributions and benefits allowed for multiple plan sponsors, may cause a slowdown. On the other hand, when combined with lower single plan limits it could also cause many employers to create a second plan. Evaluation time is needed. This trend, and the special attributes of each type of plan, should be considered as policy adjustments are evaluated. As noted above, for example, the relative effect on retirement income provision of alternative participation and vesting standards will differ with plan type.

The Status of Employer Sponsored Private Pensions

The private pension system in the United States is the largest and most successful in the world. As it matures it is providing benefits to a growing proportion of the retired population. EBRI's most recent projections indicate that over 80 percent of retiree households will have income from some component of the total system by the turn of the century in the absence of system disruptions that might result from major policy changes.

The component represented by employer sponsored defined benefit plans deserves and demands thoughtful consideration. Pensions are not a gratuity; they must be earned through service. Contrary to some economists' theories, they are not a pure deferred wage, but more complex and more conditional. For example, were they simply a deferred wage there would be no possible economic justification for post-retirement benefit increases.

The private pension system as a whole is strong today. All evidence indicates that it will remain strong if current policies are maintained, *even though they are not neutral. Policy changes could make the system stronger or weaker. Before changes are adopted, the consequences should be evaluated.*

Unless the government explicitly decides that it wishes to encourage development of one component of the pension system at the expense of another, its policies should be neutral.

IMPEDIMENTS TO EMPLOYER PENSION PLAN GROWTH

Economic and legislative uncertainty combine to make employers wary of taking on new obligations. When combined with regular regulatory change they may choose to terminate programs. Additionally, when the law makes one type of retirement plan much more expensive and risky to maintain than another, the employer may decide to change plans.

Realization that this nation must function as part of an integrated world economy, with a premium placed on flexibility, makes the fixed cost defined contribution retirement plan most attractive. This relative attractiveness is a function of cost and liability defined by laws over the past 20 years.

Plan Termination Insurance

The PBGC program was established to assure that promised defined benefit pension plan benefits would be paid in the event of plan termination, up to a certain level. The initial premium was modest and the liability upon plan termination was viewed as manageable. For multiemployer defined benefit plans the law changed in 1981, and there is the prospect of additional change during this Congress. For single employer defined benefit plans there is also the prospect of plan *termination program changes during this Congress. The question of appropriate public policy aside, these changes would influence decisions to sponsor or maintain a defined benefit pension plan. For example:*

- *defined benefit plan sponsors have always lived with their own plan liabilities, but, they are now liable for the actions of other companies. This liability is avoided by those who sponsor only a defined contribution plan.*
- *defined benefit plans must pay a flat premium without regard to the funded status of the plan or the stability of the plan sponsor(s). Defined contribution plans pay no such premiums.*
- *defined benefit plan sponsors may find themselves liable for liabilites of a subsidiary sold years in the past, even if the sale price was adjusted for that liability. Defined contribution plans carry no such liability.*
- *the availability of funding waivers increases sponsor flexibility and has traditionally increased employer willingness to maintain a plan. For the PBGC, however, funding waivers may be viewed as increasing program exposure and the potential for premium increases, discouraging plan sponsorship.*

The Regulatory Environment

The relative stability of the regulatory environment for private pension programs influences plan sponsorship decisions. As the statistics indicate, ERISA caused disruption. The impact of TEFRA will not show up in plan termination and creation figures until 1984 and 1985, but it can be expected to create new disruption. Withholding, for example, creates *incentives to move towards defined contribution plans with cash distributions upon retirement. The effects of TEFRA, however, may not be clearly separable from the influences of current uncertainties, For example:*

- *constant modification of reporting and disclosure requirements and forms has driven up administrative costs and encouraged plan terminations.*
- *many sponsors expect that future changes in the plan termination program will be adverse to them and are evaluating whether they should maintain defined benefit programs.*
- *proposals for new joint and survivor option reporting requirements would adversely impact defined benefit plans.*
- *reductions in the participation age being discussed would be especially adverse for defined benefit plans, adding to administrative cost, severance cash-outs, and PBGC premium payments, without significant additions to retirement income.*
- *extension of TEFRA's "top heavy" vesting and minimum benefit requirements would have an especially adverse affect on defined benefit plans. Just the suggestion by some members of Congress that this extension might be desirable is now influencing employer behavior.*

- *because current taxation of contributions to pension plans (and annual investment earnings) has been discussed, sponsors and employees are considering the balance of wage and* non-wage compensation. Also, the special problems for defined benefit plans of "attributing" a portion of contributions to each worker would clearly affect plan maintenance decisions and costs.

