TESTIMONY

OF

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BEFORE

SUBCOMMITTEE ON OVERSIGHT AND SUBCOMMITTEE ON SOCIAL SECURITY

COMMITTEE ON WAYS AND MEANS

JOINT HEARING

RETIREMENT INCOME SECURITY IN THE UNITED STATES

September 6, 1985

Chairman Jones and Chairman Pickle, it is a pleasure to appear before you today representing the views of the Sun Company. Your efforts to look at public sector and private sector programs are very important. As I hope to make clear to you today, I believe that the U.S. retirement income system has been a remarkable success. But the system could nonetheless be improved if there were better coordination of our various retirement income policies, and for that reason, I commend you for your endeavors in this area.

Previous witnesses, in particular Mr. Dallas Salisbury of the Employee Benefit Research Institute (EBRI), have presented you with the relevant national data. EBRI's research on this subject is the very best that exists, and I hope you will give it your careful attention.

I would like to answer the four major questions you posed in the press release announcing this hearing, with reference to the experience at the Sun Company, where I have worked since the 1950s as Director of Special Projects, Director of Human Resources, Vice President, and Director of Compensation and Benefits.

What Is Retirement?

Retirement is the completion of an employee's tour of duty with an organization, and the time when the individual turns his or her attention to other activities.

Currently, the Sun Company has approximately 12,500 active employees and approximately 10,400 retired workers and survivors of retired workers.

I would say that our retirees, as a group, are very satisfied with the standard of living that they have in retirement, based upon their careers with the Sun Company. In July 1984, for example, one of our retirees testified before the Senate Finance Committee. John W. Kriebel, then age 77, testified how his retirement benefits allowed him to successfully overcome a year-long battle with cancer at the Sloan-Kettering Hospital in New York. And he compared the administration of his benefits at Sun with the unfavorable experiences he had with the publicly administered Medicare program. "The private sector can adminster these programs beautifully," he said. And I quote: "They do a wonderful job. And in the private sector you are eyeball to eyeball with the administrator of the program. If you have a problem you can go to them; they know who you are. You are not a number. And it has just been a wonderful experience to be with Sun and be retired." That is what our retirees think, and as I say, it's a matter of public record.

The average age of our retirees has held steady at about 60.5. About one in five does some volunteer work and about one quarter do some work for pay, although only 15 percent have regular jobs. Only 43 percent don't work and don't want to work. Money is not the prime motivator among people who work or want to work. The main motivations, we learned in a recent survey of Sun Company retirees, are the pleasure of the work itself, the feeling of making a contribution, and the enjoyment of being with others. Financial necessity or money for extras are secondary reasons for working. These findings for Sun Company retirees accord with results from a nationwide survey conducted for the National Council on Aging. As health and longevity continue to improve, it would not surprise me if more of our retirees in the future won't want to engage in some paid work after retirement.

As far as the company itself goes, Sun has evolved a basic philosophy with respect to employee benefits. It believes that benefits are part of total compensation and that in the aggregate, this compensation should be competitive in our industry and in our geographic areas. Sun believes that these benefit programs should include plans for retirement, capital accumulation, premature death, medical care, disability income, paid time-off, etc. Sun also believes that its benefit programs should encourage employees to plan and save for their own economic security. The federal government, likewise, has an important role to play in ensuring basic economic security through programs like Social Security and Medicare, and through reasonable tax incentives to stimulate additional necessary benefits.

In our benefit planning, postretirement employment is not a factor that we give consideration to, except in the very broadest terms, when we are looking at special early retirement arrangements. In other words, we plan for our employees to have adequate retirement incomes based on Social Security, the Sun Company pension plan, and their own savings for retirement.

<u>What are the major sources of retirement income today?</u>

Sun maintains a carefully designed retirement program for career employees, which is intended to meet their income replacement needs. This program is made up of two plans.

One is a defined benefit pension plan, the Sun Company, Inc. Retirement Plan, which provides fixed retirement income and serves as the primary source of retirement benefits. Our philosophy is that a retirement plan should provide a stream of income in retirement. Therefore, the Sun Company plan does not allow lump-sum distributions from its defined benefit plan.

