

STATEMENT OF  
DALLAS L. SALISBURY  
EXECUTIVE DIRECTOR  
EMPLOYEE BENEFIT RESEARCH INSTITUTE

MAY 15, 1981

THE PRESIDENT'S COMMISSION ON PENSION POLICY REPORT,  
"COMING OF AGE: TOWARD A NATIONAL RETIREMENT INCOME POLICY"

A Hearing of  
Committee on Finance  
Subcommittee on Savings, Pensions, and Investment Policy  
United States Senate  
Ninety-Seventh Congress  
First Session

## INTRODUCTION

I am Dallas L. Salisbury, Executive Director of the Employee Benefit Research Institute (EBRI). It is a pleasure to be here this morning and I thank you for giving EBRI the opportunity to appear. EBRI was established in 1978 to meet a need for professional analysis and comprehensive, practical, objective research on employee benefits.

EBRI is not an action-oriented, lobbying organization which takes specific positions on policy proposals. Rather, the Institute provides research and basic information that can be of use to private organizations, the Congress, and others, in reaching policy conclusions. I should note specifically that EBRI does not have a position on the policy recommendations of the President's Commission on Pension Policy. EBRI does believe that one should be allowed, based upon full and open information, to make an assessment of whether or not a recommended policy course is the appropriate one. I will briefly review today the Commission report from the standpoint of research sufficiency. EBRI has used a number of criteria for this analysis, including:

1. Have major research questions regarding benefits, costs and consequences been addressed?
2. Does the report provide sufficient information to allow an understanding of why a particular conclusion was reached?
3. Does the report provide sufficient information to allow one to reach an independent conclusion?
4. Were appropriate and consistent assumptions used for analysis and modeling?

Over the past two years members of the Commission gave substantial time and attention to the study effort. They succeeded in focusing public attention on the importance of retirement income issues and in beginning many potentially far reaching research projects. We are concerned that much of the benefit of this effort may be lost, for the Commission's detailed work has not been made public at this time. We hope that the information will be made public before the Commission's termination on May 24, 1981. I submit for the Record as part of this statement Attachment 1 which outlines the products and items that should be made available in order to serve the public interest.

## INCOME ADEQUACY

The Commission stated the following principal recommendation as underlying the entire report:

- \* The Commission believes that the replacement of pre-retirement disposable income from all sources is a desirable retirement income goal.

While this need may exist, the research criteria are not satisfied. Cost and consequences analyses were limited. The amount of comprehensive and interactive economic analysis needed to effectively assess the major policy implications would be substantial. This is made clear in documentation of the Commission's models. Analysis must include assessing the impact on other government expenditures as well as private business expenditures. What programs will be cut back to enable retirement income expenditures to expand?

At a very early stage, the Commission downplayed the potential success of many alternative approaches to increasing retirement income. The Commission's Executive Director, speaking in Vancouver, B.C. in June, 1979 (only three months after the first meeting of the Commission) noted that tax incentives had not worked in the past and could not be expected to work in the future. The Commission's report presents no research to substantiate this hypothesis, and no working papers were released during the life of the Commission that provided additional insights in this area. The criteria cannot be satisfied. Nonetheless, the Commission concluded:

- \* Tax incentives, even those proposed by this report, will not significantly increase the pension plan participation of low and moderate income workers and workers employed by small businesses.

This hypothesis deserves to be fully researched and tested before it is used as the basis for justifying major policy changes. Testing would need to be on a dynamic basis making use of recent data. While limited analysis has been completed, data from the Bureau of Labor Statistics indicates that by 1977 current incentives were having an effect among small employers.

## THE COVERAGE QUESTION

The President's Commission on Pension Policy concluded that "the most serious problem facing our retirement system today is the lack of pension coverage of private sector workers." The coverage

question, the common statement that the failure of the employer pension system is that it covers less than half of the working population, has been a common measure for the private pension system and employer sponsored plans for many years.