Debates over policy in each of these areas should explicitly deal with the defined benefit/defined contribution issue and the implications of change.

Employer Plans vis-a-vis Individual Retirement Accounts

Social Security was created in the wake of the great depression in recognition of the need for "employer sponsored" retirement income provision. Private employer pension growth surged beginning in the 1950's as a means of increasing total compensation without increasing total cash wages. A defined benefit approach was used to allow benefit certainty, recognition of past service, and accompanying employee relations advantages.

Concern over individuals without employer pension coverage led Congress to create Individual Retirement Accounts (IRAs), as part of ERISA, in 1974. At the end of 1981, a total of $25.7 billion was in IRAs. EBRI estimates that as many as 5.2 million IRAs had been established by the end of 1981 (Table 11).

Concern over capital formation, the adequacy of retirement income, and the stability of Social Security, led Congress to extend IRA eligibility to all workers in the Economic Recovery Tax Act of 1981 and to increase the allowable contributions amount. EBRI estimates that in excess of $30 billion was contributed to IRAs in calendar 1982 by as many as 30 million individuals. By the April 15 tax filing deadline for 1982 more workers can be expected to open an IRA.

Individual Retirement Accounts generally place total risk on the individual in making the investment vehicle choice, and in living with the results. Retirement planning, as a result, can take significant swings over time. The stock market, for example, which provided a real rate of return in 1955 of 31.2 percent, produced a real loss in 1974 of 38.7 percent. For those with IRAs between 1976 and 1981, 82 percent of the assets realized a five year average real rate of return of .1 percent, while the remaining 18 percent earned a real return of approximately 8.8 percent.

This vulnerability for the individual is an accepted part of employer sponsored and individual defined contribution programs. It is a characteristic to be explicitly understood and accepted. Advertising and analyses for IRAs present retirement income projections based upon assumed real rates of return of 4% to 12%, requiring us to look behind the numbers.

Very little is now known about why people create IRAs, and whether or not they expect to keep this money in the accounts until retirement. Yet, their existence could affect employee attitudes towards employer plans and legislators' evaluation of the tax treatment of all "retirement" savings programs.

The EBRI-sponsored current population survey to be conducted by the U.S. Census Bureau in May 1983, will provide detailed information on IRAs, allowing analysis of who created these accounts and the degree to which they represent new savings.

Great care must be taken in this evaluation. Defined benefit pension plans carry with them the strongest guarantee of providing retirement income. IRAs can be liquidated, at a price, at any time. Many defined contribution plans provide for lump-sum distributions which, upon receipt, may or may not be used for the purpose of long-term retirement income. The degree to which public policy influences the choice of retirement savings through the individual versus the employer, and through defined benefit or defined contribution plans, will ultimately determine the amount of tax-preferred savings that will be used for meeting America's retirement income adequacy goals.

Social Security

Social Security is a vital source of retirement income. A sound Social Security program that retains public confidence is important to private pensions since a majority of plans have been specifically designed to coordinate with it. Yet, Social Security changes could act as an impediment to private plan development. For example:

- *the higher Social Security payroll taxes rise, the more expensive the total cost of labor becomes and the more difficult it becomes for employers and employees to afford additional retirement savings.*
- *the more restrictive the rules become for integrating private plans with Social Security, the more difficult it becomes to afford and to justify private plans, particularly for small employers.*

- *the broader the FICA tax base becomes, the harder it becomes to provide supplementation. Further, discussion of treating retirement plan contributions as FICA "wages" is influencing employer pension provision decisions and would be impossible to implement equitably in defined benefit plans at any point, or in defined contribution plans during the deferred vesting period.*

THE FUTURE OF PRIVATE PENSIONS

Speculation on the future of pensions is a high risk proposition. Uncertainty with regard to government policy makes it especially difficult since it will be the greatest influence on development of our retirement income system.

