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NATIONAL PENSION POLICY

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MR. PRESTON C. BASSETT: We have had quite a bit of discussion at this meeting, both yesterday and today, on the many problems that face the pension industry in the United States and Canada. This panel was set up to bring you up to date on what the United States and Canada are doing to solve some of these problems. Our program is going to start off with Barbara Eversberg discussing the United States scene, Jim Clare talking about the Canadian scene and Keith Cooper comparing the two.

We have serious reasons for government involvement in the pension field. There was a time when government wasn't involved. But, the economy has changed. We have gone from a rural to an urban society. People no longer stay on the farm and take care of their children, and children no longer take care of their grandparents. The grandparents today want independence. They don't want to depend on their children. And the children want independence; they don't necessarily want to be obligated to take care of their parents. We have a mobility of population and completely different family patterns. So it became necessary for the government to get vitally involved in the pension scene.

Now why do we need a national policy? The government needs guidance on what should be done. The present system, often called a hodgepodge, grew in many different ways. As a result, some people retire with inadequate benefits. There are gaps in the protection. Some people retire with duplicate benefits, with more than they received prior to retirement. We have overlaps in benefits. There is no real coordination between the various systems. We have an inconsistent tax policy. Employers get tax deductions for pension contributions; employees do not. But, if your employer doesn't have a plan, you can contribute to an IRA and get a tax deduction for some contributions. Social Security benefits are not taxed, but private pension plan benefits are taxed. It's a mixture, and it is inconsistent. We have already discussed the demographic problems that face us in the next twenty, thirty or forty years. We have also heard about the need for the growth of capital.

These are the reasons that we need a national policy. We need someone to give the government some direction, and this is what we are looking at today. We want to look at the relative roles of government, private industry and personal savings.

We have a fourth leg of the retirement income stool -- earned income. How much can we depend on earned income and how much should be left to welfare? How should programs be taxed? What should we do to finance Social Security? Is there a place for general revenue financing of Social Security that many are advocating? How much funding should there be of private benefits? How should funds that are handled by government agencies such as the PBGC be invested and regulated? We have already heard advocates for increasing the Social Security retirement age. The indexing of these benefits is being questioned. There is discussion on whether there should be mandatory pensions, or whether employer pensions should be voluntary. And, if we have mandatory pensions, do we go the English route and allow contracting out? The government needs guidance, we need a national policy on such things as participation, vesting, funding and benefit levels, just to name a few.

MS. BARBARA J. EVERSBERG: It's been said that anticipating the problems of the baby boom becoming the retirement boom was the basis for establishing a presidential commission to study pension policy. There is another reason why a look at national policy is important today. Times have changed.

Whatever your opinion is of the President's Commission on Pension Policy, you'll have to agree that theirs is a very difficult job. After their interim report was released in May, it was mildly criticized for not dealing with personnel management policies, for not dealing with capital formation and productivity and for not dealing with the cost of some of its recommendations. Concurrently, the interim report was criticized by the Citizens Commission on Pension Policy for reflecting excessive concern with management problems, for being overly concerned with capital formation and the economy and for showing undue preoccupation with costs.

Many seemingly controversial issues and topics are involved in the formulation of the national pension policy. I'll be discussing three topics, and hopefully when we have our question and answer session we can touch on a great many more.

Mandatory Pension Coverage

The President's Commission has concluded that serious consideration should be given to the establishment of a minimum advance funded pension system. Such a program could be thought of as an advance funded tier of Social Security that would permit contracting out, or as a universal employee pension system with a central portability clearing house. The staff of the Commission is currently conducting a series of cost and policy studies to answer the many questions before it can formally recommend such a program. The Commissioners feel at this time that the greatest emphasis should be on expanding pension coverage, rather than on providing full inflation protection to some. The Commission came to this conclusion because it found that only 49% of the private sector workforce is covered under pension plans. Commission arithmetic has been criticized, and the suggestion has been made that defining coverage of employees in the private sector who are over age 25 and have one year of service would raise the estimate closer to 70%. But, let's face it: there are vesting provisions and break-in-service provisions that still allow being covered by a private pension plan and receiving the benefit from a private pension plan to be "horses of different colors."