Because coverage was the central issue in the PCPP report, it is the principal focus of our testimony this morning. The shortcomings we have found in the Commission's analysis in this area, however, do raise questions in many other areas of the report. As EBRI completes its review in those areas the results will be made available to the Subcommittee.

The Commission based its conclusion that the lack of pension coverage was the most serious retirement income problem on analysis of the total workforce and without regard to employment stability. It concluded that of the total workforce, only 45 percent participate in a private employer sponsored pension program.

#### EBRI Coverage Statistics

Congress established, through the Employee Retirement Income Security Act (ERISA), minimum standards for participation in pension programs. The standard, according to the legislative history, identifies when a worker most readily begins to stay with an employment situation and when it is financially reasonable to require participation. There are worker groups in the population that as a matter of choice or the nature of their work role would not normally be expected to be in employer sponsored plans. With these adjustments, one can move from the total workforce to a relevant workforce.

The relevant workforce removes from the total 95.4 million those under age 25 and over age 64 (24.1 million persons). EBRI also removes agricultural workers and the self-employed, groups not likely to be covered by employer plans, or unlikely to generally need this additional source of income (8.1 million workers). Finally, when moving to the ERISA standard (25 years of age, one year of service, 1,000 hours of employment per year), the number of the relevant workforce drops from the 95.4 million total to 49.7 million workers.

Of the relevant workforce, 74 percent are currently covered by employer sponsored programs; 68.3 percent are actively participating in the plan; 56 percent of participants are currently due a vested benefit and 80 percent of those who have been in the plans for more than 10 years are due a vested benefit. In addition, 9 percent of the participants have benefits that are vested in previous employers' plans. Of those who are not currently covered by a retirement program who meet the ERISA minimum standard criteria, 14 percent are vested in a plan from a previous employer. These statistics indicate that approximately two-thirds of the relevant workforce will receive a benefit from employer sponsored plans.

From 1950 to 1979, when the total workforce increased by 90 percent, participation in employer sponsored plans grew by 263 percent. Of those workers not covered by a plan, 65 percent earn less than \$10,000 per year or \$5.00 per hour; 46 percent work for employers who have less than 25 employees; 66 percent work for employers with less than 100 employees. Of those individuals working for employers with 1,000 or more employees, 92 percent are covered by an employer sponsored plan; of those working for employers with 500-999 employees, 84 percent are covered. These figures indicate a relatively significant success story since 1950 for private employer sponsored and public employer sponsored plans. Those who are not covered can be clearly identified and policies targeted to provide for them.

### Coverage Growth

The President's Commission study concluded that its "forecasting models indicate that the portion of the labor force covered and vested in employee pension plans is not expected to increase significantly under current policies." As a result of this assumption and based on their forecasts of no future growth, the Commission presented as its keystone recommendation the Mandatory Universal Pension System (MUPS). The EBRI study has carefully attempted to access the Commission's models and assumptions. Our assessment raised two questions: First, how can 263 percent participation growth over 29 years be assumed to instantaneously stop? Second, how can recent history be such an inaccurate predictor of the future? Dynamic analysis based on recent data indicates that employer plan coverage is growing and can be expected to do so in the future. While regulatory uncertainty caused new net plan formations in the private sector to drop to 3,494 plans in 1976, 1980 witnessed the formation of 56,063 net new plans: 14,552 defined benefit plans, 41,511 defined contribution plans.

The Commission assumed that new small plan development was unlikely. Yet, the average new plan size in 1980 was less than 75. Once a firm views itself as an ongoing business concern and profitable enough to afford the plan, the employer will probably create a plan. This is particularly significant since 66 percent of those individuals not currently covered work for employers with less than 100 employees. Over the last ten years the small employer sector has created new jobs at a much faster rate than larger employers. But the average life of firms with fewer than 20 employees is less than five years. This indicates that it takes time for small employers to reach a point of profitability sufficient for plan creation. Economic questions arise as to when young firms can either voluntarily or mandatorily set aside more money than is already required by law for retirement savings.