Maintenance of current policies with "minor" technical adjustments would most likely produce the greatest system stability. The environment of constant change since 1974 caused the pattern of new plan formation to change, with 24 percent of post-ERISA new plans being defined benefit as compared to 69 percent in the 1967 to 1974 period. In the absence of policy change designed to encourage defined benefit employer plans, this new plan formation trend is likely to continue. Numerous legislative actions since 1974 have been specifically favorable to defined contribution plans. For example:

- *authorization of HR-10 Keogh plans*
- *authorization of Individual Retirement Accounts*

- *authorization of Simplified Employer Pensions*
- *authorization of Employee Stock Ownership Plans*
- *authorization of flexible compensation arrangements with salary reduction components*

To the degree that the legislative and regulatory changes outlined previously continue to be discussed without resolution, defined benefit pension growth and stability will be adversely affected. And, uncertainty creates far more difficulties for defined benefit plans than for defined contribution arrangements.

The Congress has taken repeated actions over the past 30 years to expand the flow of assets to retirement savings. Because defined benefit plans became most pervasive in terms of coverage, the recent initiatives listed above have targeted on expanding defined contribution arrangements.

Now, issues are arising over (1) whether too much capital may be flowing into retirement programs, and (2) whether the system is equitable. These are questions for Congress to answer. They must, however, be explored with great care if the nation is to avoid unintended but irreparable harm to our retirement system.

As we are finding in other areas of domestic policy, expansion is much easier than contraction. When contracting, we run the risk of making the wrong program smaller.

This nation has successfully built a complex and multifaceted public and private retirement income system. That system has greatly reduced poverty among the aged, and promises even greater benefit security in the future. Determination, consistency, and care can assure that the private pension component of the system remains strong, and grows stronger.

Conclusion

The Employee Benefit Research Institute stands ready to be of assistance in evaluating the consequences of proposed policy changes. Additionally, we will work to expand knowledge of employee benefit programs through projects such as the census bureau survey.

It has been a pleasure to appear before you today and to be a part of this discussion of the American retirement income system.

This Committee takes a giant step forward by beginning discussion today of our multi-faceted retirement system's strengths, the implications of policy change on each component, and the retirement income provision implications of "non-neutral" policies which lead to fewer defined benefit pension plans.

