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on

HR 3930

THE SINGLE EMPLOYER PENSION PLAN AMENDMENTS ACT OF 1983

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

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Mr. Chairman, it is a pleasure for the Employee Benefit Research Institute to submit this statement to the Committee on H.R. 3930, the "Single Employer Pension Plan Amendments Act of 1983." The Institute, a non-profit, non-partisan public policy research organization, has conducted research since 1978 that can assist in your decision making.

The Institute's first educational project related to the plan termination guarantee program, bringing together experts from several nations. The resulting book, Pension Plan Termination Insurance: Does the Foreign Experience Have Relevance for the United States? 1/ examines many of the issues dealt with in H.R. 3930. Points relevant to consideration of HR 3930 were highlighted in this book. A plan termination benefit guaranty program:

- Affects the behavior of the sponsors of pension plans including how to fund the defined benefit plan, how to invest the assets, and whether or not to continue sponsoring the plan;

- Affects the sponsors' balance sheet, the valuation of corporate securities, and the conditions of mergers and acquisitions;

- Affects the decisions of employers and employee representatives regarding the type of retirement income plan to establish and maintain.

The publication, drawing upon foreign experience, indicated that:

- adverse selection is inevitable as long as the sponsor has the discretion to terminate a plan. That is, termination of plans that are either overfunded or underfunded is more likely with a guaranty program;

- because of the adverse selection which results from sponsor control of the termination event, premiums will have to be much higher than originally expected and will grow continuously;

- premium increases will bring additional adverse selection among well funded plans causing deterioration of the premium "base," and in turn, higher premiums.

The participants in our 1979 forum concluded that changes in Title IV of ERISA were needed to preserve the integrity of defined benefit pension plans and of the Pension Benefit Guaranty Corporation (PBGC). An articulate and comprehensive summary of the U.S. program was presented in the book and is included here as Attachment 1. That paper concluded with the following statement, still true today:

> " Decisions made in the next several years in the areas discussed here -- funding, plan termination, insolvency, privatization, the basic nature of the pension promise, and, most important of all, the ultimate financial resource -- will be critical in determining the future of the private pension system in the United States".

<u>H.R. 3930</u>

Judged against the consensus reached in that 1979 meeting, HR 3930 would reduce incentives for sponsors to terminate underfunded plans. Among fully funded plans (on a termination basis) HR 3930 would not fully neutralize against adverse selection. A fixed premium increase to $6.00 (Section 103) will significantly increase the pure subsidy of the PBGC by these plans. Provisions in this bill for a CRS premium study, and movement towards a variable rate premium offer sponsors the hope for equity in the future. Since employers have voluntarily established defined benefit plans this "hope" may be enough to offset current cost incentives for termination. And, by continuing to allow voluntary termination (Section 105) "fully" funded plans are not given additional incentives to rush out the door, beyond the $6 premium.

The Congress must carefully consider the premium issue. Amortizing PBGC liabilities over a longer period of time (this rate equals approximately 5 years) would allow a lower premium. This, however, may be a slight price for PBGC to pay in order to maintain defined benefit pension plans and avoid eroding the PBGC premium base. Increasing the premium to $6 has been said to be "nothing" by the PBGC. But, it is 100% more than must be paid for the privilege of maintaining a defined contribution plan.

HR 3930 also contains provisions that reduce the "risks" attached to "fully" funded plans being maintained. Without commenting on specific provisions, the bill significantly restricts the ability to manipulate the PBGC by "dumping" liabilities on it, and through the PBGC, on sponsores of well-funded plans.

The concepts of distress terminations (Section 106), termination trusts (Section 108) and plan restoration (Section 109), are all consistent with bringing greater stability to the PBGC and the pension system.

Contingent liability (Section 111), funding waiver liens (Section 112) and the evasion screen (Section 114), move the program in this same stabilization direction. And, for all plans, the specification of all actions after September 20, 1983 as falling within SEPPA's purview limit the likelihood that sponsors will take action now to avoid the law's consequences.

Is HR 3930 A Good Solution?

There were many at the Institute's 1979 forum who believed that the PBGC should be eliminated along with any form of termination guarantees. There are many today who still feel that way. Most, however, take the existence of the program as a given. If it is, then both the public interest and enlightened private interest lies, in having the 1974 version of Title IV adjusted to reflect experience.

Some special interests might accurately argue that HR 3930 does not present the best solution. The real question must be whether or not it is a good step forward.

Judged against the concensus of the international experts assembled in 1979, the private pension system, and the future retirement income security of millions of workers may depend on the Congress taking action rather than leaving these issues unresolved.

Congress must decide what exactly to do. The Institute's research indicates, however, that it is time for Congress to act.

1/ Pension Plan Termination Insurance: Does the Foreign Experience Have Relevance for the United States? (Washington, D.C.: Employee Benefit Research Institute, 1979).

THE PENSION REINSURANCE PROGRAM IN THE UNITED STATES*

The enactment in 1974 of Title IV (pension plan termination insurance) of the Employee Retirement Income Security Act (ERISA) has had a greater impact on retirement income in the United States than any other event since the enactment of the federal Social Security Act in 1935.

HISTORY OF PENSION PROTECTION IN THE UNITED STATES

The first pension plan in the United States was established by New York City in 1859, covering its policemen. The first plan in industry was the American Express Company plan in 1875. Another significant year was 1905 when the Granite Cutters established the first trade union (multi-employer) plan. All these plans, as well as all other plans established before 1917, were funded on a pay-as-you-go basis. No reserves were established from contributions of the plan sponsors. If a plan sponsor became insolvent or terminated the plan, the pension payments generally stopped and all benefits were lost.

Some of the early plans required employee contributions, in which case these amounts were accumulated in employees' accounts. However, it took 58 years from the establishment of the first pension plan to the establishment of the first funded plan in the United States. The first plan established on a funded basis for both the employees' and the employer's money was the Teachers' Retirement System of the City of New York, which began operating in 1917. In 1921, the first insured group annuity contract was issued by the Metropolitan Life Insurance Company of New York.

In 1935, the establishment of the federal Social Security system greatly expanded the idea of pension planning and created a floor of protection. Contributions were paid into the fund starting in 1937, although benefit payments did not begin until 1940. As a result, a fund was created from which benefits were paid. In the early days the fund and incoming contributions were sufficiently large to maintain the benefits on an actuarially sound basis. This, together with the fact that the official name of the Social Security Act is the "Federal Insurance and Contribution Act," has led most people erroneously to view Social Security as insured and actuarially sound, and to expect a relationship between their contributions and expected benefits similar to the relationship between premiums and proceeds from an insurance company.

By 1940, the private pension system in the United States covered more than 4 million persons (out of a total population slightly more than 130 million) receiving annual benefits of $140 million. Pension reserves totaled $2.4 billion in 1940, one-fifth of what they would be ten years later.

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*Presentation given by George B. Swick, Chairman of EBRI's Research Committee. Assistance in the preparation of these remarks was given by David H. Gravitz, Consulting Actuary, Buck Consultants, Inc.

There were two major causes of expansion in the private pension system in the 1940s. Inflation and taxation during World War II stimulated the expansion of private pension plans in industry. More than 2-1/4 million additional workers became covered by plans by 1945. The other major factor encouraging the spread of private pensions stemmed from collective bargaining. After World War II, many unions wanted to include pensions and other welfare benefits in the labor negotiation process. In a landmark decision, the United States Supreme Court ruled in 1949 (Inland Steel Co. v. National Labor Relations Board) that employers were required to bargain on the issue of pensions. Also in 1949, the Steel Industry Fact-Finding Board held that the steel industry had an obligation to provide its workers with pensions and other welfare benefits to take care of temporary and permanent depreciation of human machinery. From 1950 on, the unions have been an important factor in the spread and direction of pension coverage in the United States.

By 1950, more than 10 million persons (out of a total population in excess of 150 million) were covered under private pension plans. Pension reserves approached $12 billion and annual payments to beneficiaries totaled $370 million. Annual contributions to these plans exceeded $2 billion by 1950.

Concern had been expressed for many years by a growing number of observers as to how well private pension programs were functioning. While only a small percentage of pension plans had actually failed, a considerable number of workers did lose benefits even after many years of service. Vested rights for workers were far from universal, and the funding provisions for some plans were less than sound.

During the 1950s and 1960s, typical eligibility requirements for vesting for plans that had vesting were 15 years of service and attainment of ages 40 or 45, but in many cases the employee had to be laid off or lose his job through a plant closing to vest; employees who quit could not get a benefit unless they were eligible to retire. Many plans had no vesting before reaching retirement age. In short, from 1950 through 1974 employees had limited guarantees that their pensions would be paid if their plan terminated.

Some pension plans were insured. To the extent pensions were purchased from and guaranteed by an insurance company, they would be paid. Under trusteed plans and certain insured plans, however, employees could look only to the funds already accumulated for payment of their pensions. The allocation of the available funds also could vary widely from plan to plan, depending on the rules of the plan and the Internal Revenue Service (IRS) regulations. Some employees would receive their entire pension, some would receive a portion of it, and some employees would receive nothing. Companies were not legally required to guarantee pensions. Occasionally a company would undertake to provide pensions payable to the extent the pension fund was insufficient, but this was a voluntary act, not required by law.

One large union took the position that funding was not important provided the employers were contractually liable to pay pensions to the extent the pension fund was unable to pay them. Another large union took the opposite approach. Its pension settlements did not require the employer to guarantee payments of pensions; however, the contributions were required to be actuarially determined and be at least equal to the normal cost plus 30-year amortization of the unfunded past service cost. Other unions (e.g., in the craft trades, construction industry, and maritime industry) felt there was strength in numbers and had all employers contribute to a single pension plan. Under these multiemployer plans, covered employees could move from participating employer to participating employer without loss of pension credits. Conservative funding was not considered necessary because many employers were contributing.