### PCPP Models

It is important to analyze the means by which the President's Commission reached its conclusion that coverage growth will be limited in the future. The Commission paid for the use and development of two models. Our assessments find that using reasonable assumptions in the same models do not support the Commission's conclusions.

First, the Commission placed absolute maximums on the level that coverage could grow in the future in their macroeconomic model. Their cap resulted in a maximum potential coverage of 72 percent in 1995. EBRI had the same models rerun without those caps. The result: by 1995 there could be a possible increase in coverage to 83 percent, an increase of over 11 points or 1 percent per year. In assessing the reasonableness of the maximums the Commission assumed, EBRI examined the fact that over the last ten years, with the exception of the years immediately following ERISA, annual growth in coverage exceeded 1.2 percent per year.

Second, a microsimulation model was developed for the Commission. Microsimulation models focus on individual workers and their pension protection accruals. The contractor who developed the model submitted an initial report to the Commission which indicated that there would be substantial future growth in employer sponsored plans. The Commission staff changed a critical assumption; instead of assuming future real wage growth, they assumed no growth. Except for the past 2½ years, real wage growth has been common. Further, future real wage growth is assumed by the Administration, the Congressional Budget Office, the Senate Budget Committee, and others in planning for the future.

### MUPS ANALYSIS

The Commission used the same microsimulation model to analyze the potential effects of the mandatory universal pension system in the future. However, in running the model to assess "MUPS," the Commission staff assumed a 1 percent per year increase in real wages. It is peculiar that two contradictory assumptions were used to assess these two different futures: the future of voluntary programs:

We submit that this is a highly questionable procedure to use when attempting to allow a distinguished Commission to reach reasoned conclusions based upon full information.

The Commission report concludes that the basis for recommending "MUPS" is the projection of no significant growth in the private pension system. Yet a positive real wage assumption, if uniformly applied, would have shown such growth. The PCPP analysis

of "MUPS" was also based on four other assumptions. First, there will be no growth in employer sponsored plans after 1984. Second, as a result of reaction to institution of the Commission's recommendations, there will be no changes in present plans after 1984: no freezes, no terminations, no changes in participation standards. Third, the administrative costs to initiate, operate and maintain MUPS will be \$0. Finally, the assessment includes no effects which may occur by reason of its tax treatment changes or other recommendations.

#### A CONSISTENT PUSH FOR MORE

The Commission recommendations include a consistent emphasis on allocating additional national resources to retirement income provision.

- \* The Commission believes that other programs to supplement social security's basic floor of protection must be substantially increased.

The report provided no information on the potential cost of accomplishing this particular goal. The criteria were not met, whatever the merits. A staff working paper which was completed in May, 1979, did provide some estimates of cost. According to that paper, achieving this goal with a 75 percent spouse benefit at age 65 retirement would cost:

<u>YEARS OF SERVICE</u>	<u>COST AS PERCENT OF PAYROLL</u>
20	45
25	35
30	29
35	24
40	21

There is a tremendous amount of research that would need to be presented to meet the criteria for evaluation. What would be the social and economic benefits, costs and consequences? What benefits might employees lose in order to gain extra retirement income? What segments of the population would benefit? How would this goal compare to that set for other segments of the population?

Having established an umbrella goal, the report turns to recommendations for increasing retirement program coverage.

We feel that the Commission staff's analysis understates the future of employer plans under current policy, does not adequately assess the potential impact of additional voluntary incentives, and may overstate the relative positive effects of "MUPS." A balanced and consistent analysis would be necessary to allow a full assessment of the Commission recommendations.

### PRIORITIES FOR THE '80s

The Commission's work represents a monumental effort. Given the substantive breadth and scope they were asked to study, a great deal was accomplished, but not enough. The Commission's final report and working papers leave much to be explored. This was made clear by researchers at the Commission's January "Research Conference." Substantial behavioral, benefit, and economic research must still be undertaken. Research regarding the effect of tax incentives is only now beginning.

