RECORD OF SOCIETY OF ACTUARIES
1977 VOL. 3 NO. 4

POSSIBLE AND PROBABLE FUTURES RELATING TO RETIREMENT INCOME SECURITY

Moderator: RUSSELL J. MUELLER. Panelists: PRESTON C. BASSETT, GEOFFREY N. CALVERT, KAREN W. FERGUSON, ROBERT J. MYERS*

1. The issues shaping public policy as it relates to the replacement of income for workers.

2. The direction future public policy will take and should take in the area of retirement income security.

3. Various social, economic, political, demographic, and other driving forces' impact on future events.

MR. RUSSELL J. MUELLER: Generally, the issues shaping public policy relating to the replacement of income for workers (as opposed to non-work "welfare" programs) will be addressed in this session.

Many challenges define today's "Retirement Income Security System Problematique" ("RISS"). About five years ago, Washington newspaper headlines read "Social Security Declares Surplus Dividend". Two years later the headlines were changed to read "Social Security Going Bankrupt". In the recent study for the American Enterprise Institute for Public Policy, Norman B. Ture cites the expansion of Social Security, the fiduciary and other requirements of ERISA, and Individual Retirement Accounts as threats to the future growth and "efficiency gains" to be achieved by the private pension system. Dr. Peter F. Drucker, the noted professor at Claremont Graduate School, has said that the most formidable pension fund problems are rooted in the state and local systems which may bow out of Social Security in an effort to solve their mounting financial woes, and, in turn, prompt the expropriation of private pension funds to steady the faltering Social Security system. Today increasing attention is being focused on the $500 billion plus unfunded liabilities of the 65 federal pension plans. Some pension experts have suggested that in order to bring over-generous public pensions under control there ought to be universal Social Security coverage and the integration of public pensions with Social Security benefits. Incredibly, at the same time we see evidence of proposals which would severely restrict or eliminate the ability of private pension plans to integrate with Social Security.

One has to wonder why the present state of retirement income security has to be so confused. In the United States we do not have a rational retirement income policy. President Carter will

*Ms. Ferguson, not a member of the Society, is Director of the Pension Rights Center, Washington, D.C.

soon create a Presidential Retirement Commission and name its members. This Commission will have much to say in the coming years about the future direction of retirement income security.

MR. PRESTON C. BASSETT: I will discuss the relative roles to be played by private pensions and Social Security. In order to do this, I would like to define three terms. The first term is Minimum Pension, which is the amount that is necessary for the basic subsistence of a person. This is the amount that the government would consider necessary to sustain an individual in retirement. The second definition I will use is that of Normal Pension. A normal pension is the amount that is necessary to maintain a person's current standard of living. With this amount he can continue his current life-style in the future. The last term is Excess Pension. This is any pension in excess of the amount of the Normal Pension. Thus, we will be discussing three different levels of benefits -- minimum pensions, normal pensions and excess pensions.

Turning first to who will provide these benefits, the government is probably the best one to guarantee the minimum pension. The government is in a position to be sure that everyone receives this minimum income. This minimum income would take into account any income the individual might receive from other sources, such as a private plan. Essentially, this would be a welfare program, fully supported by the government, in the amount that is necessary to bring a person's income up to this basic minimum.

At the other extreme we have excess pensions, and these normally would be provided by the individual through his own savings. He would make a choice during his working career as to what part of his earnings would be set aside to provide benefits over and above normal pension.

It is this middle layer, the Normal Pension, that is causing much of the pushing and pulling today between Social Security and private pensions. The question is how much should be provided by the government and private pensions in this middle layer.

I think most would agree that benefits should become payable when a person is no longer able to work. This would apply to the Minimum Pension or the Normal Pension. However, there probably should be a fixed age at which time the individual would receive either benefit regardless of whether or not he was able to work.

Both levels of benefits should have a goal of universal coverage. The minimum benefit provided by the government can easily be extended to provide universal coverage. It is much more difficult for the private plan to provide this universal coverage. In any event, there must be coordination between the public pensions and the private pensions.

I think it is important to remind everyone that whatever policy is set for public and private pensions, the policies in other areas must be considered. For example, what is going to be the government's position in regard to capital formation. If the government wishes to encourage greater capital formation, and this does seem desirable, then it would be important to encourage the growth of private pensions since capital formation is a by-product. Social Security and public welfare plans should be downplayed as there is little or no accumulation of capital.