The "Studebaker Incident"

In 1963 an event occurred that brought to the forefront the question of pension security in the United States and led directly, 11 years later, to the passage of ERISA. In December of that year, Studebaker, a large automobile manufacturer, closed its main United States plant in South Bend, Indiana. Thousands of employees were put out of work and the pension plan was terminated. The plan had been negotiated with the United Auto Workers (UAW) and contained the 30-year funding requirement described above.

The Studebaker plan had been amended just two years before the plant was closed. The amendments increased the benefits substantially, including benefits for past service. There was insufficient time in two years to build up the assets needed to augment the new past service benefits, even though the funding of the plan was in accordance with the labor agreement. As a result, the assets in the pension fund were insufficient to meet the pension liabilities. Although there was enough money to pay the benefits to those workers already retired (including the benefits that had been increased two years earlier), there was little left for the current work force. Employees within a few years of retirement lost about 40 percent of their pension. Younger employees lost their entire pension.

There are two points of interest here. First, the loss of pension benefits occurred despite the fact that the Studebaker Company met its 30-year funding obligation to the plan. Second, scheduled contributions under the plan exceeded the minimum funding requirements to be prescribed 11 years later by law (ERISA).

In the opinion of many pension experts, the Studebaker closing was the single most significant factor leading, first, to the passage of ERISA and, second, to the inclusion of termination insurance in ERISA (Title IV).

CURRENT STATUS OF PENSION PROGRAMS IN THE UNITED STATES

Federal Government Programs

The Social Security system in the United States provides a minimal level of retirement income. Benefits are provided free of tax, except that employee Social Security taxes are paid from after-tax income. The benefits are fully vested and fully portable, and form an important source of retirement income to all covered workers. The Social Security system benefits, however, do not provide an acceptable level of retirement income and, as a result, private pension programs cover approximately 45 million workers in the United States.

While the federal Social Security system was established as a separate and segregated trust fund, with reserve accumulations fully contemplated, its provisions, both by statute and practice, furnish retirement income solely through a redistribution of wealth using the federal tax laws to furnish the necessary funds. Thus, federal Social Security benefits are guaranteed by the power of the federal government to tax its citizens--what economists call "transfer payments." It is not surprising, then, that over the years since 1935 the Social Security system has become a conduit through which tax revenues are redistributed to the retired population without significant accumulation of reserves.

Federal governmental employees, both civilian and military, are covered under comparable "funding" arrangements--that is, an allocation of federal tax revenues without a significant accumulation of reserves.

Interestingly, the receipts and disbursements of both Social Security and the federal governmental employee plans are included in the federal budget.

There is no reinsurance protection for participants in these plans other than the taxing powers of the federal government.

<u>State and Municipal Government Programs</u>

The United States consists of 50 states. Each state consists of smaller subdivisions of local governing bodies (counties, cities, towns, or villages), often collectively called municipalities or local governments. Each state and municipality has certain revenue raising powers, within the limits established by the particular state. An important aspect of our system is that the federal government has no control or authority over most taxes levied by the states on their citizens.

Employees of state and municipal governmental units may be covered by locally adopted governmental retirement systems either supplemental to or exclusive of coverage under the Social Security system. That is, state, county, and municipal governmental units participate in the Social Security system on a voluntary basis.

As in the case of federal government systems, state and municipal government programs are financed by local tax revenues. Some of these programs are well-funded, using sound actuarial principles, while others are handled as a direct "income transfer" redistribution of current tax revenues, without a significant accumulation of reserves.

Title IV of ERISA is specifically not applicable to these plans. As in the case of the federal programs, there is no reinsurance protection for participants in these plans beyond the ability of the local governmental units to tax their citizens.

Private Sector Programs

Private pension programs are established and financially supported by one of four types of arrangements:

* a single employer, unilaterally established;

* a single employer, established pursuant to a collectively bargained labor agreement;

* a group of employers acting as a multiple employer group, unilaterally established; or

* a board of trustees, acting as a multiemployer group, established pursuant to a series of collectively bargained labor agreements.

Private sector pension programs fall into one of two important categories. Under defined contribution plans, contribution rates are specified in dollars, percentages of compensation, or percentages of profits, and the available resources are then equitably assigned among individual participants. Under defined benefit plans, participants receive defined benefits in either specified dollar amounts or specified percentages of compensation, with the plan sponsors accepting responsibility for the financial resources.

Defined Contribution Plans. Under defined contribution plans, benefits to participants are directly related to accumulated financial resources. Investment performance, good or bad, inures directly to the plan participants. No other financial resources are available, and Title IV of ERISA is not applicable.

It is of interest to note that, under defined contribution plans, the entire proceeds can be invested in securities of the plan sponsor. Indeed, the Congress of the United States has indicated, through tax legislation, that it enthusiastically supports Employee Stock Ownership Plans under which employees obtain an ownership position in their employer by means of a defined contribution plan. The Congress has also encouraged the establishment of defined contribution plans for self-employed individuals and those individuals whose employers do not provide a pension plan, again through tax legislation. The Congress has not provided any reinsurance program for such plans, however; the plan participant assumes the entire investment risk.

Defined Benefit Plans for Single Employers. Under defined benefit plans, participants receive specified benefits upon satisfying specified age and service requirements. The important issue then becomes how the financial resources are to be provided by the plan sponsor or sponsors.

Prior to ERISA, the tax laws were used to encourage adequate funding and the accumulation of adequate reserves. The plan sponsors' financial contributions were tax deductible, provided that sound actuarial principles were followed and minimum contribution levels were met. Prior to ERISA, these plans could be terminated at any time. Most plans provided that, in the event of plan termination, the participants could look only to the available assets of the plan for fulfillment of their benefit entitlement. In certain situations, however, collectively bargained labor agreements specified that the plan sponsor would guarantee benefits, if not covered by available assets, to the extent of its available resources. In a bankruptcy situation, plan participants could expect little, if any, financial recourse beyond the assets of the plan itself.

Under ERISA, the minimum contribution levels were strengthened and a most significant reinsurance program was added in Title IV. In contrast to the situation with respect to defined contribution plans, severe restrictions were placed upon investment in securities of the plan sponsor even though the participants were, for the most part, rendered risk-free by Title IV of ERISA.

Multiple Employer Plans. Multiple employer plans are, in general, an assembly of single employer plans for the purpose of joint administration. Each employer is essentially responsible for the financial security of its own employees, and Title IV of ERISA provides the same reinsurance security. These plans cover relatively few employees, and will not be the subject of further discussion.

Multiemployer Plans. While multiemployer plans present a difficult descriptive challenge, they do represent a major sector on the United States private pension scene. For the most part, these plans are defined benefit pension plans. They are established through a series of collective bargaining labor agreements between a single labor union and a group of employers whose employees are represented by that labor union. Contributions to the multiemployer plan are set forth in the collective bargaining agreements. These plans are administered by, and have their benefits established by, a board of trustees consisting of equal numbers of union and management representatives.

Prior to ERISA, multiemployer plans were generally considered to be defined contribution plans in the sense that each participating employer had no obligation beyond the requirement that it meet the contributions required by the labor agreement. Since these plans provide specified benefits to participants, the Congress included multiemployer plans within Title IV of ERISA, so that, theoretically at least, the participants in multiemployer plans had the same reinsurance provisions as participants in single employer defined benefit plans. In actual fact, however, the effective date of the application of Title IV to multiemployer plans has been deferred three times, most recently until May 1, 1980.

A joint board of trustees tested the application of Title IV of ERISA to multiemployer plans, contending that such plans were, in fact, defined contribution plans and thus not subject to Title IV of ERISA. The federal Supreme Court affirmed (in the case of Connolly v. PBGC) that Title IV of ERISA does not apply to multiemployer plans, however, when and if coverage is allowed to become effective.

PENSION PROTECTION UNDER ERISA

The so-called "broken promise"--the failure of pension plans to pay the pensions that employees (rightly or wrongly) expected to receive--surfaced in 1964 and inexorably led to the passage of ERISA 10 years later. Congressional concerns about pensions and the philosophy behind ERISA is evident in the declaration of policy in the beginning of ERISA.

> It is hereby declared to be the policy of this Act to protect ... the interests of participants in employee benefit plans and their beneficiaries, by requiring the disclosure and reporting to participants and beneficiaries of financial and other information with respect thereto, by establishing standards of fiduciary conduct, ... by improving the equitable character and the soundness of such plans by requiring them to vest the accrued benefits of employees with significant periods of service, to meet minimum standards of funding, and by requiring plan termination insurance.

Under ERISA, five principles were established on which pension security could theoretically rest:

* disclosure of pertinent information to employees;
* fiduciary standards of conduct;
* minimum vesting requirements;
* minimum funding standards; and
* plan termination insurance.

The first principle, <u>disclosure</u>, requires plan sponsors to inform participants of their rights and obligations under the plan and to provide them with the necessary information to make proper, informed decisions. <u>Fiduciary standards</u> assure employees that they will be treated equitably and fairly and that the pension funds will be used solely for their benefit. Under most plans, ERISA's <u>vesting</u> standards guarantee an employee with at least 10 years of service that he will be entitled to a benefit starting at normal retirement age (usually 65), regardless of the age his employment terminates. This avoids some of the pre-ERISA horror stories regarding employees with 20 or 30 years of service who did not receive a pension because they left the company prior to retirement (voluntarily or otherwise) or the plan was terminated shortly before they would have been eligible to retire.