TABLE 1

SUMMARY OF QUALIFICATIONS AND TERMINATIONS

Period Ending	Number of Qualification Rulings to Date	Number of Terminations to Date	Net Number of Plans in Effect	Increase in Net Number of Plans Over Previous Period	% Annual Growth
Sept. 30, 1982 5/	884,936	144,963	745,973	56,693	8.2
Dec. 31, 1981	816,924	133,644	689,280	68,095	11.0
Dec. 31, 1980	741,387	120,202	626,185	56,063	9.9
Dec. 31, 1979	672,045	106,923	565,122	46,036	8.9
Dec. 31, 1978	615,168	96,084	519,086	50,398	10.8
Dec. 31, 1977	549,484	80,796	468,686	19,601	4.4
Dec. 31, 1976	514,068	64,981	449,087	3,494	0.8
Dec. 31, 1975	485,944	40,351	445,593	21,931	5.2
Dec. 31, 1974	455,905	32,243	423,662	54,781	14.8
Dec. 31, 1973	396,520	27,639	368,881	55,475	17.7
Dec. 31, 1972	336,915	23,509	313,406	45,815	17.1
Dec. 31, 1971	287,580	19,989	267,591	37,329	16.2
Dec. 31, 1970	246,916	16,654	230,262	30,268	15.1
Dec. 31, 1969	214,342	14,348	199,994	26,346	15.2
Dec. 31, 1968	186,267	12,619	173,648	22,339	14.8
Dec. 31, 1967	162,485	11,176	151,309	19,214	14.5
Dec. 31, 1966	141,964	9,869	132,095	16,973	14.7
Dec. 31, 1965	123,781	8,659	115,122	12,496	12.2
Dec. 31, 1964	110,249	7,623	102,626	10,667	11.6
Dec. 31, 1963	98,541	6,582	91,959	10,250	12.5
Dec. 31, 1962	87,397	5,688	81,709	9,359	12.0
Dec. 31, 1961	77,179	4,829	72,350	8,652	13.5
Dec. 31, 1960	67,792	4,094	63,698	9,399	17.3
Dec. 31, 1959	57,835	3,536	54,299	6,792	14.2
Dec. 31, 1958	50,569	3,062	47,507	6,551	15.9
Dec. 31, 1957	43,615	2,659	40,956	6,074	17.4
Dec. 31, 1956	37,190	2,308	34,882	4,944	16.5
Dec. 31, 1955	31,943	2,005	29,938	1,769(1)	6.3
June 30, 1955	30,046	1,877(2)	28,169(2)	3,290(2)	13.2
June 30, 1954	26,464	1,585	24,879	4,204	20.3
June 30, 1953	22,069	1,394	20,675	3,657	21.5
June 30, 1952	18,289	1,271	17,018	2,347	16.0
June 30, 1951	15,899	1,125	14,671	2,517(3)	20.7
June 30, 1950	13,899	--	--	--	--
June 30, 1949	12,865	711	12,154	896	8.0
June 30, 1948	11,742	484	11,258(4)	1,888	20.1
Aug. 31, 1946	9,370	--	9,370(4)	1,584	20.3
Dec. 31, 1944	7,786	--	7,786(4)	5,839	300.0
Sept. 1, 1942	1,947	--	1,947(4)	1,288	195.0
Dec. 31, 1939	659	--	659(4)	549	--

(1) Six month total
(2) See RR 101.-4
(3) Increase from June 30, 1949 (see RR 101.4)
(4) 28 month period, average 2,507 plans per year
(5) 9 month period, 1/1/82 - 9/30/82

*Does not include plans covering self-employed individuals (Keogh Act plans).

SOURCE: Charles D. Spencer Associates for 1930 to 1975, EBRI tabulations of IRS data for 1976 to 1982.

TABLE 2

PENSION PLAN GROWTH

Year	Net Total Plans Created	Defined Benefit	Defined Contribution	Total Plans	Total Plans % Growth
1956	4,944	2,983	1,961	35,503	16.2
1957	6,044	3,347	2,727	41,577	17.1
1958	6,551	3,659	2,892	48,128	15.8
1959	6,792	3,554	3,238	54,920	14.1
1960	9,399	4,711	4,688	64,319	17.1
1962	8,652	4,545	4,107	72,971	13.5
1962	9,359	4,712	4,647	82,330	12.8
1963	10,250	5,399	4,851	92,480	12.4
1964	10,667	6,072	4,595	103,247	11.5
1965	12,496	6,983	5,513	115,743	12.1
1966	16,973	9,521	7,452	132,716	14.7
1967	19,214	10,690	8,524	151,930	14.5
1968	22,339	12,224	10,115	174,269	14.7
1969	25,905	13,824	12,522	200,174	14.9
1970	30,268	15,370	14,898	230,442	15.1
1971	37,329	20,888	16,441	267,771	16.2
1972	45,815	26,520	19,295	313,586	17.1
1973	55,475	31,608	23,868	369,061	17.7
1974	54,601	30,002	24,599	423,662	14.8
1975	21,931	10,769	11,162	445,593	5.2
1976	3,494	-4,180	7,674	449,087	.8
1977	19,601	1,616	17,985	468,688	4.4
1978	50,398	5,103	45,295	519,086	10.8
1979	46,036	12,488	33,548	565,122	8.9
1980	56,063	14,552	41,511	621,185	9.9
1981	68,095	19,253	48,842	689,280	11.0
1982	56,693	18,451	38,242	745,873	8.2

SOURCE: EBRI tabulations.