Another public policy has to do with the amount of government intervention or bureaucracy we wish to continue. In other words, should we favor, given equal factors, government running a pension program or private industry running a pension program.

Another area for consideration is in the implementation of a pension plan. Should the private pension plan implementation be on an enforcement basis with mandatory pensions and penalties for non-compliance, or should private industries be encouraged to establish plans on a voluntary basis, through the use of tax and other incentives.

We have the alternative of decreasing the role of Social Security to provide minimum benefits, and encouraging the growth of private pensions or of expanding the role of Social Security to such an extent that private plan benefits are left to the Excess Level only.

<u>The first alternative</u>:

Public policy is that everyone will be provided with a <u>minimum</u> retirement income when he or she is no longer able to work.

In this situation, the role of Social Security is to provide only the minimum benefit offset by all other sources of income such as pensions, part-time earnings, investment income, and the like. Thus, Social Security is reduced to strictly a welfare program and probably would be financed from general revenue. Benefits would commence at a high age, as long as the employee is able to continue to work.

The role of private pensions is considerably expanded to that of providing pensions for everyone up to the level defined as Normal Pensions. The government might mandate some type of low minimum pension, similar to mandating a minimum wage. In this way we would obtain almost universal coverage for this benefit. The benefit above the normal level could be provided on a voluntary basis. There is a great need for flexibility as the industries and companies within the United States vary significantly. What might be within the profit margins of one company, might lead another company to bankruptcy. We are in competition for goods and services on a worldwide basis and we should not get our own fixed costs out of line. Companies should have flexibility and alternatives available to the extent possible.

The second alternative:

Public policy is that everyone will be provided with normal retirement income when he or she is no longer able to work or reaches a stated retirement age.

The government would be encouraged to provide all the benefits up through the level of the normal range. Private plans would be limited to excess benefits only.

The role of Social Security would be greatly expanded. Benefits might be increased by as much as 50% in some earnings classes. This would require additional financing and probably some use of general revenue financing.

The advantages of this program are that all benefits up through the normal level could be guaranteed by the government, would be fully portable and could be indexed to the cost of living.

This would result in a significant shifting of taxes. Current costs would be reduced but later costs would be increased. Little or no reserves would be built up to develop capital. There would be a significant shift in the cost of providing pension plans.

The current approach:

At the present time Social Security benefits are somewhere between my definition of Minimum Pension and Normal Pension. The fact that Social Security is in this compromised position continues to cause conflicts between those who lean to the extreme alternative policies set forth above.

This compromise is likely to continue in the future with opposing forces continuing to push further in the direction that each feels is the proper role for the government and private pensions. Either a rapid expansion or contraction would cause serious practical problems so that shifts will be gradual.

MS. KAREN W. FERGUSON: Private pension plan participants cannot wait for the ideal resolution of the retirement income debate. Every day more and more people are retiring to poverty after a lifetime of hard work. They are finding that, contrary to their expectations, Social Security is not enough to live on. Social Security payments now average less than $3000 for individuals and less than $5000 a year for couples. These people feel cheated, let down. They can not "make it".

We estimate that even after ERISA, two-thirds to three-fourths of the private workforce will still have no pension. These people will have no realistic supplement to Social Security. Moreover, the determination of who gets a pension is often arbitrary, an accident of where someone worked and when.

From the perspective of these plan participants and from the perspective of a number of respected members of the Society a Social Security take-over, in which Social Security provides an adequate earnings related income, is a logical, rational and fair solution to our retirement income problems. A Social Security take-over has the appeal of being relatively simple and straightforward.

Although political support for such a take-over is not yet here, it could come very quickly. At that point all the arguments for the private system -- its flexibility, capital formation considerations -- and the best efforts of every corporation, union and financial institution in the country, might have little effect.

My guess is that if the private system is not drastically reformed by, let's say, 1985, that will happen. The private system still has a chance <u>if</u> that system is changed so that it provides a reasonable Social Security supplement (up to the Normal Pension level) for virtually all participants and <u>if</u> it covers most, if not all, members of the private workforce.

This kind of reform may not be as difficult as it sounds. From the plan participants' point of view, there are a number of very specific, concrete steps that can be taken now (although they may need to be phased in). These measures presuppose changes in basic concepts on the part of employers and employees, but they are both feasible and necessary.