The rest of this paper will deal primarily with the remaining two principles--<u>funding standards</u> and <u>plan termination insurance</u>. The first three principles are designed to ensure that all employees who are eligible to pension entitlement actually <u>become entitled to them</u>. Funding standards and termination insurance are designed to ensure that those employees who are entitled to pensions actually <u>receive them</u>.

Legislation addressing all five principles was considered necessary because previous laws were deemed insufficient to provide the desired protection to employees. However, it should be noted that even before ERISA was passed, laws existed--at both the federal and state levels--regarding disclosure, fiduciary standards, vesting requirements, and minimum funding standards. The only new concept produced by ERISA was plan termination insurance, a concept that had never before been considered in the United States. It is not unexpected, therefore, that such hasty legislation has resulted in massive problems, both conceptual and practical.

The full realization of these problems is only now coming into focus, five years after ERISA became law, as major revisions are being proposed to the Congress by the Pension Benefit Guaranty Corporation (PBGC), the agency created by Title IV of ERISA itself. As previously indicated, plan termination insurance is still not in effect for multiemployer pension plans.

PENSION FUNDING IN THE PRIVATE SECTOR

When all issues are reduced to basics, the single underlying element is funding--when, how, and by whom.

The very nature of pensions suggests pre-funding. Benefits are earned over an employee's working career and are paid out in retirement after the career ends. Properly, the liability must be recognized while the employee is working, since pensions are in the nature of deferred compensation. The early history of pensions is rife with the failure of pension plans that were administered on a pay-as-you-go basis. The low outlay in the early years enticed many employers into promising higher pensions. These employers, after a period of time, found their pension payments increasing at such a high rate that the plan could not be financially maintained.

A "funding method" is a budgeting process that provides an orderly accumulation of funds during a worker's employment to provide benefits when due--the accountant's concept of matching revenues and expenses. Ordinarily this does not create problems for a continuing plan. Pension costs, as a percentage of compensation, can be predicted for a plan within a relatively narrow range. Problems sometimes arise, however, when a company has overall financial problems, or in cases where the work force is declining.

Reasons for Insufficient Funding

Occasionally, due to these financial problems or for other reasons, a plan--voluntarily or involuntarily--terminates. When this happens, even in plans that have been in existence for many years, plan assets may not be sufficient to provide the vested benefits. Three circumstances that can lead to an insufficiency of plan assets are: depressed value of assets, early retirement, and past service.

Depressed Value of Assets. As a result of the vagaries of the investment decisions, less assets may be available to provide benefits than anticipated.

Early Retirement. Many plans provide early retirement benefits that significantly exceed the actuarial equivalent of the normal retirement benefits. The actuary normally expects only a fraction of those workers eligible to retire early in any year to actually retire in that year. When plan termination is accompanied by the closing of the facility or other termination of employment, however, as it often is, the increased number of early retirements can add significantly to the plan's pension liability.

Past Service. Pension plans are periodically improved, often every three years in many collectively bargained plans. When pension improvements are made, they are often granted for all previous service, as well as for service after the date of change. This increase in benefits for past service creates an immediate increase in vested liabilities under the plan (for all employees who are then vested). However, the increased liability is funded over a long period of time. Therefore, if a plan (even a well-funded plan) terminates soon after a sizable benefit increase is granted, there are likely to be unfunded vested benefits. This is what happened in the Studebaker situation described earlier. In addition, the required liberalization of the vesting requirements under ERISA has substantially increased vested liabilities under many plans. (In a later section is discussed the phase-in rule in relation to this situation.)

Table 1-1 shows the percentage of the past service liability that has been funded at various elapsed times after the liability is established, depending on the past service funding period used. Ten-year funding is the shortest period that can be used to obtain a fully tax-deductible contribution. Thirty or forty years represent the minimum past service funding requirements under ERISA, whereas interest-only funding was the minimum past service requirement before ERISA. Using a 6 percent interest rate, the table shows that during the first 10 years, the liability is more than ten times better funded on the 10-year period than the 40-year period, and that it takes over 20 years on 30-year funding and about 30 years on 40-year funding to fund even half of the past service liability.

Minimum Funding Requirements

Before ERISA, the minimum required contributions were equal to the normal cost plus interest on the unfunded past service cost on a cumulative basis. As shown in Table 1-1, past service costs would not be amortized on an interest-only basis and, in this case, the continuation of a plan was an absolute necessity to ensure payments of benefits. In effect, contributions on behalf of younger workers were helping to pay the past service benefits of pensioners. Under certain funding methods before ERISA, experience gains could be used as a direct offset against the next year's contributions.

TABLE 1-1

LEVEL OF PAST SERVICE BENEFIT FUNDED OVER A PERIOD OF TIME
(BASED ON 6% INTEREST RATE)

YEARS ELAPSED	FUNDING PERIOD (YEARS)				
	10	20	30	40	Interest Only
5	43%	15%	7%	4%	0%
10	100	36	17	9	0
15	100	63	29	15	0
20	100	100	47	24	0
30	100	100	100	51	0
40	100	100	100	100	0

The funding requirements under ERISA increased the contributions required under many plans. Under ERISA, the minimum required contribution is equal to:

* normal cost, plus
* 40-year funding of pre-ERISA past service costs, plus
* 30-year (40-year for multiemployer plans) funding of post-ERISA past service costs, plus
* 15-year (20-year for multiemployer plans) funding of experience gains and losses, plus
* 30-year funding of gains and losses resulting from changes in actuarial assumptions.

ERISA requires the enrolled actuary to maintain a funding standards account, to determine the required contributions, and to certify to the Internal Revenue Service (IRS) that the assumptions used are reasonable.

Each year the funding standards account is charged with the minimum required contributions to the plan and credited with the actual contributions made. If the charges exceed the credits, a funding deficiency exists and the plan becomes subject to additional taxes and penalties and is also required to report this occurrence to the PBGC as a reportable event. If the credits exceed the charges, the net credit balance is brought forward with interest. At any time, the net credit balance indicates approximately how much extra contributions over the minimum required payments have been paid to the plan since the plan became subject to ERISA funding requirements. If a plan has a credit balance, its contributions may be reduced below the minimum ERISA requirements by an amount up to the credit balance without creating a funding deficiency.

Under the Internal Revenue Code, as amended by ERISA, the maximum tax-deductible contribution is equal to the normal cost plus 10-year funding of the past service cost. Before ERISA, the maximum deductible contribution was the normal cost plus 10 percent of the past service base.[1]

TERMINATION INSURANCE

Basic Purposes

The extent to which accruing benefits are often not funded until many years after they have accrued or become vested in employees is illustrated vividly in Table 1-1. If the plan terminates at a time when significant unfunded liabilities exist, there will generally not be enough assets in the plan to provide the vested benefits when due. This situation may be made worse, as indicated earlier, if the termination occurs during depressed securities markets or if an unusually large number of early retirements occur.

Society, as represented by the Congress, has determined that the loss of these pension benefits should not be borne solely by the employees involved, as had been the case in the past, and that it is the duty of the federal government to provide these benefits from funds to which all covered pension plans contribute. The federal agency which administers this program is called the Pension Benefit Guaranty Corporation (PBGC).

If this were the complete issue, termination insurance would be a relatively simple concept. However, there would be nothing to prevent an employer from establishing a high level of vested benefits in a plan, terminating the plan, and walking away from his responsibility, with the PBGC and, therefore, the economy in general "holding the bag." In its attempt to inhibit such conduct, the Congress created the fundamental issue that complicates Title IV--employer liability. Employer liability gives the PBGC the right to recover from the employer up to 30 percent of the employer's net worth to offset, in part, the cost of benefits paid by the PBGC as a result of the plan termination. The United States Court of Appeals (in Nachman v. PBGC and UAW) upheld the right of ERISA to subject employers to liability for the payment of vested benefits. A separate District Court decision (PBGC v. Ouimet Corporation and others) held that employers under common control may be held liable for the employer liability under a pension plan of a bankrupt affiliated company (i.e., within the "controlled group").

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[1]Ten percent of the past service base is about 16-year funding on 6 percent interest. Ten-year funding of the past service cost on 6 percent interest is about 13.6 percent of the base.

The Congress went one step further and said that the requirements for pension plans should not be so onerous that employers would not create new pension plans or improve existing plans. Therefore, it established the concept of contingent employer liability insurance (CELI), whereby the PBGC would develop an insurance system under which employers could protect themselves against all or part of the 30 percent liability.

One other aspect of ERISA will be noted here but developed in a subsequent section. The law provides for a phase-in of benefits guaranteed by the PBGC over a five-year period following the establishment of the plan or an amendment increasing the benefits. The intent is to balance the need to protect the PBGC against early termination of the plan with the need of employees to receive their vested benefits.

Probably the most difficult conceptual and developmental problem under ERISA is the establishment of a viable system of termination insurance incorporatng the elements described above. The relationship among premiums, guaranteed benefits, employer liability, and CELI are extremely complex, with the development of a practical system at best difficult and perhaps impossible.

The goals of the PBGC in establishing levels of premiums, guaranteed benefits, employer liability, and CELI have been succinctly stated by the PBGC (in a paper defining the program objectives of CELI) as follows:

* to assure a financially substainable program at reasonable premium levels;

* to provide adequate protection relative to the needs of plan participants, employers, and creditors;

* to minimize abuse;

* to minimize administrative complexity; and

* to balance social and equity considerations.

Relation to Funding

It is natural to relate termination insurance to funding. Funding provides the first source to pay benefits--plan assets. Termination insurance provides the second. Although pension actuaries have been aware of the problem of termination since the advent of pension plans, no adequate solution has as yet been brought forward other than accelerated funding or conversion to a defined contribution plan.