If adopted, the Commission's recommendations could have significant implications for the public and private sectors in many areas, including:

- \* The cost of doing business
- \* The level of employment and new job creation
- \* The pattern of new business creation
- \* The scope of government regulation
- \* Future prospects for government mandating of programs
- \* Levels of overall Federal taxation
- \* Distribution of tax incentives amongst and between government programs
- \* The proportion of gross national product dedicated to retirement income programs
- \* Makeup of the total compensation package

The Commission's recommendations set out a framework that should be analyzed and conceptually tested. All parties must move toward a national retirement income policy based upon solid facts and comprehensive understanding, including an understanding of the consequences for other national needs and priorities.

### CONCLUSION

Because we have found inconsistencies and problems in the Commission research made available to date, we feel it especially important that all the items in Attachment 1 be released. If the information is not released, we may never be able to identify those recommendations for which the analysis stands up under careful evaluation.



EBRI's work on coverage is only one of the studies we currently have underway. It is one that we hope will be helpful to this Subcommittee in assessing what you feel policy in the future should be. Our research does lead us to two solid conclusions. First, judging the private pension system on the basis of half of the workforce is unfair, unrealistic and unwise. Second, available research, including reasonable runs of the Commission models, indicates that significant voluntary employer sponsored plan growth can be expected in the future.

# EBRI

Attachment 1

March 25, 1981

Robert Roeder  
President's Commission on Pension Policy  
736 Jackson Place, NW  
Washington, DC 20006


Dear Mr. Roeder:

I respectfully request copies of the following documents which we believe should be available under the Freedom of Information Act. The Employee Benefit Research Institute will reimburse the Commission for any expenses incurred in duplicating the documents.

1. The Commission on Pension Policy published a reference list of 52 papers and projects to be undertaken by the Commission. I request copies of the following studies, which are presented exactly as listed in Attachment 1.
2. Copies of the work specifications and compensation and/or contract specifications signed between the Commission and those authors under contract with the Commission, including but not limited to those listed in Attachment 2. *• partially received 4/8/81*
3. Copies of data tapes and programs specially developed from the CPS master tapes by ICF, Incorporated to create tables included in "Potential Effects of a Minimum Universal Pension System (MUPS)", DRAFT FINAL REPORT, January 23, 1981. Specifically, breakdowns for households versus individuals contained in Tables 19, 20 and 21. If permission were granted, we would be pleased to work directly with ICF, Incorporated.

Please let me know if there are any difficulties or if full response will exceed ten days.

Sincerely,

  
Dallas L. Salisbury  
Executive Director

DLS/das  
Attachments

**EMPLOYEE BENEFIT RESEARCH INSTITUTE**

1920 N Street, NW/Washington, DC 20036/Telephone (202) 659-0670

# Commission Working Papers

*Pensions and Personnel/Human Resource Management: Documented and Potential Impacts of Pensions on Human Resource Management Systems and Individual Work Behaviors* by Judy D. Olian, Stephen J. Carroll, Jr., and Craig E. Schneier, College of Business and Management, University of Maryland, February 1981.

*Early Retirement in Public Safety Organizations* by Michael J. O'Connell, February 1981.

## President's Commission on Pension Policy

### RELEASE DATES

<u>Papers and Projects</u>	<u>Due Date</u>	<u>Authors</u>	<u>PCPP Representative</u>
11. ADEA Impact on Alternative Work Patterns	August 1980	Portland State	Betty Meier
14. Index Bonds	August 1980	Bob Schoepflein	Betty Meier
15. Bargaining Over Retiree Benefits	September 1980	Rick Bank	Tom Woodruff
16. Social Security Benefit Structure	September 1980	Shelley Lapkoff	Shelley Lapkoff
17. Social Security Financing	September 1980	Bill Cartwright	Bill Cartwright
18. Tax Policy-Report on Costs	September 1980	Mary Barth	Emily Andrews
20. Effects of Savings	September 1980	Bill Cartwright	Bill Cartwright
23. Description of Small Plans	September 1980	American Society of Pension Actuaries	Michael O'Connell
24. 1979 Schedule B Data	September 1980	American Academy of Actuaries	Preston Bassett