The changes that are needed can be best seen by looking at what is most unacceptable about the present system.

I. <u>From the plan participants' point of view, it is not acceptable that a very substantial portion of persons covered by private plans are not getting pensions</u>.

It is not acceptable that pensions are paid only to persons with 10 years of service when the 1973 Bureau of Labor Statistics figures show that 56 percent of the full time workers covered by private pension plans have been on their present jobs less than 10 years. What is needed is, at a minimum, 5-year vesting. Professor Dan McGill has told us that every Western European country has at least 5-year vesting. Actuaries have told us that the cost would be minimal.

It is not acceptable that some groups of employees essentially pay for the pensions of others. The most obvious example of this is women who follow the typical work pattern for married women. Because of ERISA's break-in-service provisions, and their exclusion of early years of employment, these women to a large extent are paying for the pensions of men. The solution to this problem would be for all years of service (with the possible exception of certain transitional and probationary years) to count for vesting and benefit accrual purposes.

It is not acceptable that income which is considered to be joint income when it is earned becomes only the income of the worker when he or she retires or dies. It is possible for the spouse of a worker with a 40-year vested pension to receive nothing if the worker dies before the plan's early retirement age. This is the most extreme example but there are many other ways in which vested pension rights are forfeited by reason of death. The answer here is that spouses should get at least 50 percent of a participant's reduced vested pension regardless of when the worker dies. The spouse should be able to pick up the benefit at the earliest age that the participant could have collected the benefit had he or she lived. What I am proposing here is that vested benefits be completely nonforfeitable where a participant dies, leaving a surviving spouse.

These reforms presuppose that instead of large pensions for some people, there should be smaller pensions for everybody.

II. <u>From the plan participants' point of view, it is not acceptable that certain groups of participants get disproportionately smaller pension benefits than other groups, or get no benefits at all.</u>

It is not acceptable that employees with vested rights who leave a plan early in their careers should have their benefits frozen with the result that those benefits are rendered valueless by inflation. The solution to this problem is to permit rollovers to Individual Retirement Accounts at the discretion of employees.

It is not acceptable that retirees with benefits fixed as of the date of their retirement should be denied cost of living increases. A benefit awarded 10, 15 or 20 years ago is worth virtually nothing today. Our suggestion is that plans which provide increases in retirement benefits for active employees also be required to provide proportional increases for retirees.

It is not acceptable that employees under "poor" plans are not allowed to supplement inadequate pensions. Limited Employee Retirement Accounts offer a way of permitting this kind of supplementation.

Finally, it is unacceptable that under an integrated plan they may get little or nothing. A 1974 Congressional Research Service Study showed that 25 to 30 percent of all plans were integrated at that time. Since that time, the number has grown astronomically. Integration would make sense only if Social Security provided an adequate retirement income, and then only if the employer providing a pension benefit had made all of the Social Security contributions for each participant. The most desirable solution is a complete end to integration. If there is to be a compromise, there certainly should be no integration in any case where the combined pension and Social Security benefit are below the "normal pension".

III. <u>From the plan participants' point of view it is not acceptable that more than one-half of the private work force is not covered by private pension plans (yet as tax-payers they are effectively subsidizing those plans through a $6 1/2 billion annual revenue loss)</u>.

There are basically two solutions to this problem. The first is to provide an incentive to employers who might want to provide pensions for their employees. One idea is to use tax incentives to increase pension coverage along the lines proposed by Congressman Goldwater. Probably, the only realistic incentive is to do away with all of the extraneous costs involved in setting up and running a pension plan.

An employer with less than 100 employees should be able to set up a defined benefit plan without any costs other than the benefits. Any institution that wants to should be able to set up a federally chartered pension subsidiary that could provide these "no cost" plans. The institution would handle administration of the plan, filing, disclosure, benefit payments, claims, and investment management. The institution's profits would come from investment management. (If need be, the federal government could provide a direct subsidy.)

Consideration should be given to having the Pension Benefit Guaranty Corporation (PBGC) invest a substantial portion of its assets in each of these federally chartered institutions. This would benefit the institutions and would also solve the PBGC's current investment dilemma. It would permit private sector investment which is not directly controlled by the government. These institutions could also maintain other plans under conventional arrangements.