The PBGC is, in effect, the reinsurer of pension benefits, with the pension trust the primary insurer. As a reinsurer, the PBGC thus provides excess coverage over the available assets, plus a deductible related to 30 percent of the net worth of the plan sponsor. If a defined benefit plan terminates at a time when the assets are not sufficient to provide all of the guaranteed benefits under ERISA, the PBGC (as agent for all other plan sponsors) must pay these unfunded benefits. If the plan had been better funded, the PBGC might not have to pay benefits; if the plan had been less well-funded, the PBGC liability would be greater. Despite this, funding at the maximum tax-deductible level does not guarantee that assets will be sufficient at all times to pay guaranteed benefits. Other plans using the minimum funding level still may have sufficient assets. Nevertheless, the plan adopting a faster funding schedule would have more assets at all times than if it adopted a slower funding schedule.

Unfortunately, the design of the deductible amount violates the basic principles of insurance. This results from the fact that the deductible amount is not predetermined and is based on an unrelated condition--the net worth of the plan sponsor. In addition, the insured (including plan participants through their collective bargaining representative) can increase the insurance coverage (benefits) without the consent of the insurer (PBGC).

It is essential, therefore, that some return to these basic insurance principles be accomplished. That is, some risk must be borne by the decision-makers, be the decision-maker (a) the plan participants through establishment of higher insured amounts, or (b) the plan sponsor through the failure to maintain adequate funding or an adequate deductible (net worth). In the absence of an attempt to return to basic insurance principles (i.e., risk borne by <u>related</u> plan sponsors and their employees), the only solution can be excessive premiums (i.e., risk borne by <u>unrelated</u> plan sponsors) or application of general tax revenues (i.e., risk borne by the general taxpayer).

<u>Levels of Guaranteed Benefits</u>

Termination insurance under ERISA is intimately tied to the level of guaranteed benefits. Basic premium levels, PBGC liabilities, employer liabilities, and CELI will all be affected by the amounts of benefits that are guaranteed by the PBGC.

Two areas of major concern require attention in the legislated levels of guaranteed benefits. The first is early retirement benefits that exceed the actuarial equivalent of the accrued benefit payable at normal retirement age. The second is the existence and application of the phase-in rules.

<u>Early Retirement</u>. The PBGC approach on guaranteeing early retirement benefits is to compare the actual early-immediate pension with the actuarial equivalent of the maximum benefit payable at age 65. The higher of these two amounts is guaranteed. Therefore, the value of the plan's guaranteed early retirement benefit can be significantly greater than the value of the plan's guaranteed normal retirement pension if the maximum limits do not apply.

In determining the funding requirements for a plan, actuaries commonly assume--and experience bears them out--that only some of the employees eligible to retire early in any year will elect to do so. When a plan is terminated, however, the number of early retirements can be expected to increase significantly. This is especially true in the case of a complete shutdown of operations, where--under PBGC regulations--early retirement entitlement is extended to all employees who met the requirements for early retirement, except that they did not submit an application. When this happens, if the early retirement benefit is greater than the actuarial equivalent, substantial additional liability is thrust upon the plan. Depending on the levels of plan assets and employer net worth, this burden may reduce the benefits of other plan participants or may increase the liability of the emplcyer or the PBGC (or, more appropriately, all other plan sponsors).

Consideration should be given to limiting the maximum guaranteed benefit on early retirement to the actuarial equivalent of either the participant's accrued retirement benefit or the ERISA maximum guaranteed benefit, whichever is lower. This concept is fully in accord with the social philosophy espoused by the Congress under the Social Security system. Social Security does not provide unreduced early retirement benefits except in the case of disability. Perhaps it was recognized, when Social Security was enacted, that unreduced early retirement benefits actually are unemployment insurance--and neither Social Security nor ERISA was designed to solve the social problems of unemployment.

Phase-in Rules. ERISA provides that only a graduated portion of the benefits that have been in effect under the plan for less than five years shall be guaranteed. The gradation, or phase-in, amounts to the greater of (a) 20 percent of such benefits, or (b) $20 per month, multiplied by the number of years (up to five) they have been in effect under the plan. The phase-in concept is an obvious compromise between the need to prevent anti-selection by employers "dumping" liabilities on the PBGC (i.e., on all other plan sponsors) by adopting or improving a pension plan and soon thereafter terminating it, and the need to protect plan participants whose legitimately increased pensions are jeopardized by a justifiable plan termination.

The compromise, particularly the $20 per month minimum for each year, seems to err on the side of excessive employee protection if there is to be a viable reinsurance program. If there were no phase-in of benefits for five years, or longer, the funding of pensions would be encouraged by participants. This might be reflected in the willingness of both labor and management to allow some of the pension dollars to be used to ensure the payment of the pensions promised rather than just to increase the benefit level. This would be beneficial to all phases of society involved with a pension plan--the employee, labor, the employer, and the government.

PROBLEMS WITH TERMINATION INSURANCE

The preceding section identified some of the problems with termination insurance under ERISA--namely, (a) the violation of sound financial and insurance principles, and (b) phase-in and early retirement aspects of the benefits that are guaranteed by the PBGC. Other critical problems have been recognized by the PBGC and have been reported to the Congress with the recommendations that changes should be made in the law. Still other problems are further away from solution. Viewed together, these problems fall basically into five areas of concern:

* contingent employer liabiity insurance (CELI);

* lack of insolvency insurance;

* lack of a reorganization scheme for troubled plans;

* nature of the pension promise; and

* nature of the pension obligation (i.e., who pays the bill?).

Contingent Employer Liability Insurance (CELI) and Insolvency

At the present time, almost five years after the enactment of ERISA, it is almost universally agreed that CELI is unworkable. The PBGC, organized labor, industry representatives, and those in the insurance and pension fields agree that CELI should be abandoned. Financial economists concur unanimously. Since CELI has never been implemented, it appears likely that the Congress will change the law and enact an alternative.

The PBGC submitted a report to Congress in mid-1978 formally recommending the elimination of CELI and presenting several alternatives.[2] A brief summary of the PBGC's current proposal, so-called Alternative C, follows. (Alternatives A and B in the PBGC paper are not, as of now, being seriously considered.)

The central feature of Alternative C involves a separation of the concepts (although not necessarily the timing) of (a) voluntary termination, and (b) insurable event. Voluntary terminations as contemplated under Alternative C are events not presently permitted under ERISA, because they involve the loss of benefits in a pension plan which would continue to be maintained by the plan sponsor. Alternative C recognizes the reality of benefit losses (which can occur today when an employer chooses to end his obligation to further fund any plan benefits--colloquially referred to as a "freeze") and redefines the notion of voluntary termination.

A voluntary termination would occur under Alternative C when the plan is amended to provide that future service will no longer be credited for any purposes. As a part of the voluntary termination, the plan would also be amended to eliminate supplemental and ancillary benefits for which various plan participants had not satisfied all the requirements (e.g., death and disability benefits).

An insurable event would occur coincident with, or subsequent to, a voluntary termination when the employer sponsor demonstrates its financial inability to provide the guaranteed benefits to which participants are

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[2] Pension Benefit Guaranty Corporation. Contingent Employer Liability Insurance: Status Report to the Congress. July 1, 1978.

entitled to receive under the terms of the plan. The demonstration of such inability (i.e., business hardship) would take place in the bankruptcy courts in a business reorganization or insolvency proceeding. A new funding standard would apply to a voluntarily terminated plan. If the plan assets were less than the value of vested benefits, the deficiency would be required to be funded over a period of not more than ten to fifteen years. Actuarial losses would have to be funded over no more than five years.

Following a voluntary termination, employers ceasing business operations would be expected to discharge their pension obligations along with those to any other creditors. If such obligations could be met from existing plan assets (e.g., through purchase of annuities or lump sum distributions), the liquidating sponsor would, of course, have no further liability. If the business were liquidating pursuant to a bankruptcy proceeding, the pension plan claim would share in the liquidated assets of the business according to its level of priority in bankruptcy. If the plan's claim could not be satisfied in an amount sufficient to provide for guaranteed benefits, an insurable event would occur. The PBGC would become trustee and provide such benefits.

If, following a voluntary termination, a plan sponsor found itself so financially distressed that it was unable to meet its funding obligations, relief could be sought by requesting funding waivers. For example, the waiver of up to $10,000 might be appropriate for employers experiencing operating losses. However, if the financial relief available to a plan sponsor through funding waivers proved insufficient, further relief would be available only through the bankruptcy reorganization process. The plan sponsor would petition the courts to reduce its general obligations, including those to the plan, to some lower and affordable level. Any reduction in the employer's obligation to the plan would necessitate the restructuring of the plan's liabilities to its participants.

The actual scope of such restructuring of plan benefits would be a by-product of the bankruptcy proceedings. If the adjustment of debt left the employer obligated for at least PBGC-guaranteed benefits, then the plan might continue--for example, as a frozen plan--even though a loss of non-guaranteed vested benefits may have resulted. Future payments to the plan could be made under the minimum funding standards, without PBGC involvement. On the other hand, if the settlement with creditors arising out of bankruptcy proceedings reduces the employer's obligation to less than guaranteed benefits, then an insurable event would occur and the PBGC would step in to make up the difference.

Reorganization for Troubled Plans

Plan termination does not often occur "out of the blue"; the signs of trouble are visible before the plan termination actually occurs. An analogy may be made to bankruptcy--a company's becoming bankrupt without signs of trouble first appearing as a warning is the exception, not the rule.

