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# FUTURE OF PRIVATE PENSION PLANS

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Who are the critics? What are they saying?

An evaluation and prospects for the future

MR. CLYDE D. BEERS: Over the past decade, the U.S. economy has had a disease, that of lowering of historical productivity gains. The major symptom of this disease is inflation. In my opinion, this is the single most important factor in determining the future of private pensions. In fact, as the economy goes, so will pension costs. If we have low inflation and high real growth, we can expect low and affordable pensions. If we have high inflation and low real growth, we can expect higher and less affordable pension costs.

Despite the optimistic teachings of the capital market theorists, there is growing evidence that there may be no such thing as a stable inflation rate where inflation is in excess of 5% per year. Investment return is, in fact, inversely related to the absolute level of inflation. What I would like to do this morning is focus on four main causes of inflation and their related social changes.

First is the issue of tax policy and regulatory laws favoring consumption versus investment. These policies are rooted in the depression economics of Keynes and the need to stimulate economic activity through a focus on the demand side of the supply/demand curve. Just as generals are always fighting the last war, some economists may be fighting the last depression. The social change associated with these policies is a lowering of the capital per employee over the last 15 years resulting in lower productivity gains in the economy, controlled oil and gas prices resulting in overconsumption at an unprecedented level, and finally an individual savings rate in the U.S. economy of one-half to one-fourth of other developed countries.

The second government action which has a major bearing on inflation is growth in non-productive expenditures. Our two biggest departments, Health, Education and Welfare (HEW) and the Department of Defense (DOD), are increasing their scope in terms of the gross national product. HEW basically is a huge transfer mechanism, producing a shift in incomes from one group of society to another. The DOD expenditures are neither capital forming nor consumable, and we have only to compare the result of this to growth rates in West Germany and Japan where these forces are not at play. There are basically four ways to achieve income for consumption purposes -- through wages and salaries for work, transfer payments through government programs, as a return on investment of capital, and finally using up the capital base itself. Over the past 10 to 15 years, wages have held steady with the cost of living and movement of the gross national product. However, transfers

have nearly doubled as a percentage of the gross national product. Investment return as reflected in corporate profits has been cut in half, from 10% of gross national product to 5%. These factors have brought about social changes which we might call the "philosophy of entitlement" and has certainly thrown out the old "divine right of capital". The attitude is that while there may be no free lunch, at least I can have your sandwich. This philosophy of "I'll get mine for free" is evidenced in defense industry cost-plus contracts, the mentality to be less than fully productive, and an increasing pressure for growing transfer payments.

The third factor in terms of inflation is the increasing regulation of the productive process. OSHA, EPA, ERISA, and the Nuclear Regulatory Commission are all evidence of the increasing demands being placed on those who produce goods and services. These regulations may well serve a valid social purpose, but we must certainly recognize their cost impact. I am reminded of a young attorney to whom I was talking recently who said "I don't want my lights to go out, but my parents live in Harrisburg and I have very mixed feelings." In a sense, we all live in Harrisburg and share that dilemma. We are torn between our feelings of "Economic Man" and "Social Man".

Finally, the last force I would like to comment on is the increasing scarcity of energy and raw materials. The situation in Iran has certainly shortened the fuse with regard to our demand and supply curves of oil running afoul. Nuclear energy is a politically suspect source and we have already seen shortages of raw materials and metals. This is the first time in the history of man that we have not found the next energy source prior to the probable using-up of the preceding energy source. As a result, we have the "small is beautiful" movement, symbolized by Jerry Brown's lowered expectations, and the Club of Rome predictions of the collapse of industrialized society within the next century.