The second solution is mandatory employer sponsored Individual Retirement Accounts (IRA's) for those employees who do not have other plans. Employers should be required to withhold a minimum amount from an employee's pay and contribute that amount to an IRA. Employees, as well as employers, have to begin to recognize the importance of allocating a much higher percentage of payroll to retirement.

These proposed reforms of the private pension system will mean that just about all members of the private workforce will have at least a small supplement to Social Security. If the combined Social Security and pension benefits do not bring all employees up to an adequate retirement income level, then Social Security will undoubtedly have to be increased somewhat, but this is very different from requiring Social Security to provide an adequate retirement income for everyone.

MR. GEOFFREY N. CALVERT: There are deep underlying changes and "driving forces", interacting with one another to bring about changes in the context in which pension plans operate. In time both public and private plans will have to respond and adjust to these changes, which might be summed up as follows:

Social Changes:

(a) The urbanization and reverse urbanization of the workforce: The earlier migration from country to city, now yielding to the emergence of reverse trends, new towns, decentralization, a questioning of the merits of the suburban sprawl, while

(b) Social Security replaces the former obligation of children to maintain their parents, as the three-generation home of former times yields to the two-generation "nuclear" home, accompanied by

(c) The welfare state, the "revolution of rising entitlements", the rise of transfer payments,

(d) The surge of women into the workforce, the phasing out of the dependency of women, and

(e) The erosion of the nuclear family unit (economically dominant male with dependent female and children), and replacement by a mixture of -

- Singles living together
- Later average marriage ages
- Shrinking families
- Childless working couples
- The day care center (for young children);
- Child-bearing independent of marriage
- Serial monogamy, vast increase in divorces
- Communal living, trial marriages, triangular marriages
- The Pill, vasectomies, the IUD, provided by welfare agencies
- Legal abortions on demand

as the birth rate plummets to less than the zero population growth (ZPG) rate.

(f) The emergence of the concept of "intergenerational equity" as related to the bearing of the cost of non-funded public pension plans.

(g) The beginnings of a study of the real (not merely financial) needs of the elderly.

Economic Changes:

(a) The 20-year swing from capitalism to consumerism;

(b) The substitution of "notional Social Security wealth" (committed but nonfunded future benefits) in the minds of the workforce, for real savings and the formation of real productive capital;

(c) The resulting slow-down of real savings at a time when -

- U.S. industrial equipment is becoming obsolete by competitive world standards (e.g., the steel industry now)

- Productivity improvements are sluggish

- The energy crisis presents us with the prospect of a vast replacement of a whole industry and need for a whole new generation of capital-intensive energy-producing and energy-consuming equipment

- A surge of young people is battering its way into the workforce, needing $70,000 of new capital per job

all of which points to a period of capital starvation ahead;

(d) The belated, but growing, recognition of the importance of the role of private pension funds in providing this new capital;

(e) The confusion between real capital formation (the creation of productive assets) and mere debt formation (as when a public service pension fund is invested in local authority bonds, merely passing the burden forward to the next generation while no productive assets are created);

(f) Pressure for a more complete coverage by private pension plans;

(g) Dangers inherent in the displacement of private plans by an expanded Social Security program, including -

- A great increase in costs, since non-funded plans always cost more - even twice as much in the long run as funded plans

- An inevitable surge in taxation to pay the costs of non-funded benefits when these fall due

- Inflation, resulting from these and related causes.

Demographic Changes:

(a) The tidal wave of young people born in the 15 years after World War II, resulting from the combination of a high birth rate and the elimination of infectious and childhood diseases.

(b) The surge of this wave of population now entering the workforce, moving through the age groups, and destined to enter the retirement ages in the early part of the next century.

(c) The now-fallen birth rate, cut in half in 15 years, and presently below the ZPG rate, bringing a shrunken generation into schools and later into the workforce ages.

(d) The effects of these changes in doubling the ratio of pensioners to workers, if the average retirement age remains at 65, tripling it if the average retirement age goes down to 60, and quadrupling it if the retirement age falls to 55 in the intervening years.

(e) The surge in taxes foreshadowed by these demographic sweeps, to provide benefits under non-funded pension systems, such as the Social Security system.

(f) The question of funding in advance for the "wave" effect, if not for the system as a whole, in order to even out the irregular cost surges and establish the principle of intergenerational equity (not asking our children to pay taxes higher than we are prepared to pay).