The analogy with bankruptcy may be carried one step further. Just as Chapter 11 of the United States federal bankruptcy laws provides an opportunity for a reorganization of a company in an attempt to avoid bankruptcy, so a major function of the PBGC should be to recognize these signs of trouble in a pension plan. If appropriate statutory authority were granted, the PBGC could step in and reorganize the plan in certain ways, thereby possibly avoiding plan termination. If plan termination were averted, then plan participants, the employer, the PBGC, and the general public would all benefit, and the private pension system would be strengthened. Unfortunately, ERISA created the PBGC to guarantee benefits, but it did not give the PBGC powers to step in and reorganize a troubled plan in an attempt to avert a plan termination in the same way that a court has powers under Chapter 11 to appoint trustees to reorganize a company. Title IV only permits the PBGC to force a complete termination.

The PBGC operates as an insurance company. Its practice should be more consistent with practices underlying an insurance company. There should be underwriting rules that, consistent with good business practice, preserve PBGC remedies while limiting PBGC liabilities. Thus, most of the responsibilities should be placed on the plan sponsors, since they control the plan. The PBGC's right to compel plans to take certain action stems from the PBGC's (i.e., other plan sponsors') ultimate obligation to provide benefits to employees covered under terminated plans.

The PBGC has submitted a bill (S. 1076) to the Congress this year which incorporates a plan reorganization program for multiemployer plans. This bill would also strengthen the minimum funding requirements for such plans. The essential points of the plan reorganization program set forth in this bill include:

1. Employer Withdrawal. A withdrawing employer would be required to continue its funding for a proportionate share of the plan's unfunded vested liability.

2. Plan Reorganization. A plan would be considered in a reorganization state if contributions were not sufficient to amortize the unfunded vested liabilities for benefits in pay status over 10 years, plus amortize the remaining unfunded vested liabilities over 25 years. (Assets would be applied first to determine the unfunded vested liabilities for benefits in pay status.)

   (a) A plan in reorganization could be amended to reduce accrued benefits derived from employer contributions to the level of benefits guaranteed by Title IV.

   (b) A plan in reorganization would be required to fund at a level sufficient to amortize unfunded vested liabilities at the amortization periods used to establish a reorganization state, subject to some adjustments (e.g., to reflect a declining contribution base during the remainder of the term of the establishing collective bargaining agreements).

   (c) Benefit levels applicable to past service could not be increased until all reduced benefits have been restored.

(d) Benefit levels could not be increased in a year in which benefits are reduced.

(e) A plan would not be considered voluntarily terminated until it becomes "insolvent."

3. Plan Insolvency. A plan in reorganization would be deemed "insolvent" when benefits have been reduced to the level of benefits guaranteed by Title IV and the plan is unable to meet the required reduced benefit payments. It is anticipated that plan insolvency would be linked to sponsor insolvency by law.

These proposals for plan reorganization of multiemployer plans are most important. They deserve serious consideration by the Congress and by all students of pension reinsurance programs. In addition, consideration needs to be given to comparable provisions for single employer plans.

Nature of the Pension Promise

Virtually no informed discussion has taken place in the United States regarding one of the most fundamental questions in determining a pension philosophy. That question is: What is the pension promise? Is the entire pension always compensation for services rendered in the past, or is part of the pension compensation for services to be rendered? An example may make this clear.

Company B hires John Smith at age 25. Company B tells John Smith, "We have a pension plan giving you a pension of $10 a month for each year of service. If you work here until age 65, you will get a pension of $400 a month." John Smith works 10 years and has earned a pension of $100 a month. Company B then tells him, "We have agreed with your union to raise the pension from $10 per month to $20 per month for each year of work. Therefore, if you continue to work here until age 65 your pension will be $800 a month, because not only will your future service be credited at the $20 rate, but the new rate will apply to the past 10 years that you have been here." If John Smith is vested (and he probably is), his vested pension has suddenly doubled from $100 to $200. When was the additional $100 earned? Was it earned the instant the increase was agreed to by Company B and the union, or is it being earned ratably over John Smith's expected future working years?

Historically, workers have seemed to feel that it was earned instantaneously. Certainly the South Bend employees at Studebaker and others who have felt victimized by the "broken promise" would agree. Perhaps the employer is remiss in not letting the employee know that the employer's true intention is somewhat as follows:

> We expect our future profits to be satisfactory as a result of your continuing to work for us. Therefore, we promise to use these future earnings to pay for your increased pension, as well as your increased wages."

In applying the empirical mathematical formula used to calculate the pension, this truth is not changed, regardless of whether or not past years of service are included.

Another example occurs often during the process of negotiating an acquisition or a sale where there is an unfunded past service liability. Company X is the seller, and the buyer says that Company X has to bear some responsibility with respect to the unfunded pension obligation. The buyer wants Company X either to reduce the asking purchase price, or to give credit for the existing unfunded obligation. Company X intended to pay for that liability out of its <u>future</u> earnings. Company X has reflected on the economic effect of the sale to that point, the amount of money Company X has funded, and the cost of the pension plan to the point of sale. The buyer has, presumably, taken Company X's economic experience, including its projected pension expense, capitalized it, and determined a reasonable purchase price. The question, then, is whether the buyer is asking Company X to pay for the pensions twice.

<u>Nature of the Pension Obligation</u>

The fundamental issue confronting insolvency insurance is who should bear the cost. Any system of insolvency insurance is, by definition, inequitable. Given

* a return to basic insurance principles,
* higher funding levels,
* lower guaranteed benefits,
* prohibition of plan termination for solvent employers, and
* a plan reorganization procedure,

who pays the bill?

Title IV of ERISA looks first to the plan sponsor or sponsors, including all corporations with common ownership (i.e., the controlled group concept). This controlled group concept has been affirmed in federal District Court (<u>PBGC</u> v. <u>Ouimet Corporation and others</u>), but the issue has not yet reached the United States Supreme Court. An interesting sidelight is whether United States law can reach beyond the boundaries of the United States to foreign parent corporations.

Since the first financial resource is the plan sponsor, an interesting question is where the obligation falls with respect to other creditors in a liquidation situation. Will mortgage holders, bond holders, and other preferred creditors be displaced by a higher claim? Even more drastic, perhaps, is whether unpaid wages will be displaced. These are major issues not as yet tested in the courts nor understood by most Americans.

The second financial resource is the PBGC. But the PBGC is <u>not</u> a source of funding. It has no resources other than premiums received from plan sponsors. It has a financial "call" solely upon unrelated, ongoing plan sponsors--no one else. It is, in essence, a contingent pension obligation clearing house.

Thus the ultimate reinsurer is all other plan sponsors. Yet they will find no relief from this potential burden by adequately funding their own plans. There is no relief in Title IV of ERISA for plan sponsors who soundly fund their own plans. A resource, theoretically, is again tax revenues, from which the Congress has carefully excluded the PBGC. But, Social Security has exhausted this source of revenues, with the Congress attempting to find ways to balance the still unbalanced Social Security budget.

CONCLUSION

The private pension system in the United States today continues to evolve in size and complexity (see Tables 1-2 through 1-11). New needs are recognized by society almost daily. The participants in the pension system--employers, unions, the government, practitioners--are all demanding more of the system. The ultimate fate of the private pension system depends on whether future changes will be economically and socially sound, or irrational. Decisions made in the next several years in the areas discussed here--<u>funding</u>, <u>plan termination</u>, <u>insolvency</u>, <u>reorganization</u>, <u>the basic nature of the pension promise</u>, and, most important of all, <u>the ultimate financial resource</u>--will be critical in determining the future of the private pension system in the United States.

TABLE 1-2

UNITED STATES POPULATION: 1900 to 1978

[In millions, except as indicated. Estimates as of July 1, except as indicated. Prior to 1940, excludes Alaska and Hawaii. Total population includes Armed Forces abroad; resident population excludes them. See text, p. 2, for basis of estimates. See also *Historical Statistics, Colonial Times to 1970*, series A 6-8]

YEAR	Resident population
1900	76.1
1901	77.6
1902	79.2
1903	80.6
1904	82.2
1905	83.8
1906	85.4
1907	87.0
1908	88.7
1909	90.5
1910	92.4
1911	93.9
1912	95.3
1913	97.2
1914	99.1
1915	100.5
1916	102.0
1917	103.3
1918	103.2
1919	104.5

YEAR	Resident population
1920	106.5
1921	108.5
1922	110.1
1923	112.0
1924	114.1
1925	115.8
1926	117.4
1927	119.0
1928	120.5
1929	121.8
1930	123.1
1931	124.1
1932	124.8
1933	125.6
1934	126.4
1935	127.3
1936	128.1
1937	128.8
1938	129.8
1939	130.9

YEAR	TOTAL: Population	TOTAL: Percent change	Resident population	Civilian population
1940	132.6	1.3	132.5	132.1
1941	133.9	1.0	133.7	132.1
1942	135.4	1.1	134.6	131.4
1943	137.3	1.4	135.1	128.0
1944	138.9	1.2	133.9	127.2
1945	140.5	1.1	133.4	128.1
1946	141.9	1.0	140.7	138.9
1947	144.7	1.9	144.1	143.1
1948	147.2	1.7	146.7	145.7
1949	149.8	1.7	149.3	148.2
1950	152.3	1.7	151.9	150.8
1951	154.9	1.7	154.0	151.6
1952	157.6	1.7	156.4	153.9
1953	160.2	1.7	159.0	156.6
1954	163.0	1.8	161.9	159.7
1955	165.9	1.8	165.1	163.0
1956	168.9	1.8	168.1	166.1
1957	172.0	1.8	171.2	169.1
1958	174.9	1.7	174.1	172.2
1959	177.8	1.7	177.1	175.3
1960	180.7	1.6	180.0	178.1
1961	183.7	1.7	183.0	181.1

YEAR AND MONTH	TOTAL: Population	TOTAL: Percent change	Resident population	Civilian population
1962	186.6	1.5	185.8	183.7
1963	189.2	1.4	188.5	186.5
1964	191.9	1.4	191.1	189.1
1965	194.3	1.3	193.5	191.6
1966	196.6	1.2	195.6	193.4
1967	198.7	1.1	197.5	195.3
1968	200.7	1.0	199.4	197.1
1969	202.7	1.0	201.4	199.1
1970	204.9	1.1	203.8	201.7
1971	207.1	1.1	206.2	204.3
1972	208.8	.9	208.2	206.5
1973	210.4	.7	209.9	208.1
1974	211.9	.7	211.4	209.7
1975	213.6	.8	213.1	211.4
1976	215.1	.7	214.7	213.0
1977	216.8	.8	216.3	214.7
1978:				
Jan. 1	217.7	.43	217.3	215.6
Feb. 1	217.8	.04	217.4	215.7
Mar. 1	217.9	.05	217.5	215.8
Apr. 1	218.1	.07	217.6	216.0

Source: U.S. Bureau of the Census, *Current Population Reports*, series P-25, Nos. 706 and 724.