The result of all of this is that inflation has moved out of the 0-5% range and into the 5-10% range annually. Salaries have exceeded normal expectations and investment return has fallen, both because of the higher discounting process applied to future streams of income and the fact that corporate profits have been cut in half as a percentage of the gross national product. Pension costs have gone from 3-8% of pay into the range of 10-15% of pay, and people are asking how high is high. High may be enough that some companies currently may be bankrupt but are just hiding behind unrealistic and understated pension costs. High may be enough that the Board of Actuaries of the Civil Service Retirement System projects ERISA minimum funding standards for that program of 59% of pay, then backs off and says it does not feel that level of contributions should be required of a government plan.

The key to future economic growth is related to those four forces driving inflation. First, can we adopt tax policies that favor capital investment over consumption? The political problem with this is that it tends to reverse the trend away from income redistribution on an even basis for all. Second, can we halt the rise in transfer payments and curtail defense expenditures? Bluntly, can we slow the growth of economic control toward Washington, D.C.? Third, can we produce goods and services in a way that meets both the needs of productive capacity and environmental goals? Here it appears we have two valid competing ideals and we will have to ebb and flow between those ideals in terms of compromise. Finally, we have to harness the limitless power of other energy sources instead of those which

will be exhausted within the next 50-100 years. I think we can meet all of these challenges and the private pension capital base will play a key role.

There are two main features that distinguish private plans from Social Security -- their flexibility and pre-funding. The first is desirable politically and the second essential economically. We should strive for a lowering of Social Security benefits in terms of the total retirement benefits produced in the economy and an increased reliance on funded, private benefit programs. I cannot see people giving up a system that allows the flexibility of 30-and-out or retirement at age 65 in favor of a system that pays only at age 62 and a prospect that normal retirement benefits will be increased from age 65 to age 68. Pre-funding within the private system seems to be the only way to solve the problem of the baby bulge as we enter the period from the years 2025 to 2050.

In order for these comments to be viable, private pensions must meet the needs of the public, particularly with regard to the growing number of spouses who have no other income and for adjusting to the effects of inflation in some manner. It may be that companies are paying too high a price for the ad hoc approach as opposed to some modified, automatic indexing. Some companies will move in one way, others in another. The beauty of the private system is that we can retain flexibility in solving our problems.

There are three ways that the private system can be changed in the future. There could be a revolution through government confiscation of the funds. There could be an evolution through a flexible environment. Finally, there could be an atrophy through increasing regulation and constraints. The major message that the Society should have for the government is to give companies breathing room to react to the current situation.

MR. HARRISON GIVENS, JR.: As you will have heard, this is indeed a time of great social movements, great causes and heightened awareness. "We are living in changing times", as Adam said to Eve on leaving the Garden of Eden. We are offered some stimulating conclusions on the future for private pension plans. Conclusions are arrived at by applying value judgments to facts. When people disagree on conclusions, it can be useful to sort out the facts -- those on which we agree, those where we differ -- and attribute the remaining differences to differences in values. Therefore, I will first summarize how private pensions arrived at their present position, and then speculate on the future of private pensions in general terms, and on emerging policial influence in particular. I will stick to facts as best as I can, except where opinions or values are noted as such. These will be personal values and not necessarily those of any company or industry.

Well then, quickly to the past -- that is, the period before ERISA. Through the 1920's the concept was to work and save. As long as you could work, you did. When you could no longer work, you would draw down what you had put aside.

In the 1930's, something went wrong with that concept. Many were without resources through no fault of their own. They had played by the rules and the rules did not work. We were told that the United States had a mature economy, that growth was a thing of the past, that we should retire the old to make way for the young. The few retirement plans then in existence were generally on a pay-as-you-go basis, and the utter collapse of such plans for the country's railroads led to the Railroad Retirement Act, an interesting,

unique experiment in substituting the federal government for the private plan sponsor. Social Security was adopted for the country as a whole.

The 1940's saw an overwhelming preoccupation first with wartime production and then with production to satisfy deferred civilian demand. Employment was widely available. There was little attention the labor force, or paying a pension.