TABLE 3

PENSION PLAN GROWTH 1/
1975-1982

	Defined Benefit			Defined Contribution		
Year	Net Created	Total	Annual Growth %	Net Created	Total	Annual Growth
	10,769	124,766	-	11,162	320,872	-
1976	-4,180	120,586	(3.4)	7,674	328,501	2.4
1977	1,616	122,202	1.2	17,985	346,486	5.5
1978	5,103	127,305	4.0	45,295	391,781	13.1
1979	12,488	139,793	9.8	33,548	425,329	8.6
1980	19,552	154,345	10.4	41,511	466,840	9.8
1981	19,253	173,598	12.5	48,842	516,682	10.5
1982 3/	18,451	192,049	10.6	38,242	544,924	6.9

SOURCE: EBRI Tabulations.

1/ Totals differ from Tables 1 and 2 due to different start points for data series.
2/ 1982 is for 1/1/82 to 9/30/82.

TABLE 4

PENSION PLAN GROWTH
BY TYPE OF PLAN

Year	Defined Benefit %	Defined Contribution %
1956	60.3	39.7
1957	55.1	44.9
1958	55.9	44.1
1959	51.3	47.7
1960	50.1	49.9
1961	52.5	47.5
1962	50.3	49.7
1963	52.6	47.4
1964	56.9	43.1
1965	55.9	44.1
1966	56.1	43.9
1967	55.6	44.4
1968	54.7	45.3
1969	53.4	46.6
1970	50.8	49.2
1971	56.0	44.0
1972	57.9	42.1
1973	56.9	43.1
1974	54.9	45.1
1975	49.1	50.9
1976	0	100
1977	8.2	91.8
1978	10.1	89.9
1979	27.1	72.9
1980	26.0	74.0
1981	28.3	71.7
1982	32.5	67.5

SOURCE: EBRI Tabulations.

TABLE 5

CORPORATE AND SELF-EMPLOYED PENSION PLAN CREATIONS, TERMINATIONS AND NET PLAN INCREASES 1/

	Defined Benefit Plans			Defined Contribution Plans			
Year	Plans Qualified	Plans Terminated	Net Plans Created	Plans Qualified	Plans Terminated	Net Plans Created	Net Total Plans Created
1956	3,175	192	2,983	2,072	111	1,961	4,944
1957	3,527	180	3,347	2,898	171	2,727	6,074
1958	3,883	224	3,659	3,071	179	2,892	6,551
1959	3,824	270	3,554	3,442	204	3,238	6,792
1960	5,011	300	4,711	4,946	258	4,688	9,399
1961	4,919	374	4,545	4,468	361	4,107	8,652
1962	5,188	476	4,712	5,030	383	4,647	9,359
1963	5,840	441	5,399	5,304	453	4,851	10,250
1964	6,581	509	6,072	5,127	532	4,595	10,667
1965	7,495	512	6,983	6,037	524	5,513	12,496
1966	10,124	603	9,521	8,059	607	7,453	16,973
1967	11,292	602	10,690	9,229	705	8,524	19,214
1968	12,896	672	12,224	10,886	771	10,115	22,339
1969	14,692	969	13,824	13,383	861	12,522	25,905
1970	16,512	1,142	15,370	16,062	1,164	14,898	30,268
1971	22,493	1,605	20,888	18,171	1,730	16,441	37,329
1972	28,265	1,745	26,520	21,070	1,775	19,295	45,815
1973	33,830	2,222	31,608	25,775	1,908	23,867	55,475
1974	32,579	2,577	30,002	26,806	2,207	24,599	54,601
1975	15,319	4,550	10,769	14,720	3,558	11,162	21,931
1976	4,790	8,970	-4,180	23,334	15,660	7,674	3,494
1977	6,953	5,337	1,616	28,463	10,478	17,985	19,601
1978	9,728	4,625	5,103	55,956	10,661	45,295	50,398
1979	15,755	3,267	12,488	41,122	7,574	33,548	46,036
1980	18,849	4,297	14,552	50,493	8,982	41,511	56,063
1981	23,789	4,536	19,253	51,748	8,906	48,812	68,095
1982*	22,102	3,651	18,451	45,910	7,668	38,242	56,693

*Through September 30, 1982.