Opponents of mandatory pension coverage argue that such a program could mean an expense to employers of 3% of payroll. These critics say that retirement legislation to help low-paid workers should not result in their unemployment. Proponents, on the other hand, say the cost would be shifted to the employees by means of reduced or restrained wages, and that the universal private pension coverage, because it would put minimal pressure on prices, would be the least inflationary of the alternative solutions to solving the retirement income problem. Opponents again don't buy this argument and assert that the cost will be passed on to the consumer and represent just one more log on the inflationary bonfire. According to the Gray Panthers, pension plans should be part of every worker's salary. They shouldn't be optional, and they should follow an employee when he changes employment. So, this group was probably pleased with at least part of the interim report.

Another argument put forth by opponents is that the uncovered population consists mostly of low-paid workers, and that Social Security should be enough for them because it replaces 50 to 60 percent of their compensation just prior to retirement. This example is not entirely valid, however, for the low-paid worker with an intermittent work history. This is precisely the situation of many women in the labor force. Although there is validity in the argument that every company must coordinate its idea of a satisfactory pension with its ability to finance it, this does not preclude a reslicing of the pension cost pie. For the same amount of dollars, some benefits could be provided to part-time employees, and faster vesting could enable workers with intermittent work histories to receive some benefits that otherwise would never have become vested. These could be provided at the expense of longer-service employees, more highly paid employees, or at the expense of retired employees who would like to have postretirement benefit improvements.

The National Federation of Independent Business claims that universal private pension plans would be a burden on small business. They wish to see a voluntary approach, encouraged by tax incentives for three to five years. Finally, others feel that the government is already controlling too much of their lives, and they're not interested in hearing about compulsory anything -- including pension coverage.

So the issue of mandatory pension coverage is very controversial, and it overlaps with other issues such as the relative roles of government and private sector in the retirement income problem and the allocation of monies available to solving this problem. I think it's safe to say that there will be a lot more said and written on this topic.

Normal Retirement Age

The issue of normal retirement age is also very controversial. The President's Commission says that the normal retirement age under Social Security should not be raised at this time, out of recognition that there is a social contract with working people who are approaching retirement. However, the Commission has given serious consideration to whether the social contract should be changed for future generations of retirees, and concludes that it's preferable to set the normal retirement age in terms of a proportion of adult life to be spent in retirement, rather than based on an arbitrary age -- in plain English that means they are thinking that maybe it should go up. These conclusions relate to the funding problem of Social Security, and there is a report entitled "Retirement Income Policy --

Considerations for Effective Decision Making" by the Employee Benefits Research Institute which would support it.

That report demonstrates that, although the ratio of active to retired workers is expected to change drastically when the "baby boom" generation retires, that ratio would be the same in the year 2025 as it is today if the baby boom generation would retire four or five years later.

Raising the normal retirement age under Social Security could result in a gradual shift upward in the normal retirement age chosen by private plans. Some information relative to this point was revealed in a Johnson and Higgins survey designed to assess the effects of the 1978 amendments to the Age Discrimination in Employment Act. That survey showed that in 1979, although 20% of the companies which responded encouraged working beyond age 65, and 58% percent claimed to maintain a neutral attitude, 22% of the responding companies discouraged continued employment beyond age 65. The legal counsel of The Older Women's Education Fund, Frances Leonard, points out that under the current situation -- where survivor benefits under private plans are frequently paid only when the participant has reached the plan's early retirement age -- the middle aged dependent spouse would be vulnerable to forfeiting a participant's benefits for a longer number of years or months if the retirement age were raised. The industrial union department of the AFL-CIO has made its opposition known to any scheme to raise the age when full Social Security benefits become available.