<u>Papers and Projects</u>	<u>Due Date</u>	<u>Authors</u>	<u>PCPP Representative</u>
25. Economic Implications of Allocation of Pension Fund Capital	September 1980	Jim Barth	Emily Andrews
26. Unisex Tables	September 1980	Preston Bassett	Shelley Lapkoff
27. Implications of Making the Single Person's Budget 75% of the BLS Intermediate Couple's	October 1980	Tom Borzilleri	Betty Meier
28. Cost of Eliminating Earnings Test	October 1980		Betty Meier
29. Early Retirement, Hazardous Duty Occupations, etc.	October 1980	Betty Meier	Betty Meier
30. Pensions and Personnel Management	October 1980	Craig Schneier Stephen Carroll Judy Olian	Michael O'Connell
31. Wage/Pension Tradeoff	October 1980	Smith	Emily Andrews
32. Disability Studies	October 1980	Monroe Berkowitz	Michael O'Connell
34. Coordination of Pension Programs	October 1980	Cynthia Dittmar	Cynthia Dittmar
37. Alternatives to Universal Social Security Coverage	October 1980		Leigh McDermott
38. Household Survey		Market Facts/SRI	Emily Andrews
39. Description of Private Plans	October 1980	Tom Woodruff	Tom Woodruff
40. Actuarial and Accounting Standards	October 1980	Jim Ball	Michael O'Connell
41. Intergenerational Distribution of Income	October 1980	Tom Woodruff Marcy Avrin	Tom Woodruff
42. Description of State and Local Plans	November 1980	SRI/Urban Institute	Michael O'Connell
43. Risk in the System	November 1980		Tom Woodruff
44. Ownership and Control	November 1980	Rick Bank Cynthia Dittmar	Emily Andrews
45. The Impact of Demographic Changes on Savings	November 1980	Paul Wachtel	Emily Andrews
46. Appropriate Preretirement Earnings Base	December 1980		Betty Meier

<u>Papers and Projects</u>	<u>Due Date</u>	<u>Authors</u>	<u>PCPP Representative</u>
47. Setting the Retirement Age	December 1980		Betty Meier
48. Alternative Designs for A Universal Minimum System	December 1980	Michael O'Connell Betty Meier ICF	Treasury Michael O'Connell
49. Vesting	December 1980	Michael O'Connell Betty Meier ICF	Treasury Michael O'Connell
50. System Administration, Enforcement and Monitoring	December 1980	Blaydon, et. al.	Tom Woodruff
51. Pensions and the Labor Market	January 1980	Larry Kotlikoff	Emily Andrews
52. Implications of Policy for Capital Formation, Savings and Investments	January 1980	Bill Cartwright	Bill Cartwright

<u>Papers and Projects</u>	<u>Due Date</u>	<u>Authors</u>	<u>PCPP Representative</u>
1. Private Pensions and Capital Formation	September 1979	Mordecai Kurz Marcy Avrin	Emily Andrews
11. ADEA Impact on Alternative Work Patterns	August 1980	Portland State	Betty Meier
13. Role of In-Kind Benefits	August 1980	Tom Borzilleri	Betty Meier
15. Bargaining Over Retiree Benefits	September 1980	Rick Bank	Tom Woodruff
18. Tax Policy-Report on Costs	September 1980	Mary Barth	Emily Andrews
23. Description of Small Plans	September 1980	American Society of Pension Actuaries	Michael O'Connell
24. 1979 Schedule B Data	September 1980	American Academy of Actuaries	Preston Bassett
27. Implications of Making the Single Person's Budget 75% of the BLS Intermediate Couple's	October 1980	Tom Borzilleri	Betty Meier
30. Pensions and Personnel Management	October 1980	Craig Schneier Stephen Carroll Judy Olian	Michael O'Connell
31. Wage/Pension Tradeoff	October 1980	Smith	Emily Andrews
32. Disability Studies	October 1980	Monroe Berkowitz	Michael O'Connell
33. Roles of Income Security Programs	October 1980	Stanford Ross	Barbara Bowers
38. Household Survey		Market Facts/SRI	Emily Andrews
40. Actuarial and Accounting Standards	October 1980	Jim Ball	Michael O'Connell
42. Description of State and Local Plans	November 1980	SRI/Urban Institute	Michael O'Connell
45. The Impact of Demographic Changes on Savings	November 1980	Paul Wachtel	Emily Andrews
50. System Administration, Enforcement and Monitoring	December 1980	Blaydon, et. al.	Tom Woodruff
51. Pensions and the Labor Market	January 1980	Larry Kotlikoff	Emily Andrews