(g) The calling in question and basic revision of present concepts of retirement, and the extension of the work life to recognize the dual effects of (i) increased longevity since the early part of this century and (ii) the infusion of a much greater proportion of longer-lived women into the workforce.

(h) All of these changes in the context of a world in which population continues to increase rapidly, third-world birth rates are far higher than those of the Western-world, fast-growing third-world populations have the exuberance of youth, and are likely to exert many pressures on high-age, less densely populated, wealthier, Western-world countries.

<u>Political Changes</u>:

(a) Increasing dependency of the United States on unreliable imported energy sources,

(b) The proliferation of nuclear weapons capability around the world; the approach of the age of plutonium and the police state, and

(c) The rise of the voting power and political influence of the third world in the United Nations and in world affairs, leading to

(d) The present age of uncertainty and very rapid change.

(e) The prospects of ever-rising taxation, threatening political instability, as commitments under transfer payment systems and non-funded governmental pension plans mature.

(f) The rise of "gray power" as vote-conscious older populations react against compulsory retirement on pensions no longer trusted in the context of rapid inflation and financially unsound Social Security provisions.

(g) Rapid shifts in standards and judgements of political feasibility or acceptability, as younger populations react against unemployment and tax increases, older populations react against forced loss of jobs, women leave the home and demand equal access to jobs and promotion, the satisfaction of demands by minority groups creates reverse discrimination, while social and moral standards everywhere are in a state of flux.

Conclusions:

In the presence of these changes, we should

(a) Re-think the whole retirement process, including -

- the substitution of phased for one-shot retirement
- the scaling-down of work after age 60 or similar age
- the stepping-down from top jobs without stepping out
- the substitution of part-time for full-time work
- transfers from hazardous work to non-hazardous work

(b) Develop methods for dovetailing increasing retirement income with decreasing currently-earned income;

(c) Study more broadly the whole spectrum of needs of elderly persons as age advances, not merely the cash needs;

(d) Restudy the whole subject of indexing pensions, instead of blindly assuming that the CPI applies to pensioners;

(e) Substitute "retirement planning" for "pension planning";

(f) Adopt a more integrated approach to the development of funding policies, recognizing the close interweaving of pension funding with capital formation needs; fashion benefit design to mesh with changing social patterns, and retirement policies with demographic and economic realities, and

(g) Avoid over-taxation like the plague. It has brought down whole empires in the past.

MR. ROBERT J. MYERS: Everybody is probably in agreement that all workers should have retirement income which will maintain the standard of living that they had prior to retirement. Going even further, perhaps, for very low income workers, there might be the necessity of providing retirement income which is sufficient to maintain them in dignity. Where division of opinion occurs, however, is on two major issues. First, what should be the means for attaining or attempting to attain such a goal? Second, what minimum floor of subsistence should be sought, regardless of the level of pre-retirement income?

Those who believe in the laissez-faire philosophy would assert that it is up to each individual -- possibly collectively with his employer -- to seek to attain this goal on his own. Then, if he fell short, the government might provide assistance of a minimal nature.

Those of the expansionist philosophy believe that the answer to these problems is quite simple. The Government, through a social insurance program, should provide and guarantee the necessary income replacement for all -- or at least for all except the very higher-income groups.

The course that the United States and Canada have been following in recent decades has been intermediate to the two foregoing approaches. Such course may be termed as a floor-of-protection basis through social insurance, with substantial effects expected through the private sector by means of private pension plans and other forms of private savings. Beneath all this, in the United States there is the net created by the Supplemental Security Income program of public assistance, which provides, in essence, a guaranteed minimum income for those aged 65 and over.

In the United States, in recent years there has been some veering in the direction of departing from governmental provisions for economic security being only at the floor-of-protection level. This has occurred primarily in the over-expansion of the OASDI benefit level in 1969-71. However, there was some move toward lowering the relative benefit level in the legislation involving the 1974 ad hoc benefit increase. Furthermore, this trend is continuing in the legislation now in process through Congress, under which benefit levels over the long range would be reduced relatively by about 5%.