Many forces presently encourage early retirement. These include ill health, loss of employment, competition from females, competition from younger workers, union demands for 30-and-out pensions, employers' preferences for a younger workforce, and pressures by the so-called prime age employees to continue retirements so that promotion channels stay open.

At the same time, there are many forces acting to reverse the trend toward early retirement. These include the rapidly rising cost of Social Security, better health and levels of education among the older workers, the greater use of part-time work and flexible hours, the squeeze of inflation making it difficult to be able to afford to retire, retaining older workers because of their experience, and also the social interchange and mental stimulation that work provides. Physically and mentally fit employees are not always comfortable in retirement. So, the answer to the question "what should the normal retirement age be?" will not be easy to formulate, and it won't be easy to defend. There will be tradeoffs that will have to be made between the interest of various groups and multiple national goals.

Treatment of Women/Spouses

Among the recommendations in the interim report by the President's Commission is one involving the earnings-sharing concept. After an appropriate transition period, the Social Security system should use an earnings-sharing approach with at least some inheritance of the deceased spouse's credit to the survivor. This was based on the findings that most women currently work for pay and the Social Security system does not provide commensurately for paid work by both spouses, compared to the case of the one-earner family involving a lifelong homemaker. The probability has risen to one in three that a marriage will end in divorce. Retired couples with the same family income can receive different total benefits based on the proportion of income earned by each spouse. For families earning less than the Social Security wage base, the survivor of a one-earner family receives a greater benefit than the survivor in a two-earner couple when family income is the same. Earnings sharing would base benefits on all work by both spouses, thereby providing equal treatment to retired couples with the same family income. It would also appropriately allocate benefits between divorced spouses.

Other recommendations in the interim report are that pensions should be defined as property; survivor protection should be automatic for married and divorced spouses; and that survivors of employees who died before retirement with a vested benefit should receive either survivor benefits under a plan, or life insurance benefits. The treatment of women and spouses appeared to be one of the least controversial issues.

The most serious criticism of these recommendations that I could find was that the President's Commission showed excessive concern for divorced spouses. The critics say that adoption of these recommendations would unnecessarily complicate divorce proceedings because of the vast variety of forms that such divorce agreements can take.

On the other hand, there are women's rights groups who would like to see not only the recommendations of the Commission adopted, but also the Social Security programs and the private pension programs modified to deal more equitably with the benefit problems of women. Women generally accrue fewer benefits than their male counterparts for a variety of factors, such as: sporadic work history, participation requirements, vesting standards, break-in-service rules, and lack of portability. A report released by Working Women, the national organization of women office workers, calls for wide reforms within the pension system, including universal pension coverage, immediate vesting, prorated pension coverage for part-time workers, abolition of integrated plans, sharing of pension credits by both spouses in the event of divorce, spousal consent for waiver of survivor benefits, and preservation of pension credits during breaks in service.

The issue of the treatment of women is intimately interwoven with other issues. The need for expanding pension coverage can perhaps most readily be seen by examining the plight of an unmarried working woman who still has children to raise. The issue of the normal retirement age certainly affects women because, as dependent spouses, they are vulnerable to loss of benefits in the preretirement years, and as workers, since their life expectancy is generally longer than men, they are more vulnerable to the eroding effects of inflation on a fixed retirement benefit. The question of where the money will come from to provide these improved benefits for women and spouses also keeps this topic very controversial.

Since a lot of people seem to enjoy telling the President's Commission what it should have done and what it should do, I am going to add my "two cents." I think that the President's Commission recognized the need for trade-offs very boldly on one point. It seemed to suggest that retirees should forego full inflation protection in order to expand pension coverage if this is necessary. I hope that the final report of the President's Commission will take this bold stance on every recommendation and not only discuss which groups and which individuals will benefit if a particular recommendation is adopted. It should also frankly state which individuals and which groups will suffer if a particular recommendation is adopted. It should contain a set of recommendations that form a national pension policy so that, as a whole, for the population in general and in the long run, their adoption would represent a better set of circumstances in the United States.