The 1950's were a rare, "normal" decade for the economy, with reasonable growth. The Korean War inflation was conquered, moderate pensions were affordable, pensions became a negotiable topic because of the Inland Steel decision, and Social Security expanded greatly by adding death benefits and disability benefits and experimented with early retirement.

The 1960's showed tremendous growth in the number of pension plans, in their assets and in their coverage. The inflationary pressures of the last half of this decade disrupted the private sector, the economy and particularly capital markets and pension funds. The burning issue toward the end of this decade was whether Social Security would preempt private pensions. After all, if income replacement is the goal, the greater the Social Security benefit, the smaller the role for a private pension supplement. There was dissatisfaction expressed with the lack of coverage under private pensions and their variation of benefits. There was vocal demand to "reform" what was called the pension "system", which was the first time that most in the pension field had even thought of that present state of affairs as a "system".

The 1970's showed increasing unease over the role of Social Security, and increasing attention to the rapidly growing size of private pension funds. ERISA was a decision at the crossroads -- we would not choose as a national policy a completely public system, instead we would adopt private pensions as an instrument of public policy, and drive them toward social goals. This was a part of a broad social trend, away from government trying to do the job itself and toward directing the private sector to do the job itself, a trend typified by regulations in the field of auto safety, the environment, and occupational health.

In consequence, private plans are to be far more regulated. They are supposed to grow and expand with the help of new vehicles, such as IRA's. Under this mixed blessing of firm, rigorous support and direction, 20% of the best funded defined benefit plans in the country terminated.

Where are we now? Social Security is in unfinished repair. Private pensions are again under experiment -- to correct past legislation, to increase incentives to grow coverage, and of course to regulate somewhat more. Public pensions also may be "benefited" similarly.

Now as to the future: We have heard that private pensions may undergo revolution, evolution, or atrophy. I have three scenarios along the same lines. First, private pension plans are doomed. Inflation will lead to overwhelming costs. Social Security will crowd it out. Indeed I have heard the same speaker confidently predict that both events will occur at the same time, that is, that inflation will require private pension plans to provide benefits far greater than their capacity to supply, while at the same time Social Security will crowd it out of any useful function whatever. It is like predicting someone's death by the simultaneous onset of obesity and starvation.

Even without inflation and without an expansion of Social Security, the next recession will surely trigger a domino effect, whereby first the weak companies will go under, then the disappearance of their stock values will precipitate substantial increases in pension contributions for the unhappy plans that own those unhappy stocks, thereby increasing the pressure on other plan sponsors, and leading ultimately to a collapse of the entire private sector. If only we had not started pension plans, all would have been well.

A second scenario -- private pensions will continue as is. Private pension performance will be seen to be adequate, if not exciting. The present state of coverage will not expand significantly. It is commonly referred to as 50% coverage, but it has also been noted that if those in employment under age 25 and one year of service are excluded, actual coverage is rather more like 70%, which goes part way toward explaining how difficult it is to increase coverage much further. If conventional coverage cannot grow much more, the only available alternative, Social Security, is too weak for major expansion. It will be realized that inflation is the number one culprit, not pensions.

A third scenario -- private pensions will expand greatly. Inflation will once more be controlled. Government will ease its costs, in taxation for social programs and in regulatory costs, relying more on cost/benefit analysis. People will have more money to save and provide for their own future. There will be a confident, national preference for diversity over uniformity, for risk-taking over safety, for reward for risk and innovation, for growth, and for individuality.

What is your personal opinion? Which of these scenarios do you want? Which one do you think will happen? Here is one personal opinion -- private pensions are linked inextricably with the national economy. Pension funds are the largest source of capital, and a capital shortage is the largest visible restraint on economic growth. Inflation can kill both the national economy and pensions, and over-regulation can kill both.

Let us focus now on the part of the future that deals with political influence. Let us define terms. The tag "political influence", or "public interest", or "economic responsibility", or "social investments", means the use of pension funds in a way that is not supported by investment considerations alone. It is profitless to consider the case where "all other things are equal", because it never happens. The coin may fall heads or it may fall tails, but it is not worth considering the case where it rests on its edge. An investment will be superior, as best you can judge it, or it will be inferior.