TABLE 1-3

UNITED STATES POPULATION

PROJECTED NUMBER OF PERSONS AGE 65 AND OVER IN THE UNITED STATES

Year	Number of Persons Age 65 and Over	Percent of Total Population
1976	22.9 million	10.7%
2000	31.8 million	11.3% to 12.9%
2030	55.0 million	14.0% to 22.0%

SOURCE: U.S. Bureau of Census. Percentages for years 2000 and 2030 depend on fertility levels used in population projections.

TABLE 1-4

UNITED STATES LABOR FORCE

No. 643. Labor Force and Employment: 1947 to 1978

[Persons 16 years old and over. Annual averages of monthly figures, except as indicated. See also *Historical Statistics, Colonial Times to 1970,* series D 11-19 and D 85-86]

Year	Total noninstitutional population [1] (mil.)	Total labor force [1]: Total (mil.)	Total labor force [1]: Percent of noninstitutional population	Civilian labor force: Total (mil.)	Civilian labor force: Female: Total (mil.)	Civilian labor force: Female: Percent of civilian labor force	Civilian labor force: Employed: Total (mil.)	Civilian labor force: Employed: Percent of noninstitutional population	Civilian labor force: Unemployed: Total (mil.)	Civilian labor force: Unemployed: Percent of civilian labor force	Not in labor force: Total (mil.)	Not in labor force: Percent of noninstitutional population
1947	103.4	60.9	58.9	59.4	16.7	28.1	57.0	55.2	2.3	3.9	42.5	41.1
1950	106.6	63.9	59.9	62.2	18.4	29.6	58.9	55.2	3.3	5.3	42.8	40.1
1955	112.7	68.1	60.4	65.0	20.5	31.6	62.2	55.2	2.9	4.4	44.7	39.6
1960	119.8	72.1	60.2	69.6	23.2	33.4	65.8	54.9	3.9	5.5	47.6	39.8
1965	129.2	77.2	59.7	74.5	26.2	35.2	71.1	55.0	3.4	4.5	52.1	40.3
1966	131.2	78.9	60.1	75.8	27.3	36.0	72.9	55.6	2.9	3.8	52.3	39.9
1967	133.3	80.8	60.6	77.3	28.4	36.7	74.4	55.8	3.0	3.9	52.5	39.4
1968	135.6	82.3	60.7	78.7	29.2	37.1	75.9	56.0	2.8	3.6	53.3	39.3
1969	137.8	84.2	61.1	80.7	30.5	37.8	77.9	56.5	2.8	3.5	53.6	38.9
1970	140.2	85.9	61.3	82.7	31.5	38.1	78.6	56.1	4.1	4.9	54.3	38.7
1971	142.6	86.9	61.0	84.1	32.1	38.2	79.1	55.5	5.0	5.9	55.7	39.0
1972	145.8	89.0	61.0	86.5	33.3	38.5	81.7	56.0	4.8	5.6	56.8	39.0
1973	148.3	91.0	61.4	88.7	34.5	38.9	84.4	56.9	4.3	4.9	57.2	38.6
1974	150.8	93.2	61.8	91.0	35.8	39.4	85.9	57.0	5.1	5.6	57.6	38.2
1975	153.4	94.8	61.8	92.6	37.0	39.9	84.8	55.3	7.8	8.5	58.7	38.2
1976	156.0	96.9	62.1	94.8	38.4	40.5	87.5	56.1	7.3	7.7	59.1	37.9
1977	158.6	99.5	62.8	97.4	40.0	41.0	90.5	57.1	6.9	7.0	59.0	37.2
1978, Jan.-Apr [2]	160.2	101.5	63.3	99.3	41.1	41.4	93.2	58.2	6.1	6.2	58.7	36.7

[1] Includes Armed Forces. [2] Seasonally adjusted, except population figure.
Source: U.S. Bureau of Labor Statistics, *Employment and Earnings,* monthly.

TABLE 1-5

SOCIAL SECURITY COVERAGE

Old-Age, Survivors, and Disability Insurance *(000 Omitted)*

Year	Persons With Earnings Credits Year-End*	Persons Employed With Coverage in Effect Year-End	Employer and Worker Taxes in Year	Persons Fully Insured Year-End†	Persons Receiving Monthly Benefits Year-End	Monthly and Lump Sum Payments in Year
1945	72,400	39,200	$ 1,285,486	33,400	1,288	$ 273,885
1950	82,700	41,000	2,667,077	59,800	3,478	961,094
1955	98,600	56,200	5,713,045	70,500	7,960	4,968,155
1960	109,400	59,000	11,876,220	84,400	14,844	11,244,795
1965	121,300	66,400	17,205,372	94,800	20,867	18,310,676
1966	125,000	69,000	22,585,229	97,200	22,767	20,048,347
1967	127,900	69,900	25,423,792	99,900	23,707	21,406,455
1968	130,800	71,300	27,034,289	102,600	24,562	24,936,435
1969	133,500	72,700	31,545,608	105,400	25,314	26,750,841
1970	135,900	72,700	34,737,059	108,200	26,229	31,863,381
1971	138,200	73,100	38,342,721	110,600	27,291	37,170,726
1972	140,600	75,500	42,888,228	113,200	28,476	41,595,064
1973	142,900	78,100	51,907,100	116,400	29,868	51,459,310
1974	145,200	79,300	58,906,577	119,800	30,854	58,521,344
1975	148,300	78,300	64,259,394	122,800	32,085	66,922,707
1976	150,900	80,700	71,594,624	126,400	33,024	75,664,649
1977	153,000	83,400	78,710,397	128,200	34,082	84,575,800

Note: Data are revised.

*Social Security Administration estimate of persons who have ever had covered earnings.

†Beginning in 1965, figures include transitionally insured persons. Data represent number insured at beginning of following year.

Source: Social Security Administration, U.S. Department of Health, Education and Welfare. Data pertaining to the "Medicare" program are not included in this table. Data for 1977 pertaining to coverage and insured status are estimated.

TABLE 1-6

RETIREMENT PLAN COVERAGE

Number of Persons Covered by Major Pension and Retirement Programs in the United States *(000 Omitted)*

	Private Plans		Government-Administered Plans			
Year	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees†	State and Local Employees	OASDI‡
1940	695	3,565	1,349	745	1,552	27,622
1945	1,470	5,240	1,846	2,928	2,008	40,488
1950	2,755	7,500	1,881	1,873	2,894	44,477
1955	4,105	12,290	1,876	2,333	3,927	64,161
1960	5,475	17,540	1,654	2,707	5,160	73,845
1961	5,635	18,440	1,662	2,855	5,309	76,295
1962	5,770	19,370	1,643	2,943	5,654	78,953
1963	6,060	19,990	1,664	2,985	5,940	81,035
1964	6,710	20,350	1,650	3,069	6,330	83,400
1965	7,040	21,060	1,661	3,114	6,780	87,267
1966	7,835	21,710	1,666	3,322	7,210	91,768
1967	8,700	22,330	1,641	3,499	7,594	93,607
1968	9,155	22,910	1,625	3,565	8,012	95,862
1969	9,920	24,410	1,620	3,627	8,303	98,012
1970	10,580	25,520	1,633	3,625	8,591	98,935
1971	10,880	26,580	1,578	3,596	9,079	100,392
1972	11,545	27,400	1,575	3,737	9,563	103,976
1973	12,485	28,700	1,582	4,030	10,050	108,268
1974	13,335	29,240	1,589	4,052	10,835	108,854
1975	15,195	30,300	1,574	4,130	11,230	110,085
1976	16,985	31,400*	1,565	4,184	12,000*	113,724
1977	19,240	32,500*	1,572*	4,288*	12,500*	117,482

Note 1. It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series. In addition, private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans, but other private plans do not include persons covered by these plans.

Note 2. These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces, and provisions for veterans pensions, are not included. Persons covered by private plans and many persons covered by government-administered plans are also usually covered by Social Security. Data for "Other Private Plans", compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

*Estimated.

†Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plan.

‡Includes persons employed with coverage in effect at year-end including the self-employed, workers retired for age or disability, dependents of retired workers and survivors of deceased workers who are receiving periodic benefits.

Source: Compiled by the American Council of Life Insurance.