The other plan is a defined contribution capital accumulation plan, which is called "SunCAP". This plan combines a cash or deferred arrangement 401(k) with a thrift plan feature which together provide for pre-tax employee contributions, the first 5 percent of which are matched dollar for dollar by Sun Company contributions. Upon termination or retirement, an employee's account balance is available in the form of a lump sum. Sun Company has an arangement with a major insurer, which allows employees to convert their lump sum to an annuity at a favorable interest rate.

Although Sun does not subscribe to the principle of automatic indexation, it has granted approximately 10 ad hoc increases to retiree pensions since 1960. Today we have a system called ORBIT where employees may choose to use part of their SunCAP account to purchase an annuity which will provide inflation protection. Sun matches employee contributions dollar for dollar to purchase the annuity at retirement. This provides a total of 15 annual retirement increases. Your Committee could help American industry provide some inflation protection for retirees if you would approve legislation (H.R. 3179) that is before you, sponsored by Rep. Kennelly, Chairmen Pickle, Rep. Archer, and others. H.R. 3179 would encourage the spread of this type of postretirement benefit adjustment to offset inflation. Attached to my statement is a fact sheet that more fully explains the benefits of this legislation.

Sun also provides health insurance to retirees and a modest amount of life insurance. After retirement, there is an automatic 50 percent spouse's pension provided.

The amount of money that Sun spends for its retirement benefits is substantial. In 1984, for example, for an average of 13,350 active employees, Sun paid $29.7 million in F.I.C.A. contributions. Our defined benefit pension expense was $32.8 million. The company's contributions to the defined contribution plan was $18.4 million, while employees themselves contributed an additional $50 million to the defined contribution plan. The Sun Company's annual spending for medical benefits was $36 million, of which $22 million was for active employees and $14 million for retirees. We also spend another $5 million on long-term disability and over $4 million in death benefits. Altogether, then, the Sun Company's expenditure for the combination of retirement security programs amounted to nearly $95 million. Let me emphasize that the $95 million total excludes roughly $60 million in pension payments to annuitants, excludes the health insurance contribution for active employees as well as spending for disability and death benefits, and it excludes the employees' contributions to the defined contribution capital accumulation plan.

F.I.C.A. contributions made up about 31 percent of the total, defined benefit pension expense about 34 percent, defined contribution plan contributions comprised 19 percent, and health insurance for retirees about 15 percent of the $95 million total.

How can we define "adequate" retirement income security?

As we see it, adequate retirement income is a shared responsibility of the federal government, employers, and the individuals themselves.

The Sun Company believes its career employees should be provided enough income to support a comfortable basic lifestyle and that the employees' own savings should provide the additional amenities of life. In designing our retirement benefits, Sun aims to replace 50-55 percent of preretirement income for the higher paid, and 65-75 percent for the lower paid. These targets have been set with the needs of a retired couple in mind. And we have achieved these replacement targets through a combination of defined benefit pension plan benefits integrated with Social Security. The following table illustrates precisely how we achieve those targets at various income levels -- and how much of retirement income comes from Social Security and how much comes from the Sun Company Retirement Plan.

These replacement targets do not include monies saved through the SunCAP program. The employer matching contribution for this program is designed to encourage individuals to save. And most of them do. But if an individual wants more than the target replacement rates, they have to save money for that purpose.

At Sun, we are concerned about the changing composition of our work force and of our society, and we are reviewing our retirement income plans with these

APPROXIMATE RETIREMENT BENEFITS

AS A PERCENTAGE OF EARNINGS AT RETIREMENT

Earnings at Retirement	Percentage of Employee Population at Earnings Level	Percentages of Earnings at Retirement: Sun Company, Inc. Retirement Plan Benefit Payable at age 65	Social Security Benefit Payable at age 65	Total Retirement Income
$10,000 - $19,999	8.2%	26%	44%	70%
20,000 - 29,999	51.7	32	32	64
30,000 - 39,999	12.2	36	24	60
40,000 - 49,999	12.5	39	19	58
50,000 - 59,999	7.5	40	15	55
60,000 - 69,999	3.0	41	13	54
70,000 - 79,999	3.0	42	11	53
80,000 - 89,999	0.9	43	10	53
90,000 - 99,999	0.5	43	9	52
$100,000+	0.7	44	8	52

Notes

1. Retirement in 1984 at age 65 with 35 years of service.

2. Historical salary increases of 6%/year.

changes in mind. For one thing, we are experiencing more mobile employees, who change jobs more frequently than the traditional career employee we have attracted in the past. We are asking ourselves whether we need to provide a retirement arrangement that will permit a more rapid pension accrual for these mobile workers. We are also trying to understand what the implications of more second careers, and more two earner couples mean for the target replacement rates we have set.