TABLE 6

PRIVATE PENSION ASSETS
(millions)

Year	Total	Annual Growth $	Annual Growth %	Defined Contributions	% of Total	Defined Benefits multi.	% of Total	Defined Benefits Single	% of Total
1975 1/	260,000	18,000	8.2	74,000	28.4	22,000	8.5	164,000	63.1
1976 1/	298,400	39,400	15.1	82,200	27.5	25,800	8.6	190,400	63.9
1977 1/	325,100	26,700	8.9	91,500	28.1	28,900	8.8	204,700	63.1
1978 1/	377,200	52,100	16.0	104,500	27.7	32,800	8.6	239,900	63.7
1979 2/	424,000	46,800	12.4	117,500	27.7	36,900	8.6	269,600	63.7
1980 2/	500,000	76,300	18.0	138,600	27.7	43,500	8.6	318,200	63.7
1981 2/	520,200	19,900	3.9	144,000	27.7	45,600	8.6	330,600	63.7
1982 3/	624,200	104,000	19.9	172,700	27.7	55,100	8.6	396,500	63.7

SOURCE: (1) Securities and Exchange Commission and U.S. Department of Labor.
(2) Securities and Exchange Commission with breakout by plan type assuming same distribution as 1978
(3) Pension and Investment Age Survey adjusted for EBRI assumptions.

TABLE 7

*TAX EXPENDITURES AND OUTLAY EQUIVALENTS**
($millions)

	Tax Expenditures	Outlay Equivalents	Gain $	Gain %
Employer Pensions	56,560	78,780	22,220	39.3
Other Pensions	4,230	6,480	2,250	53.2
ESOPs	1,375	2,405	1,030	74.8
TOTAL	$62,165	$87,665	$25,500	41.0%

SOURCE: EBRI tabulations from Special Analysis G of the proposed FY 1984 budget.

**The entire concept of tax expenditures and outlay equivalents is subject to question due to the assumptions used, inconsistency of calculation techniques, and imprecision of base data. Because the numbers are so widely used, however, we view this anaylsis as being of interest and worthy of discussion.*

TABLE 8

FY 1984 Budget

*TAX EXPENDITURES AND OUTLAY EQUIVALENTS**
($ millions)

	Tax Expenditures	*Outlay Equivalents*	*Gain $*	*Gain %*
Private Retirement Programs	*62,165*	*87,665*	*25,500*	*41.0*
All Other Programs	*218,270*	*250,065*	*31,795*	*14.0*
TOTAL	*280,435*	*337,730*	*57,295*	*20.0*
PPR/AOP	*22.2%*	*26.0%*	*$44.5*	*292.9%*

SOURCE: EBRI Tabulations from Special Analysis G of the proposed FY 1984 budget.

**The entire concept of tax expenditures and outlay equivalents is subject to question due to the assumptions used, inconsistency of calculation techniques, and imprecision of base data. Because the numbers are so widely used, however, we view this anaylsis as being of interest and worthy of discussion.*

TABLE 9

HOW PENSION PLANS WORK - HOURLY PLAN

Before Taxes	EMPLOYEE #1	EMPLOYEE #2
1. final earnings rate	$25,000	$15,000
2. pension benefit: $150/yr x 30 years	$ 4,500	$ 4,500
3. Social Security (primary only; age 65)	8,148	7,212
4. retirement income (2+3)	$12,648	$11,712
/_/ as % of final earnings (line 1)	50.6%	78.1%
After Taxes		
5. "net pay" - line 1 less Social Security and federal income taxes (1981 rates)	$19,324	$12,382
6. pension benefit, net of income tax (1981 rates)	$ 4,500	$ 4,500
7. after tax retirement income (3+6)	12,648	11,712
/_/ as % of net pay (line 5)	65.5%	94.6%
8. after tax income including Social Security for spouse age 62 /_/ as % of net pay (line 5)	$15,703 81.3%	$14,416 116.4%