TABLE 1-7

RETIREMENT PLAN COVERAGE

No. 539. Private Pension and Deferred Profit-Sharing Plans: 1950 to 1975

[Includes pay-as-you-go, multiemployer, union-administered, and nonprofit organization plans, and railroad plans supplementing the Federal railroad retirement program. Plans are classified as insured and noninsured, the former underwritten by insurance companies and the latter generally funded through trustees. See also *Historical Statistics, Colonial Times to 1970*, series H 287-304]

ITEM AND TYPE OF PLAN	1950	1955	1960	1965	1970	1972	1973	1974	1975
Coverage, net [1] [2]____1,000__	**9,800**	**14,200**	**18,700**	**21,800**	**26,300**	**27,500**	**29,200**	**29,800**	**30,300**
Insured plans, gross____1,000__	2,600	3,800	4,900	6,200	8,900	9,500	10,200	10,800	11,600
Noninsured plans, gross__1,000__	7,200	11,600	16,300	19,100	22,000	24,000	25,600	26,200	26,800
Contributions:									
Employer____mil. dol__	1,750	3,280	4,710	7,370	12,580	16,940	19,390	23,020	27,560
Insured plans____mil. dol__	720	1,100	1,190	1,770	2,860	4,200	5,020	6,050	7,730
Noninsured plans____mil. dol__	1,030	2,180	3,520	5,600	9,720	12,740	14,370	16,970	19,830
Employee____mil. dol__	330	560	780	990	1,420	1,600	1,710	2,000	2,290
Insured plans____mil. dol__	200	280	300	320	350	400	440	540	690
Noninsured plans____mil. dol__	130	280	480	670	1,070	1,200	1,270	1,460	1,600
Monthly beneficiaries [1]____1,000__	**450**	**980**	**1,780**	**2,750**	**4,740**	**5,550**	**6,080**	**6,390**	**7,050**
Insured plans____1,000__	150	290	540	790	1,220	1,350	1,480	1,550	1,690
Noninsured plans____1,000__	300	690	1,240	1,960	3,520	4,200	4,600	4,840	5,360
Benefit payments [3]____mil. dol__	**370**	**850**	**1,720**	**3,520**	**7,360**	**10,000**	**11,220**	**12,930**	**14,810**
Insured plans____mil. dol__	80	180	390	720	1,330	1,700	1,910	2,190	2,480
Noninsured plans [3]____mil. dol__	290	670	1,330	2,800	6,030	8,300	9,310	10,740	12,330
Reserves [1]____bil. dol__	**12.1**	**27.5**	**52.0**	**86.5**	**137.1**	**167.8**	**180.2**	**191.7**	**212.6**
Insured plans____bil. dol__	5.6	11.3	18.8	27.3	40.1	50.3	53.4	58.0	67.4
Noninsured plans____bil. dol__	6.5	16.1	33.1	59.2	97.0	117.5	126.5	133.7	145.2

[1] As of end of year. [2] Excludes beneficiaries. [3] Includes refunds and lump sums.

Source: U.S. Social Security Administration, *Social Security Bulletin*, November 1977.

No. 540. Private Noninsured Pension Funds: 1960 to 1977

[**In millions of dollars.** Covers all pension funds of corporations, nonprofit organizations, unions, and multiemployer groups, except those managed by insurance companies. Also includes deferred profit-sharing plans; excludes health, welfare, and bonus plans. Minus sign (−) denotes loss]

ASSETS, RECEIPTS, AND DISBURSEMENTS	1960	1965	1970	1972	1973	1974	1975	1976	1977, prel.
Total assets [1] [2]	**33,140**	**59,180**	**97,010**	**117,530**	**126,530**	**133,731**	**145,166**	**160,414**	**181,509**
Cash and deposits	550	940	1,800	1,860	2,340	4,286	2,962	2,199	3,721
U.S. Government securities	2,680	2,990	3,030	3,690	4,400	5,533	10,764	14,713	20,138
Corporate bonds	15,700	23,130	29,670	28,210	30,330	35,029	37,809	39,070	45,580
Preferred and common stock	11,510	25,870	53,480	76,060	81,850	80,448	84,842	94,609	98,152
Mortgages	1,300	3,380	4,170	2,730	2,380	2,372	2,393	2,369	2,497
Receipts [2]	**5,410**	**9,280**	**13,200**	**20,070**	**19,670**	**21,060**	**26,583**	(NA)	(NA)
Employer contributions	3,520	5,600	9,720	12,740	14,370	16,970	19,828	(NA)	(NA)
Employee contributions	480	670	1,070	1,200	1,270	1,460	1,604	(NA)	(NA)
Investment income	1,260	2,390	3,870	4,300	4,840	5,980	6,703	(NA)	(NA)
Net profit on sale of assets	110	570	−1,590	1,720	−920	−3,480	−1,659	(NA)	(NA)
Disbursements	**1,370**	**2,880**	**6,180**	**8,490**	**9,540**	**11,030**	**12,597**	(NA)	(NA)
Benefits paid out	1,330	2,800	6,030	8,300	9,310	10,740	12,334	(NA)	(NA)
Expenses and other	50	90	150	200	230	290	263	(NA)	(NA)
Net receipts	4,040	6,400	7,020	11,580	10,130	10,030	13,986	(NA)	(NA)

NA Not available. [1] Book value, end of year. [2] Includes other items, not shown separately.

Source: U.S. Securities and Exchange Commission, *Statistical Bulletin*, monthly.

TABLE 1-8

RETIREMENT PLAN RESERVES

ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES (BOOK VALUES)

(000,000 Omitted)

	Private Plans			Government-Administered Plans				
Year	With Life Insurance Companies	Other Private Plans	Total	Railroad Retire-ment	Federal Civilian Employees	State and Local Employees	Total	Old-Age, Survivors and Disability Insurance*
1950	$ 5,600	$ 6,500	$ 12,100	$2,553	$ 4,343	$ 5,154	$ 12,050	$13,721
1960	18,850	33,100	51,950	3,740	10,790	19,600	34,130	22,613
1965	27,325	59,200	86,525	3,946	16,516	33,100	53,562	19,841
1966	29,425	66,200	95,625	4,074	17,619	36,900	58,593	22,308
1967	32,000	74,200	106,200	4,236	18,799	41,500	64,535	26,250
1968	34,975	83,100	118,075	4,245	20,224	46,300	70,769	28,729
1969	37,900	90,600	128,500	4,347	21,600	51,800	77,747	34,182
1970	41,175	97,000	138,175	4,398	23,100	58,100	85,598	38,068
1971	46,400	106,400	152,800	4,300	26,400	64,400	95,100	40,434
1972	52,300	117,500	169,800	4,100	29,200	72,200	105,500	42,775
1973	56,050	126,500	182,550	3,800	31,500	81,600	116,900	44,414
1974	60,775	133,700	194,475	3,600	34,600	89,000	127,200	45,886
1975	71,700	145,200	216,900	3,100	38,600	106,500	147,700	44,342
1976	88,400	160,400	248,800	3,100	43,500	117,200	163,800	41,133

*Beginning in 1957, assets of Disability Insurance Trust Funds are included. Health and Supplementary Medical Insurance is not included.

NOTE: Data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

SOURCES: Railroad Retirement Board, Social Security Administration, Securities and Exchange Commission, other administrative agencies and the American Council of Life Insurance.

TABLE 1-9

EMPLOYMENT BENEFIT PLAN COVERAGE

No. 542. Employee-Benefit Plans—Summary: 1960 to 1975

[Coverage data refer to civilian wage and salary workers at end of year; contributions, to amounts subscribed by employers and employees, in total. An "employee-benefit plan" is any type of plan sponsored or initiated unilaterally or jointly by employers or employees and providing benefits that stem from the employment relationship and that are not underwritten or paid directly by government (Federal, State, or local). In general, the intent is to include plans that provide in an orderly predetermined fashion for (1) income maintenance during periods when regular earnings are cut off because of death, accident, sickness, retirement, or unemployment and (2) benefits to meet medical expenses. Excludes workmen's compensation required by statute and employer's liability. See also *Historical Statistics, Colonial Times to 1970*, series H 70-114]

ITEM AND TYPE OF PLAN	1960	1965	1970	1972	1973	1974	1975
Covered employees:							
Life insurance and death [1] ... mil.	34.2	41.9	51.8	55.2	57.8	60.6	62.4
Accidental death and dismemberment ... mil.	20.9	28.4	38.7	40.7	42.7	44.3	46.5
Health benefits:							
Hospitalization [2 3] ... mil.	39.3	45.7	53.1	54.2	56.8	57.6	58.2
Surgical [2] ... mil.	37.4	43.4	51.5	52.9	55.4	56.1	56.6
Regular medical [2] ... mil.	28.2	38.2	48.0	49.4	53.7	54.9	56.1
Major medical [4] ... mil.	8.8	16.6	24.6	26.4	27.6	28.2	29.6
Coverage, private employees:							
Temporary disability [5] ... mil.	[6] 24.5	24.5	29.7	31.3	32.0	31.7	31.1
Long-term disability ... mil.	([6])	1.9	7.0	9.5	10.6	11.1	11.5
Retirement [7] ... mil.	18.7	21.8	26.1	27.5	29.2	29.8	30.3
Contributions:							
All employees, total [8] ... bil. dol.	12.5	19.9	34.9	45.4	50.5	57.7	67.3
Life insurance and death [1] ... bil. dol.	1.4	2.2	3.6	4.3	4.4	4.7	5.1
Accidental death and dismemberment ... bil. dol.	.1	.1	.2	.3	.3	.3	.3
Health benefits:							
Hospitalization [3] ... bil. dol.	2.5	4.3	7.6	9.5	10.5	11.4	13.3
Surgical and regular medical ... bil. dol.	1.3	2.1	4.0	5.2	5.9	7.0	8.2
Major medical [4] ... bil. dol.	.5	1.1	2.3	3.6	4.1	4.6	5.7
Private employees:							
Temporary disability [5 9] ... bil. dol.	1.2	1.6	3.1	3.7	3.9	4.4	4.7
Retirement [7] ... bil. dol.	5.5	8.4	14.0	18.5	21.1	25.0	29.9
Benefits paid:							
All employees, total [8] ... bil. dol.	7.8	13.6	26.1	32.9	36.2	42.0	47.9
Life insurance and death [1] ... bil. dol.	1.0	1.6	2.5	2.9	3.2	3.4	3.6
Accidental death and dismemberment ... bil. dol.	(Z)	.1	.2	.2	.2	.3	.3
Health benefits:							
Hospitalization [3] ... bil. dol.	2.4	4.2	7.3	8.9	9.6	11.1	13.1
Surgical and regular medical ... bil. dol.	1.1	1.8	3.6	4.5	5.2	6.3	7.4
Major medical [4] ... bil. dol.	.4	1.0	2.4	3.2	3.4	4.0	4.5
Private employees:							
Temporary disability [5 9] ... bil. dol.	1.0	1.3	2.5	3.0	3.2	3.7	3.8
Retirement [7] ... bil. dol.	1.7	3.5	7.4	10.0	11.2	12.9	14.8
PERCENT OF WORKERS COVERED [10]							
All employees:							
Life insurance and death	57.8	63.7	69.0	71.1	71.2	73.5	77.3
Accidental death and dismemberment	35.3	43.1	51.5	52.4	52.7	53.7	57.6
Health benefits:							
Hospitalization	66.5	69.4	70.7	69.8	70.0	69.9	72.2
Surgical	63.3	65.9	68.6	68.1	68.3	68.1	70.1
Regular medical	47.7	58.0	63.9	63.6	66.2	66.5	69.5
Major medical	14.8	25.2	32.7	34.0	34.0	34.2	36.7
Private employees:							
Temporary disability	[6] 48.7	44.3	47.9	49.1	47.9	46.8	47.5
Long-term disability	([6])	3.4	11.2	14.8	15.8	16.4	17.6
Retirement	37.2	39.5	42.1	43.1	43.7	44.0	46.2
PERCENT CONTRIBUTIONS OF TOTAL WAGES AND SALARIES [10]							
All employees:							
Life insurance and death	.54	.64	.68	.71	.65	.63	.65
Accidental death and dismemberment	.03	.03	.04	.05	.04	.04	.04
Health benefits	1.63	2.15	2.64	2.98	3.02	3.11	3.45
Private employees:							
Temporary disability	.53	.54	.71	.76	.71	.73	.75
Retirement	2.46	2.86	3.25	3.74	3.82	4.14	4.73