First, can private pension funds make these social investments now? ERISA is an obvious hurdle -- fiduciary responsibility requires the use of plan funds exclusively for plan beneficiaries. This difficulty is not new since long before ERISA we have had Internal Revenue Service rules dating back to the 1942 Code that prohibit transactions that are not for the exclusive benefit of plan beneficiaries. General fiduciary principles, of even longer standing, are opposed also.

Nevertheless, should this kind of investment be allowed, or even encouraged? If it is the right thing to do, it is not forever binding on us that present law forbids it. Laws can and have been changed. The body of law at any one time just tries to keep up with discernible national consensus.

To weigh whether social investment is desirable, it is essential to keep in mind who pays for the lost investment return. In the case of defined benefit plans, it is directly the plan sponsor. You must hope your advocacy of social investment falls upon a receptive ear and a generous pocketbook and, of course, partners or stockholders may not agree with you. If the plan sponsor is forced to accept the higher pension costs implied, it may impair in turn the stability of employment that is often the reason for social investment.

In the case of profit-sharing plans, it is the plan beneficiaries themselves who suffer directly. One should be quite careful to be sure that the lowered return does not come as a surprise to the plan beneficiaries.

In the case of defined contribution pension plans -- the HR 10's, the IRA's -- there is no talk now of redirecting their investments toward higher social ends, and the individuals whose money is directly concerned would probably be vigorously opposed.

Let us consider some examples of this social investment. Take the construction industry, where the concept is to invest plan funds in construction and thereby support the industry. There is an obvious conflict of interest here between active employees and retired employees. Lawyers react to this point more quickly than laymen, but a personal experience can drive it home. A friend of mine who was reluctant to deal with lawyers, boasted to me that he had no will and no need for one since every major asset was in his name and his wife's name jointly. However, the plane on which he was flying some years ago crashed at a New York airport, and he along with many others were killed. The survivors sued the airline, the airport, the manufacturer, and anyone else that was driving by for substantial damages. The court ruled that this man's widow could not represent the interests of his children in settling their claims, because their interests were importantly different from hers. It was necessary to have separate counsel for the children.

The same issue is here. The retired employees may be sympathetic to maintaining employment in their previous industry, but not at the expense of their income. Even those still employed but near retirement may well be nervous at any visible potential impairment of their impending plan distribution.

A second example is New York City, where pension funds have been lent to meet current expenses, to maintain jobs. Here the clear conflict of interest was recognized by passing special enabling legislation -- if this is what people want, this is what people will get. Was it sound? It bought time, at most, and it postponed but did not remove the hard day of reckoning. When the city finally has no other place to turn and then addresses for the first time its hardest problems, there will have been no permanent advantage gained and the beneficiaries will be in greater peril.

A third example. Should pension funds be used to prolong the life of dying industries? Or dying localities? Or should they be forced instead to address their problems and act responsibly on their own? Would it have been wise to postpone the day of reckoning for buggy whip manufacturers, to take an example from the past? Or, to take present examples, those who deliver milk? Or who manufacture slide rules? Or those who operate retail laundries, when the high prices for shirts and sheets have driven so many to drip-dry materials?

An interesting variation on the concept of social investment proposes not merely that existing pension funds be used for the "public interest", but that competing public enterprises be established with them. This social philosophy is generally repugnant to Americans, but not always. The TVA is affectionately enjoyed in the area of its benefit, whether or not the rest of the country enjoys helping to pay for it.