The point is, your Committee is not alone in asking these important questions. Companies like Sun are analyzing changes in work habits and trying to consider the adjustments that are appropriate to accomodate those changes.

What role does federal tax policy play in retirement income security?

I think an important first step in answering this question is to understand why employers provide benefits to begin with. Many policymakers appear to be shocked by how much of an employee's total compensation is in benefits. For medical benefits alone, the bill is enormous.

Employee benefits have an important social purpose. Benefits are designed to address the basic needs that arise from aging, death, illness, disability and so forth. People also need to be able to cope with inflation after retirement, so I would add to that list of basic needs the need to accumulate capital for retirement. In other words, benefits provide economic security. Sometimes we become so enmeshed in the technical details that we lose sight of the basic purpose of benefits, which is to provide economic security. This is especially true of retirement benefits.

These programs have evolved over the years for a number of reasons. At one time or another they have been provided by enlightened management, and at other times, no doubt, companies have been pushed along by strong unions, federal legislation, socioeconomic factors, and employees' expectations. Today, the United States has an excellent system of employer-provided benefits as a result.

It is psychologically unsound to assume that human beings, if left to their own devices, would provide for themselves with logical, sound, cost-effective, integrated benefits. It is therefore very important for an employer or some central source -- it can be a union -- to provide structure and leadership, as well as economies of scale and time.

In meeting this social purpose, employers provided benefits in the context of the then-current tax code. Today each industry has evolved to a level of retirement and other benefits that meets each industry's different needs. Tax policy has had very little to do with the reasons for creating those benefits, but it plays a really key role in determining their shape and their future levels.

In talking about the effects of tax policy on employer provision of benefits, I would say that you have to distinguish between the short-term and the long-term impacts.

In the short-term, the main effect of tax policy is on the way plans are designed.

In the long-term, however, adverse tax legislation can affect not only the design of a pension plan but also the type of program and even the very existence of a program. In other words, the decisions made by this Committee could have very serious long-term implications for the future of American society.

Overall, the current body of tax code provisions are achieving their social goals. In the Sun Company's opinion, Congress has contributed to what is an absolutely brilliant success story-- with the private sector now complementing the Social Security and Medicare efforts by providing comprehensive retirement and other benefit programs for millions of workers, retirees and their families. These benefits are broadly distributed across people of different income levels. In the oil-related activity of our company, for example, all of our regular employees -- 100 percent -- are covered by the pension plan.

If you are reexamining these tax incentives with respect to basic tax reform, I would recommend that you view benefits in two tiers. There are the first tier of benefits, the basic benefits that are just the basic needs of humanity associated with aging, disability, illness and death. And there are some newer forms of benefits, like 401(k), which work very well in this context by promoting capital accumulation that can be used, for example, to buy inflation protection for retirees.

The second tier of benefits may be somewhat "exotic," that is, benefits that aren't absolutely necessary for the provision of economic security.

In the future, I think we shall see a return of emphasis by employers and by employees to the basic economic security benefits. If Congress is determined to change the tax incentives for employee benefits in connection with tax reform, then I don't disagree with your making changes in some of these benefits which aren't absolutely necessary.

But in the process of tax reform, don't undercut the tax incentives that support the basic core of employer-provided retirement and welfare plan benefits, which have been truly succesful. If you do cut tax incentives for those basic benefits, then tax reform will end up hurting American workers, retirees, and their families -- instead of helping them.

Sun Company's retirement and welfare programs are designed to provide financial security and independence for employees, which are long-standing national policy goals. Without the current tax incentives, Sun Company would be less inclined to develop new programs and would likely reduce existing benefits to coincide with new limitations, providing employees and retirees with a lowered level of economic security. To the extent that these tax incentives are "rolled-back" by Congress as part of tax reform, financial independence of workers and retirees would be replaced by greater dependence on the public programs. The public programs, as this Committee certainly knows, have serious long-term problems of their own.

I hope these remarks have been helpful to the Committee and would be happy to respond to any questions you may have.