MR. BASSETT: There may be some in this room who don't know that I work for the President's Commission on Pension Policy, so I'm taking all these comments to heart. Barbara mentioned that the Commission's interim report suggested that we not have a fixed retirement age, but have a floating age based on some formula tied into expectations of life and work histories. The formula for the expectation of life at normal retirement age is three tenths of the years between age 21 and the normal retirement age. I don't know that it will be adopted, but at least that gives a formula that provides the retirement age from the United States census. This would be effective 20 years after a census is taken. It provides for a retirement age of 65 at the present time and a projected age 68 in the year 2010.

MR. JAMES L. CLARE: The first question I am dealing with is what's happening by way of reports. I did something in June for the Commerce Clearing House Newsletter, and at that time there were ten groups who had sponsored major Canadian studies. This is very different from the United States where the President's Commission and the Employee Benefit Research Institute provide the only comprehensive studies.

Rather than try to tell you about ten studies, I am just going to talk about one. It is a federal study, it's probably had as much money behind its sponsorship as any, and it is typical in that all of the ten studies to date -- including particularly the federal one -- have been partial. You can't take any one of the studies and solve all the problems. There is still much to be done to deal with the real problems, including dealing with costs and balancing the books. There are serious problems to be dealt with in Canada, as there are no doubt somewhat different problems in the States. It's with some regret that after all the money and effort the federal government has spent that we're not that much further ahead, if anything, further behind than when the federal government started. I'll try to give you the facts and demonstrations, and you can make up your own minds as actuaries.

The first thing I'm saying is that it is partial, and if you are going to resolve good management of pensions in Canada -- and I submit in the United States -- then you should have fundamentals so that, subsequently, no matter how you test it -- whether with working people, or business people, with spouses or widows or whatever -- it will stand up. And, regrettably, there are some very large gaps in terms of fundamentals in the federal task force report. Just to take one example -- the reform of federal Social Security -- it touches only very slightly in back pages on the question of subsidies and taxation of the incomes of senior citizens. It really doesn't resolve them.

The Lazar report is abstract. As a good example that things can be done, there is a study in Canada called "Canada at the Pension Crossroads," sponsored by the Financial Executives Institute Research Foundation, and Keith Cooper knows it better than I do. While it was partial in its coverage, at least it did look first hand at what was actually going on in the world. Something of the same happened after I was appointed by the Premier of Ontario to his advisory council on senior citizens. We actually looked at it first hand. But the Federal Lazar task force report, to get the impact of private savings at 65, studied the situation at 52 1/2 and assumed that people wouldn't save anymore from 52 1/2 to 65 and then doubled the amount of their savings at 52 1/2. To me that is rather abstract; it is not looking at actual people who are aged 65.

I've talked to a lot of people, and not one person in business realizes that Lazar seriously advocates reducing the private sector employment tax sheltered company pension after 35 years of service from $60,000 down to $30,000. Additionally, he says maybe you should go down to $15,000 or $10,000. Those are annual limits, which you'll find in his report. I think it's regrettable that he has such partial, obscure, abstract coverage while he neglects the real problems such as, in Social Security, subsidies and taxations that I'll come to, and that he says so little about cost. You don't find these figures in the Lazar report; you have to turn to the report of the Auditor General of Canada. We are running on the order of a federal annual deficit of 14 billion dollars. Each year the Canada Pension Plan operates currently (just covering the provinces excluding Quebec, which is roughly a quarter of Canada), the CPP piles up its own deficit of 7 billion, which gives you, just taking those two figures together, a 21 billion dollar deficit.

One way of illustrating the partiality of the Lazar Report is to suppose that the report had come out 100 years ago, and any one of his four options had been put into effect in 1880. We today would be in a mess; we would have problems with payments going out to the pensioners, we would have a problem with the taxation of the incomes of the pensioners, we would have a problem with costs, and we would have administrative problems.