Is such public enterprise the wave of the future? Randy Barber in The North Will Rise Again has pointed to the precedents in Europe, and they merit examination. Germany, of course, has a long record beginning with Erhard's "economic miracle", founded solidly on natural economic forces and a horror of inflation and excessive government generosity. France has been operating for several years under a plan to cut public subsidies to industry and to use free market forces to discipline and direct both private and public efforts. Britain now has a new government, elected on the explicit pledge to roll back public enterprise. A few days ago Canada chose conservative leadership.

Here is an opinion. This particular wave of the future is really a wave of the past. Europe's history has been the development of strong central states, but they are and have been adopting the United States' views in reaction to our enormous economic strength. It is instead the United States that is the true revolutionary, the true wave of the future, stressing individuality, self-determination, actuarial judgment, and the superior wisdom of the aggregate of individual actions and decisions over the best that can be produced by a few minds in one place.

Is public enterprise, in any case, a practical threat? You will recall the bumper stickers that read "If you like the post office, you'll love national health insurance" -- or federal shoes, or federal steel, or federal calculators. It is hard to feel immediately threatened by this prospect.

Here is another opinion. Various "public interest" groups are crying now for greater public sensitivity to social concerns. The Wisconsin Center for Public Policy spent two days last March in a symposium on the topic "Is the prudent investor acting in the public interest?".

Given this demand for greater accountability, it is now time to demand, in turn, of these groups: Are you authentic? What are your credentials? What is your constituency? Human nature being what it is, some of these are charlatans, riding with any "cause" that can bring attention and success. Some are sincere, but with values foreign to the country as a whole. Some of these, if we are fortunate, will be so attached to superior values, and so persuasive, that the country as a whole will evolve toward the best of these superior values, enriching our national life while preserving the best of present traditions.

My conclusion is this: the kind of attention given today to possible futures for private pensions is part of the sifting of facts and values that leads to understanding the true differences among us, and the real choices and the real consequences before us. This is the right path for us all. For as a Roman emperor was advised on the troublesome topic of the spread of the Christian sect, do not oppose it blindly, for if it is of no merit, it will blow away, but if it is true, not all our legions can ultimately prevail against it.

MR. PAUL H. JACKSON: I date back to the days where private pensions were viewed as periodic payments made directly or indirectly from an employer to a former employee who could no longer work by reason of age or health. Those private pensions were made illegal by the passage of ERISA. The individual analysis of need on the part of one individual by an employer was a source for the establishment of new plans. Therefore, we have cut off one source for the birth of pension plans.

Pension plans that we are talking about today are advance funded, and follow certain patterns which we are now used to. We accept them as the standard. They are based, however, primarily on a tax advantage and provisions of law which can obviously be changed. For example, in Australia there are very few private pensions paying benefits to people who are retired on a monthly basis. They are all paying lump sums because of the tax provisions peculiar in that country. And so the future of private pension plans clearly depends upon both legislation and regulation.

About a week ago, Senator Kennedy was addressing the energy crisis in a talk at Howard University. The Senator expressed a great deal of concern for the poor. He commented that there were some people in the District who were forced to eat cat food in order to afford to heat their homes. In expressing his concern, he raised a question as to whether the poor should be required to pay a greater portion of their annual income for energy than the others. Now as a practical actuary, I deal in the mechanical means whereby objectives can be achieved. It immediately flashed through my mind that each individual of the U.S., upon filing his tax return, should be given by IRS a little plastic card stating either his gross or net taxable income so that when he went to the grocery store, and the grocer had priced bread as the proper portion of a person's annual income, the grocer could add all these factors up, take the plastic card and multiply the factor by the gross income and come out with a price.

Secretary Califano of HEW has made some interesting remarks bearing on the government attitude toward private pensions and I would like to cite just a few. He has stated that the integrity of employer pension plans is open to serious question. Moreover, he said Social Security is probably the grandest and most successful social experiment of our age. The Secretary noted that the combined unfunded liabilities of federal, state, local and private plans ranged somewhere between $543,000,000,000 and $895,000,000,000, compared to the national debt of only $600,000,000,000. Of course, in developing the national debt, no allowance is made of any obligation for Social Security, which might have increased the figure by a factor of 10.