File



President's Commission on Pension Policy  
736 Jackson Place, NW, Washington, DC 20006

April 8, 1981

Mr. Dallas L. Salisbury  
Executive Director  
Employee Benefit Research Institute  
1920 N Street, N.W.  
Washington, DC 20036

Dear Mr. Salisbury:

This is in reply to your letter of March 25th requesting various materials which we had expected to be available at this time. Unfortunately, many projects remain unfinished.

Of the 52 papers listed in Attachment 1 to your letter, only 18 have been issued by the Commission. These are listed on page 105 of the Commission's final report. The paper by Mike O'Connell was included in this list by mistake as it has not yet been completed. Copies of these 18 papers are available from our office if there are any you don't have. All are being revised, however, and will be included as chapters in the technical appendix to the final report. Most of the other papers listed in Attachment 1 will also be incorporated as chapters in this appendix, which we hope to publish early in May.

Enclosed are copies of work specifications and invoices which you requested in Attachment 2. Except for the household survey all work was done on a noncompetitive basis through purchase orders. In most cases the Executive Director gave work specifications orally to the authors under contract. The following papers were not funded by the Commission so I am unable to furnish any information about work specifications or compensation for them:

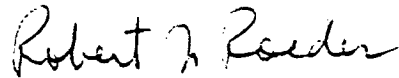
18. Tax Policy - Report on Costs
40. Actuarial and Accounting Standards
42. Description of State and Local Plans
50. System Administration, Enforcement and Monitoring.

Rick Bank is on our payroll as an intermittent consultant at \$192.72 per day. The contract file on Market Facts has been misplaced but the total contract cost was \$1,377,408. The SRI contract was for \$487,063.

The "MUPS" project was carried out by ICF under contract to the Department of Labor. Release of public use taped produced from that work is being controlled by Ian Lanoff's office. I understand from Wally Kolodrubetz that these tapes are still under review.

I regret that I could not be more helpful in furnishing the materials you requested. If you have any more questions, please give me a call.

Sincerely,



Robert J. Roeder  
Administrative Officer

Enclosures



# EBRI

April 20, 1981

Mr. Robert Roeder  
Freedom of Information Officer  
PCPP  
736 Jackson Place N.W.  
Washington, D.C. 20006

Dear Mr. Roeder:

This letter shall serve as an official request for information under the Freedom of Information Act.

1. One copy of all items referred to in your letter of April 8, 1981 as not yet available
2. One copy of the final report from PCPP contractor ICF, Inc. titled "Background Analysis of Potential Effects of a Minimum Universal Pension System (MUPS)" Received 5/1/81
3. One copy of full documentation and data tapes from PCPP contractor SRI International as soon as available.

Let me know should you need additional information.  
Thank you in advance for your cooperation.

Sincerely,



Dallas L. Salisbury  
Executive Director

DLS/bw

**EMPLOYEE BENEFIT RESEARCH INSTITUTE**

1920 N Street, NW/Washington, DC 20036/Telephone (202) 659-0670