Unlike some of the other panel members, I tend to be very much a status-quoer. I believe that the general principles of providing economic security that we have followed for years should be maintained and should not be radically altered. Similarly, I believe that the momentum of the past will carry our existing diversified system of providing economic security (i.e., through both public and private measures) along the same general lines in the future. Undoubtedly, there will be -- and should be -- certain changes of details, but I believe that there will not be -- and should not be -- a complete reversal of direction. Accordingly, although Mr. Bassett has presented an interesting logical "ideal" plan -- which would, in essence, have governmental benefits as only back-stop public assistance ones -- I see no feasibility of our shifting away from the social insurance approach of OASDI to his suggested basis.

Considering the U. S. OASDI program, during the past few years, when it has experienced serious financial difficulties (both current and projected), some groups which were of greatly varying political philosophies recommended radical surgery by reshaping its entire character. Some of these proposed tearing the system completely down and rebuilding it from scratch by separating out what they call the "insurance" and the "welfare" elements.

However, when it came to defining the scope of these two elements, such proposals showed an abysmal ignorance of what is meant by insurance and what is meant by welfare. Usually, such individuals were in the academic world and had little knowledge of insurance and pensions. Many of them believe that a proper pension plan that is based on insurance principles necessarily involves only the money-purchase approach. Perhaps this is because many of those in the academic profession are knowledgeable only about their own pension plan under TIAA-CREF and do not realize that the vast majority of pension plans contain a considerable amount of the pooling elements that is present under OASDI. In fact, some such individuals have even said that the disability and survivor benefits under OASDI are welfare, and not insurance, because so much more in benefits is paid out in the event of early occurrence of the risk than the contributions made!

Still other critics have suggested radical changes in the nature of the OASDI program by revamping it to permit persons to withdraw and take with them the combined employer-employee taxes if they make suitable provisions for retirement protection in the private sector. At the same time, a guarantee from the Federal Government of the payment of benefits for those who could not opt out of OASDI would be provided. Such individuals do not realize that their proposal would result in billions of dollars of liabilities being created for the General Fund of the Treasury as a result of the significant antiselection that would inevitably occur. Nor do they have any plans for raising the general revenues which would be necessary to pay off these liabilities. Such general revenues could only come from higher taxes, and a large portion of these taxes would be levied on the high-income persons who would opt out of OASDI in the belief that they were thereby achieving financial advantages.

It is most significant to note that, in the current legislative activity amending the Social Security Act, no noticeable effort has been made to completely change the basic character of OASDI. Instead, the solution to the financial problems that is being adopted -- and one that in my view will completely remedy the problems permanently -- is, in general, to maintain the same characteristics of the program that have been in effect since it was developed more than four decades ago.

The exact shape of the final legislation, which will likely pass the House of Representatives tomorrow and will quite possibly be enacted within the next month, is not completely clear in all details. It does appear, however, that part of the solution will be a significant increase in the maximum taxable earnings base under OASDI. In my view, this is undesirable. Such an approach has been followed because many persons believe that this procedure is entirely a financing one. On the other hand, I view it more as a broadening of the scope of the program, and therefore a lessening of the responsibilities possible in the private area.

Finally, what should be and what will be the future development of the OASDI program? The answer to this question will, of course, affect the role that the private sector will play in economic security. And then too, affecting both will be the future demographic and economic trends.

If there is continual pressure to increase the OASDI earnings base more than the automatic-adjustment provisions will do, this will have a corresponding dampening effect on the role of private pension plans. At the moment, I feel rather pessimistic about this matter and fear that the earnings base may be raised too high -- not only this year, but subsequently -- because it seems such an easy and painless way to obtain additional financing, as compared with directly raising tax rates on all workers.

However, the law of diminishing returns will be operative. After a certain point is reached, raising the earnings base is relatively unproductive in bringing in large sums in the immediate future. Then, pressure may set in to inject a government subsidy into OASDI, instead of raising payroll tax rates. I would hope that this would not be done. At best, such procedure is deceptive. At worst, it is dishonest. People may well then believe that they are not paying all the costs of their OASDI benefits, but rather that some vague third party is helping to do so.