Most Canadians who reach age 65 lose fifty cents if they earn another dollar, and very often they lose a dollar. They are in worse effective tax brackets; they lose more in retirement than they did when they were working. This is a real disincentive to working and saving for retirement and yet that topic is hardly touched upon in the Lazar report. This should be the basic fundamental of any report; unfortunately it has not been. The major issues in Canada are still outstanding. The major serious report is still outstanding too. This is the Ontario Royal Commission on the status of pensions in Ontario. Ontario holds eight million people and has a pretty serious approach to pensions. For one thing, it's looking at the full three areas fairly thoroughly in its ten volumes and 2,500 pages. The three areas are income security, private sector employment pensions and public sector employment pensions. They are looking at total retirement income from all sources. In terms of income security, I believe they are looking at all of the measures including the tax effects. I believe that the Ontario Royal Commission will recognize the importance of cost, now and in the future.

I trust that actuaries, besides talking about all the problems, will be part of the solution in Canada. I trust they will look at basics and get them out in terms that people can really comprehend and get into the act themselves concerning subsidies, concerning taxation of incomes, and concerning costs. I hope that they will speak up. The Canadian Institute of Actuaries looks like its going to, and its going to be very interesting for the next few years.

MR. KEITH H. COOPER: My role today is to discuss the similarities and differences between Canada and the United States in their respective goals to develop national pension policies. First of all I would like to note the fact that I am a Canadian having moved to Cleveland, Ohio around the middle of 1978. While in Canada I became heavily embroiled in the pension debate -- as an actuarial expert to the Royal Commission on the Status of Pensions in Ontario and in my involvement with my firm, TPF&C, in the preparation of a book, "Canada at the Pension Crossroads," with my Toronto Associate, Colin C. Mills. This book, written for the Financial Executives Research Foundation, was released during the summer of 1979. From a United States standpoint, my exposure to national pension policy has been based on my experience gathered over the past two years, during which time I have been involved with the discussion of pension issues with my associates and clients in Cleveland.

It is impossible to discuss all aspects of pension policy in one sitting. My objective today will be to focus on the similarities and differences between policies of Canada and the United States. The thrust of my comments will be to make comparisons based on the President's Commission on Pension Policy in the United States and on the recent report prepared by the Canadian Government Task Force on Retirement Income Policy -- usually referred to as the Lazar report. The areas I would like to address are:

-- the general thrust or philosophy of each of these organizations,

-- the role of Social Security systems in each country,

-- the impact of tax policy,

-- universal minimum advanced-funded pension systems,

-- indexing of pensions in payment,

-- vesting,

-- treatment of women/spouses,

-- retirement ages, and

-- employment of the older worker.

Pension Philosophy

In the United States the President's Commission has stated that it believes public policy should be directed toward insuring that total income for the aged from all sources should be sufficient to maintain each individual's standard of living in their retirement years. The Commissioners have stated that they believe in a balanced system of employee pensions, Social Security and retirement savings programs for all workers -- what they refer to as the three-legged stool of income security. The President's Commission thus far, however, has been quick to state that their recommendations are conditional on the results of further studies that need to be undertaken to review their cost and economic implications.

Although this philosophy follows closely that of the Lazar report in Canada, it is interesting to note that the Lazar study does not qualify its recommendations on the basis of further studies to reflect on cost and economic implications. Further, the Lazar report is stronger in its efforts to expand the role of the federal government in meeting total income replacement needs of Canadians in retirement. In effect they suggest either that greater government regulation of private employers or expanded public pension plans must take place. Their objectives in making these recommendations are to alleviate poverty among the elderly and to help, or even require, people to shift a larger share of their income during their working years to their retirement years.

This is an interesting philosophy. In a "free" society, the ultimate responsibility (and freedom of choice) usually lies with the individual to determine the level of replacement income to be deferred to retirement years. The Lazar report favors placing restrictions on individuals and corporations in making a choice between consumption in working years versus retirement years. As well, the Lazar report provides a very negative view of what the private pension system has done to date and is very harsh about the inadequacies of the private pension system. In particular, the Minister of Health and Welfare -- Madame Monique Begin -- has been very outspoken about the inadequacies and inflexibilities of the Canadian private pension system. Although both she and the Lazar report state a preference for a stronger private pension system, it is clear that their general thrust is to impose a greater level of control over the private pension system than exists today.