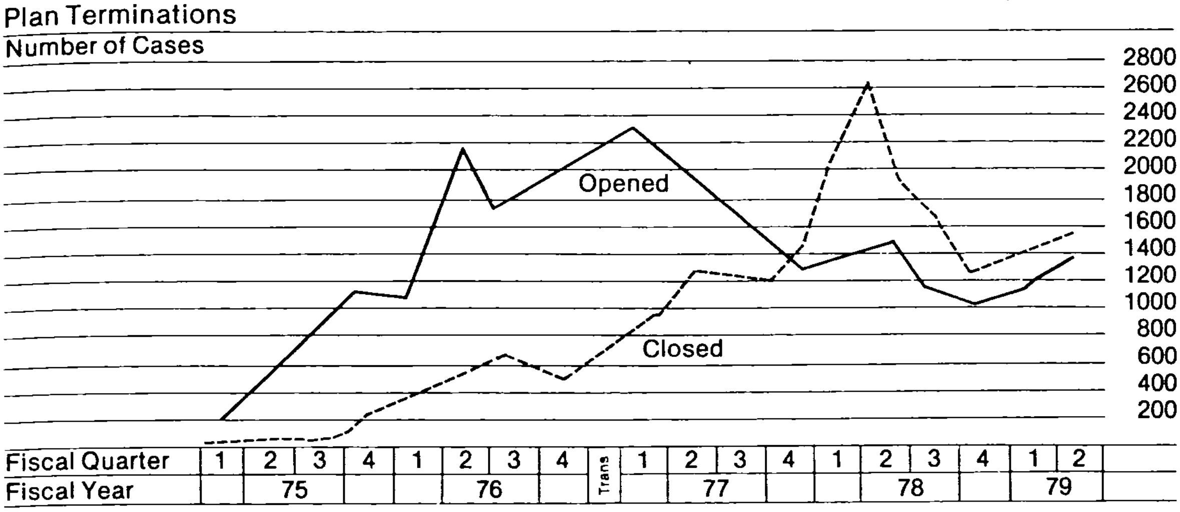
Z Less than $50 million.

[1] Includes group and wholesale life insurance but excludes Servicemen's Group Life Insurance program.
[2] Includes persons covered by group comprehensive major-medical insurance as well as those with basic benefits.
[3] Includes private hospital plans written in compliance with State temporary disability insurance law in California. [4] Group supplementary and comprehensive major-medical insurance written by commercial insurance companies. [5] Includes private plans written in compliance with State temporary disability insurance laws in California, Hawaii, New Jersey, and New York; and formal sick-leave plans. Excludes credit accident and health insurance. [6] Long-term disability policies included in temporary disability. [7] Includes pay-as-you-go and deferred profit-sharing plans, plans for non-profit organizations, union pension plans, and railroad plans supplementing the Federal railroad retirement program. Excludes plans for the self-employed and tax-sheltered annuities. Retirement coverage estimates exclude annuitants. [8] Includes data for supplemental unemployment insurance benefits, not shown separately. [9] Includes data under long-term disability policies. [10] For all employees, coverage and contributions relate to private and government full-time and part-time civilian employees and payroll; for private employees, to wage and salary full-time and part-time labor force and payroll in private industry.

Source: U.S. Social Security Administration, *Social Security Bulletin*, November 1977.

Table 1-10

PLAN TERMINATION IN THE UNITED STATES



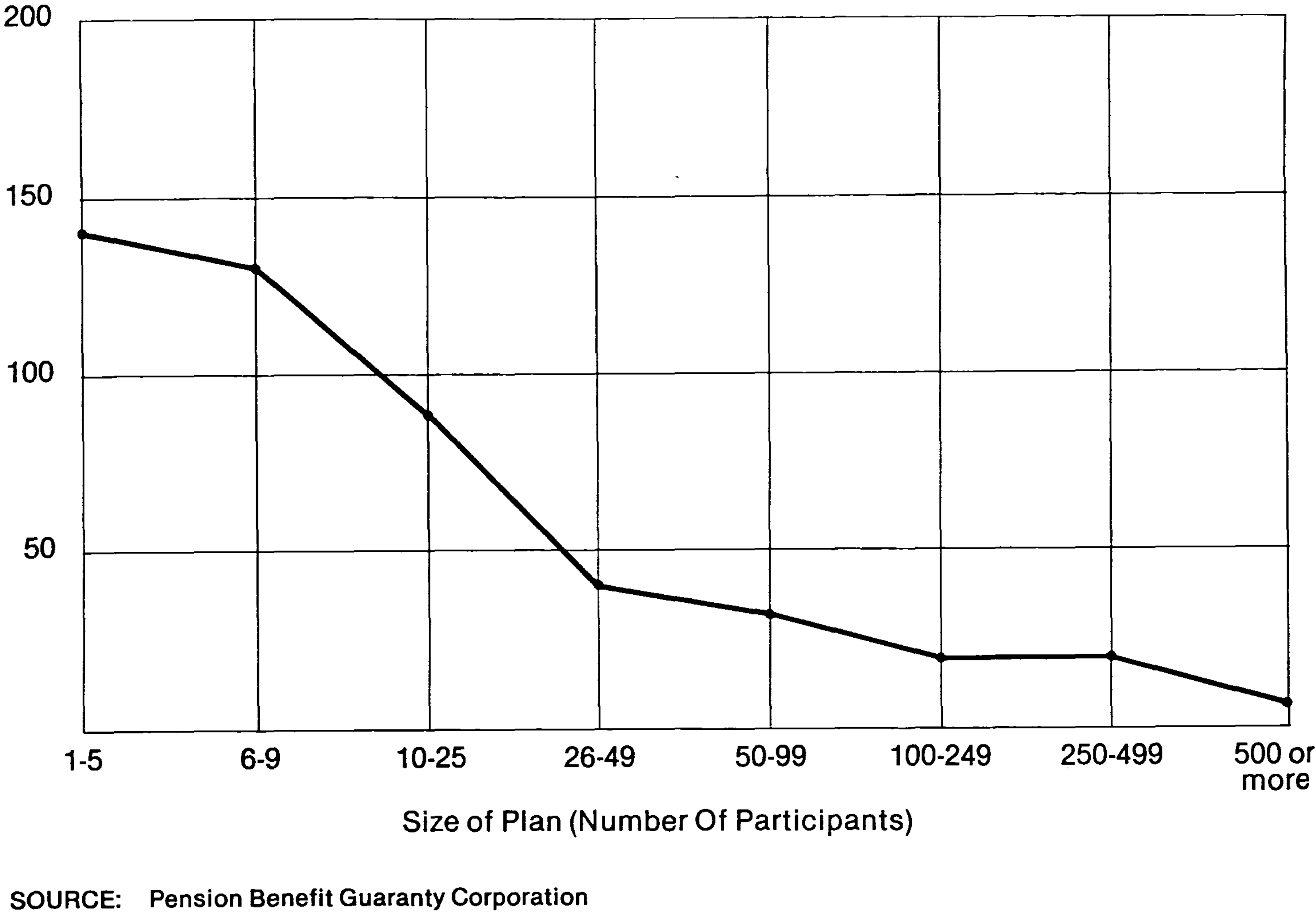
This chart shows plan termination activity since enactment of ERISA.

SOURCE: Pension Benefit Guaranty Corporation

Table 1-11

PLAN TERMINATION IN THE UNITED STATES

FREQUENCY OF TERMINATION BY SIZE OF PLAN, FISCAL YEAR 1977



SOURCE: Pension Benefit Guaranty Corporation