In the field of demographics, it seems inevitable that, after about three decades, in the United States we will be faced with quite a different population structure than we now have, and than we will have over the next few years. The proportion at the retirement ages as compared with those at the working ages will be drastically higher. It may well be that, in order to have an adequate labor force, we will need to advance the minimum retirement age for full benefits under both OASDI and private pension plans. Such advance has been advocated to begin in about the year 2000 and to phase in gradually over the next decade. If this is to be done, it would seem advisable to legislate it in the near future, even though it will not take effect for more than two decades. The reason for this is so that people will be able to make their retirement plans properly and to become adjusted to the idea of a somewhat higher retirement age -- which is also consonant with the likely longer life expectancy in the future. This seems far preferable to having drastic changes made just a few years before a person's retirement, when the long-heralded "demographic crisis" is more apparent.

Finally, in the field of economic matters, the pending legislation will quite satisfactorily solve the long-range financing problems of OASDI, at least for the next three decades. It will also result in a reasonable and rational benefit structure for

OASDI under any future economic conditions, except in the unlikely event that prices will rise more rapidly than wages over an extended period of years.

I would hope that the private sector will be able to continue to play an important role in providing economic security, and that it will not be squeezed out of the picture by increases in the general benefit level or in the maximum taxable earnings bases over those that will result from the automatic-adjustment provisions. At the same time, private pension plans will need to avoid creating any vacuum areas of inadequate protection. These would likely result in the Government stepping in to fill them by expanding the scope of OASDI. One such area is in connection with the adjustment of pensions in force for changes in prices. Truly, to do so is a costly matter, but I believe that this must be done to make the private pension system durable and viable, even if it would mean casting initial pension amounts at a somewhat lower level.

MR. A. HAEWORTH ROBERTSON: If the nation experiences sustained inflation at relatively high levels, it is likely that the portion of an individual's economic security needs which can be met by the private sector will decrease over time. The needs must somehow be met and the federal government, probably through the OASDI Program, will be left as the only entity with the ability to make unqualified promises to pay benefits 75 to 100 years in the future based on indeterminable cost of living increases. Obviously, the expanded social security program would have correspondingly higher costs.

MR. MUELLER: If we define the retirement income security system (RISS) to be all programs, public and private, providing deferred compensation for retirement disability and death -- then we can also define certain factors that impact directly or indirectly on RISS. Mr. Calvert said that over-taxation is a threat to society in general. He also said that future energy and other needs will require tremendous amounts of new capital. New capital sources will also be needed to create additional jobs for younger workers if individuals are going to work to older ages in the future. All of these factors are interrelated in a complex way.

Would you consider mandatory pensions or an expanded private pension system, a funded system providing capital in relatively greater amounts than today, a form of over-taxation?

MR. CALVERT: I would not consider this a form of over-taxation because the creation of these reserves would flow straight into capital formation which would increase productivity. The type of over-taxation that brings our society down is the type of over-taxation that flows out as non-productive expenditures by a government. The inadequacy of coverage of the private plans, is an area of concern that I think we should be addressing ourselves to. We should be pushing for ways to expand the private system.

MR. ROY R. ANDERSON: With the exception of Mr. Calvert, all of those who spoke addressed themselves to the problems of the present systems of retirement. A few references were made to "the future", but these projections were essentially only extrapolations of the present systems and the present environment.

In contrast, Mr. Calvert suggested a possible future that would impose great changes on our society and on our system of retirement. Unless we begin to consider such alternative futures, we will be unprepared to adapt to the shocks to which our present systems will be subject in the years just ahead.

What has already come into focus is the need to redefine what we mean by retirement, by work, by leisure, by disability, by unemployment, by welfare, etc. And then: how must we reconstruct the present "systems of compensation" that relate to these activities so as to provide income in appropriate amounts so as to sustain people in these various states? But before this latter job can be done, we must first tackle the horrendous task of cataloging what those myriad systems are.

My belief is that our present systems that relate to "retirement" are more seriously flawed than was indicated by the discussion at this session.

MR. MUELLER: Before closing, I am going to dash off just a couple of things as far as the near future is concerned. On an optimistic note, I believe that before the year's end Congress will take action to "decouple" the Social Security program. This single action will provide more certainty for private pension plans integrated with Social Security. We should substitute facts for impressions in this area, and codify the integration rules to the extent they are necessary for the continued growth and expansion of the private pension system. President Carter's Pension Commission will study a broad range of pension issues and will be an important influence shaping future retirement income security policy. I suspect that the Commission will focus initially on some of the existing inequities of our retirement income security system. Their recommendations may very well lead to benefit curtailments in some areas as well as benefit improvements in others.