This raises a question, however, we have had in recent months and years in fact -- a great deal of attention focused on unfunded past service liabilities of various firms. Shortly after the passage of ERISA at a pension seminar at the University of Virginia, I listened to one of the nation's outstanding investment people tell the story of how, when he had learned for the first time that the unfunded vested liability of a major company was $400,000,000, he immediately issued orders to sell 1,100,000 shares of that firm which his organization held for clients. He did not know whether this was a newly disclosed liability or whether it was under a plan which had existed for 10 or 20 years and was being funded soundly. He was concerned because the number was a large one.

Some of the other numbers that we hear about are the ratio of unfunded vested to net worth, and the ratio of unfunded vested to net earnings. These are highly variable. For example, looking at 14 major companies and their December 31, 1978 financial reports, the unfunded vested as a percent of net worth ranged from 2% to 38%. The unfunded vested as a percent of net earnings ranged from 16% to an infinite number, because included in the list is Chrysler which had a net loss. On the other hand, for Chrysler, the total pension cost as a percent of their total expenses was 1.9%. One wonders, if they are in such sad shape on the 1.9%, what about the other 98.1%?

How did the unfunded past service become so high in some of these firms? Jim Biggs, when introducing me at an American Pension Conference meeting, said that I was perhaps responsible for some of the largest unfunded past service in the country. I have looked back to see how we arrived where we are. When I started with the Auto Workers pattern plan, they had a $2.80 benefit unit and now they have an $11.00 unit with 30-and-out benefits. If you look at unfunded past service, you will find that there is a very high degree of correlation with the unfunded past service and the strength of the union that is bargaining for benefits.

There is another reason of course -- inflation. How on earth could anyone expect pension plans which represent a promise to pay benefits over a 50-year period to do very well when the dollar, which is the basis for all of our economic transactions, has a half-life of only 10 years?

One of the most widely quoted critics of the private pension sector recently is Alicia Munnell, an official of the Federal Reserve Bank. She wrote an article in Pensions and Investments on the troubled future of private pension plans in which she observed that Social Security and private pensions represent alternative sources for providing income for the retired population. Ms. Munnell noted that, despite the growth in private pension plans, there remains a substantial gap between retirees' needs and their total income. She observed that under Social Security, pay-as-you-go financing insures that adequate revenues are available to finance these benefits, since taxable wages rise as prices and productivity increase. Private pensions, on the other hand, rely on the returns of accumulated assets to finance benefits. In other words, they are worse off because they have set money aside to cover these things. And, of course, if they had set less money aside, Mr. Califano would have been 'clubbing' even harder about the unfunded past service.

This raises questions about what can be done with Social Security. I think any analysis would lead an actuary to conclude that we simply face a different ball game in the future than was the case 10, 15 or 20 years ago when Congress could improve Social Security and raise the tax rate in the year 2010 and balance everything out. Our present Social Security program has a tax rate of 6.13%. To put it in actuarial balance, it would require a rate of 7-1/4%. If we wanted a 60% replacement rate which Ms. Munnell and Mr. Califano believe is appropriate, the rate would have to go to 10.1%. Congressmen in the past have tried to pick up this increase somewhere else and there is pressure on them to avoid increasing the Social Security taxes themselves any further. It would be picked up, for example, by increasing the corporate tax rate. At the present time the tax rate is 46%. If we wanted to avoid increasing the taxes to get the present set of benefits in actuarial balance, we could simply freeze the rate at 6.13%, and recover the revenue from the corporate tax rate by raising the 46% to 63%. Alternatively,

we could add on a piggyback tax on personal income of 11% of the personal income tax and get the Social Security system in balance. If we want a 60% replacement rate under Social Security, the corporate tax rate would have to go to 232%, which is somewhat impractical. Alternatively, we could add on a 50% piggyback tax on our personal income tax and that would cover it. Social Security at the present time takes 5.2% of our gross national product to support it. At a 60% rate, it would require 8.5%.