SOURCE: TPF&C

TABLE 10

HOW PENSION PLAN WORK - SALARIED PLAN

Before Taxes	*EMPLOYEE #1*	*EMPLOYEE #2*
1. final earnings rate	$40,000	$15,000
2. Social Security (primary only; age 65)	$ 8,148	$ 7,212
3. pension benefit: 50% of final 5-yr. avg. earnings, less 50% of Social Security	12,885	2,862
4. retirement income (2+3)	$21,033	$10,074
/_/ as % of final earnings (line 1)	52.6%	67.2%
After Taxes		
5. "net pay" - line less Social Security and federal income taxes (1981 rates)	$28,765	$12,382
6. pension benefit, net of income tax	$11,858	2,862
7. aftertax retirement income (2+6)	20,006	10,074
/_/ as % of net pay (line 5)	69.5%	81.4%
8. aftertax income including Social Security for spouse age 62	$23,061	$12,778
/_/ as % of net pay (line 5)	80.2%	103.2%

SOURCE: TPF&C

TABLE 11

INDIVIDUAL RETIREMENT ACCOUNTS

Financial Institution	Contributions (billions) 1981	Contributions (billions) 1982	Assets (billions) 1981	Assets (billions) 1982	Number of IRAs (millions at $1000) 1981	Number of IRAs (millions at $1000) 1982
Commercial Banks 1/	1.3	11.1	7.0	18.1	1.3	11.1
Mutual Savings Banks 1/	.7	2.9	3.4	6.3	.7	2.9
Savings & Loans 1/	1.1	12.5	9.2 2/	21.7 2/	1.1	12.5
Mutual Funds	1.8	2.4	2.6	5.0 3/	1.8	2.4
Credit Unions	NA	.3	.2	.5 4/	NA	.3
Life Insurance Co.	.3	1.3	3.3	4.6 5/	.3	1.3
Total	$5.2	$30.5	$25.7	$56.2 6/	5.2	30.5

SOURCES: EBRI tabulations of data provided by Federal Reserve Board, National Association of Mutual Savings Banks, National Credit Union Administration, Federal Home Loan Bank Board, U.S. League of Savings Associations, Investment Company Institute and American Council of Life Insurance.

1/ IRA and Keogh deposits.
2/ Estimated by EBRI from 4/30/82.
3/ Assumes no growth after 9/30/82.
4/ Assumes no growth after 4/30/82.
5/ Assumes no growth after 6/30/82
6/ Baseline estimates using latest available data for each institution. These estimates provide a minimum total asset amount, which may underreport the actual amount of total assets outstanding.

Endnotes

1/ *EBRI would be pleased to make available its published studies in this area which included:*

- *Retirement Income Programs: Directions for Future Research*
- *Retirement Income Policy: Considerations for Effective Decision Making*
- *Retirement Income and the Economy: Policy Directions for the 80s*
- *Retirement Income and the Economy: Increasing Income for the Aged*
- *Arranging the Pieces: The Retirement Income Puzzle*
- *Social Security: Perspectives on Preserving the System*

2/ *EBRI would be pleased to make available its published studies in this area which include:*

- *Volume 1: Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement*
- *Volume II: Retirement Income Opportunities in an Aging America: Income Levels and Adequacy*

EBRI will update these studies based upon the EBRI sponsored current population survey scheduled for May, 1983.

3/ *EBRI would be pleased to make available its published study in this area:*

- *Volume III: Retirement Income Opportunities in an Aging America: Pensions and the Economy*

4/ *The savings effect of Social Security and private pensions has been a subject of controversy among economists. Two points of concensus can be identified in a review of the literature. First, pensions have a positive effect of at least 35% ("extremists" say 90%). Secondly, Social Security has no net effect ("extremists" say -50%).*

5/ *There are critics who question (1) the entire concept of "tax expenditures'; (2) the calculation methods used; (3) and, the assumption that behavior would not change with changes in the tax law. EBRI is considering these issues in a study to be completed in later 1983.*

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6/ Studies noted above in endnote 1, and endnote 2, contain information on this subject.

7/ EBRI would be pleased to make available its published studies in this area:

- *America in Transition: Implications for Employee Benefits*
- *Economic Survival in Retirement: Which Pension Is For You?*