If these numbers seem high to us, last January in the Insurope News there was a brief item on Italian Social Security -- where it was and where it was going. The cost of the Italian Social Security system represented the equivalent of 11% of the gross national product in 1977. It was estimated to go to 13.5% in 1979, and to 19% in 1990. There now appears to be a consensus among the political and social forces in Italy on the need to reform this system because they are being slowly crushed by the burden. The observation is made that what has particularly exacerbated the deficit of the system has been the automatic indexation of pensions introduced 8 years ago. Indexation has effectively seen pensions increased by greater percentages than those of the earnings which themselves have risen at a higher rate than the cost of living. Parliament has recently approved the limitations at the highest levels on managerial personnel, but for political reasons they have found it is not possible to lower the benefit level for the workers.

Private pensions are the subject of many of these attacks because it is stated that private pensions are subsidized heavily by our federal tax system. This is based upon a concept of the tax expenditure, which Stanley Surrey first introduced about 15 years ago when he was Undersecretary of Treasury. This concept simply states that if our tax law has a provision which gives you a deduction and lowers your tax, then that provision constitutes a direct federal expenditure of those dollars, since in the absence of the provision, you would have paid a greater tax. Mr. Surrey viewed the tax rate as having no maximum at all. He felt that the government could clearly tax up to 100% of anything. Therefore, our present maldistribution of income is due entirely to the U.S. government, since they could have taken everything that we earn from all of us and redistributed it on a more uniform basis.

The tax expenditures that are listed annually when Congress sits down to do its work shows one of the items to be the net exclusion of pension contributions in investment earnings of $11.3 billion. It is one of the largest items. For example, the deduction of employer group medical premiums is only $8.3 billion, mortgage interest $8.2 billion, property tax deductions $5.9 billion, capital gains at death $9.0 billion, and so on. Of course, the difference is that most of these other tax expenditures are in fact expenditures since if we do not collect the tax this year we never collect it. In the pension area, the tax expenditure is a mere deferral. Larger taxes will be collected in the future as individuals receive the income that has been set aside in the fund as that income is larger. I might also observe that the $11.3 billion pension expenditure, if it had been collected, would enable our U.S. government at its present rate to run for slightly less than one week.

Therefore, as I view the picture for the future of private pensions, I would be forced to conclude that our future lies in the hands of the legislators. However, I have enough friends in Congress, who have discussed with me their problems, to know that the legislators' futures lie in the hands of the

voters. As long as we are all aware of the problems and as long as we can bring these people to task when they do things that are improper or shortsighted, we do have an opportunity of controlling our own destiny and insuring that we do have a future in private pensions, both as recipients and as toilers in the vineyard.

MS. ANNA MARIA RAPPAPORT: It seems to me that one of the things that we need to do as actuaries is help educate the public. The psychology of entitlement that was mentioned is vast and growing. I see clearly a need for the public to start to understand what things cost. So often, particularly in the public sector but also in demands that are made on employers, people want more and more and they do not recognize the consequences of wanting more and more and more. I think that is one of the reasons why we have the inflation we have. As actuaries and as people who deal with people who are big employers, people who are influential in the community and who can have an impact on the long term, we have a real role to play. I am completely convinced that there are going to be major changes well within my lifetime and we could have an influence on the direction those changes take and that may have a big influence on the direction that our private plans take. I think we should become activists in public education on the implications of much of what is going on. Public misunderstanding has led to encouraging legislators to vote for things that do not really serve people well.

MR. E. ALLEN ARNOLD: One of the keys to the future of private pension plans is the law and regulations on integration of private plans with Social Security. We have the Federal Civil Service which is not integrated with Social Security, and which at certain levels and certain amounts of service provides reasonable benefits. At the very highest level of pay and longest service, the benefits are unreasonable compared with what a private plan could provide. We do have, in the mass of laws and regulations which have been devised for different purposes by different people, different effects upon federal Civil Service employees, Civil Service employees of states and municipalities who do not have Social Security, and on those who do have Social Security in states and municipalities where Social Security integration is usually very minimal and productive therefore of excessive benefits. When we get to the private area, it is very difficult to design an overall benefit program without fully taking into account the Social Security benefits which are available. The limitations are arbitrary and frequently unreasonable from the standpoint of providing adequate replacement ratios rather than excessive replacement ratios at each level of pay. I think the present rules and those proposed by President Carter a year or two ago are not workable.

MR. GIVENS: You pointed out two very important areas where there is a communication job to be done and actuaries ought to be doing it. One, if the state plans that are nominally integrated with Social Security are not integrated enough and the benefits are excessive and the pattern is all wrong, someone should tell somebody about this. Secondly, how many of your clients are fully integrated today? How many of them are taking advantage of all of the limited opportunity there is today to integrate? If you are not using that, then, though you are right in saying integration ought to be allowed even further, you have got a pretty weak case without using what you already have.

MR. BEERS: I would like to make a comment relative to the issue of integra-

tion. I support Anna's comment relative to communications. However, we have to be sensitive to the political nature of what we are communicating. The communication that integration, to its fullest extent, with 100% of Social Security may turn out from a political point of view to put us on very shaky ground. Basically we have to shift our thinking away from designing plans for executives, maximally integrating, and then letting the plan benefit fall out for the rank and file, to a position where we design the plan for the rank and file in conjunction with Social Security, do what we think is politically feasible relative to integration for the executive, and then provide outside of the plan, if desired, supplemental executive benefits to the extent necessary

MR. JACKSON: One thought that has not been mentioned is that a good many of our problems are due to the very size of our government. As one illustration, when ERISA was passed, the Department of Labor had to write a regulation on what was an hour of service. I could have written it in 15 minutes with an hour being a 60-minute period and service is work for which somebody is paid. However, our government had large numbers of regulation writers, young people who are trying to steer the 'ship of state' in one direction or another. When you have a committee of 8 or 10 people working on a definition of an hour of service, for 2-1/2 years, they cannot possibly come up with something simple. It would not justify all of the time that they spent.

The size, though, of our government also means that the government starts getting into more areas in which it has no expertise or limited expertise and I find that, personally, very unsettling. I find it very depressing that our government should plunge off in so many areas and bring this down upon themselves. Government should be respected and the only way it is going to be respected is if it restricts its activities to areas where it can make a positive contribution.

We have now reached the stage where we view our government as "them" -- as our opponent. The people in the government view us as their "opponent". We are in the private sector and everybody knows that the private sector abuses its employees, overworks them, that child labor laws are necessary, and so on. It would seem to me that looking to the course of the future 10, 20, 30 or 40 years, we would all profit by viewing ourselves as part of one united whole.

MR. A. GUY SHANNON, JR.: One of the points that has not been mentioned here today is what are the prospects for the current action. We have a new and visible presidential commission which presumably will have some effect on something right at the heart of all these matters we are talking about. Does anyone from the floor or the panelists care to describe what might come out of this current new entry into the heart of the public debate on private pensions?

MR. JACKSON: I think you can come up with a general prediction of what they are likely to come out with simply on the basis of the organization that they have made in the overall field. There is very little to suggest that there may be a direct relationship, for example, between some pension which an individual receives and some work that the individual put in while he was actively employed. This direct relationship between a dollar of wages and an hour of work is lost and much of their emphasis is on the basis of need. I think that what we are faced with is having a commission that comes up

with all sorts of desirable objectives, such as "is there any reason why a retiree should have to spend a greater portion of his income on food and housing than is true of the well-to-do active worker?". This is such a soft, political area that you can almost foresee there will be some social implications in their final conclusions.