Madame Begin has also spelled out the five basic objectives which the Canadian federal government views as being the underpinning of necessary reform for Canada's retirement income system. These objectives are:

1. All Canadians should have the opportunity to be covered by some mixture of public and private pension plans so that they can receive an adequate retirement income.

2. Employees should be able to keep the pension credit they have earned when leaving one employer, and these credits should be transferable to the plan of the next employer.

3. The purchasing power of pensions should be sufficiently protected during inflationary periods.

4. All Canadians should have some choice as to when they wish to retire.

5. Women must be treated equally by the pension system.

Madame Begin has also stated that a majority of Canadians support these lofty objectives, noting that they constitute a reasonable and solid cornerstone of a program for pension reform. Although these objectives appear to be reasonable, there is no indication of how they can be paid for.

In sharp contrast, the United States pension commission seems to be specific about the necessity of exploring the cost implications of any recommendations they make. Although there is a desire for providing adequate retirement income in the United States, there is a concomitant concern about how it can be paid for. Lastly, there is a definite question about whether it is appropriate to replace the highest standard of living ever attained by an individual. In Canada this seems almost to be accepted as being axiomatic.

The Role of Social Security Programs

The President's Commission views Social Security as a minimum floor of protection with benefits related to presumed needs. They believe that benefits payments should be geared as closely as possible to the contributions made by the individual. They also express the opinion that a pay-as-you-go system is not an appropriate vehicle for providing 100% of retirement income to workers and their families. Stated somewhat differently, they are suggesting that some proportion of total pension income should come from an advanced-funded system such as the private pension system. Recent cost projections for the Social Security program outline the hazards associated with having 100% of retirement income come from a pay-as-you-go vehicle, i.e., Social Security.

The Canada Pension Plan, the Quebec Pension Plan and Old Age Security benefits make up the Canadian Social Security system. Old Age Security provides a flat dollar pension to individuals 65 years of age and over. All of these programs are indexed fully with changes in the cost of living. The fundamental difference between the Social Security systems in Canada and the United States is that the United States system has been in place for over 40 years, while the Canada/Quebec Pension Plans have been in place for only 15 years. The very large contributions now being made to the United States Social Security system have yet to be experienced in Canada, but financial projections beyond the year 2000 indicate that contributions to the Canadian programs will increase markedly just as they have and will continue to do in the United States because of the shift in demographics in both countries.

It is interesting to note that both the Lazar report and the President's Commission have defined what an adequate pension should be. In a Canadian context, 40% to 45% of inflation-adjusted earnings on top of the flat Old Age Security benefit is deemed to be an adequate pension. For an average wage earner this amounts to a pension in the range of 60% to 65% of inflation-adjusted earnings. In the United States, the President's Commission is suggesting that a single person would need between 60% to 70%, while a married person would need between 65% to 75% of inflation-adjusted earnings. The slightly different percentages presumably relate to differences in the tax laws applicable in each country. Differences in work-related expenses and individual savings could also have a bearing. I mention these definitions of pension adequacy because one of the alternatives outlined in the Lazar report was to expand the Canada/Quebec pension plans from the present 25% of three-year average pay levels for an average wage earner to 45% of three-year average pay for wage earners at 1 1/2 times average wages. The combination of the expanded C/QPP and the Old Age Security benefit would equate to the stated adequacy goals of the Lazar report for those earning up to 1 1/2 times the average Canadian wage.

Tax Policy

This is an area where there are distinct differences between Canada and the United States. In essence, Canada has its tax house in order and this has been so for a number of years. In Canada contributions to qualified pension and related savings plans are deductible from taxable income while all benefit payments are taxable in the hands of the recipient.

In the United States there is what I would refer to as a dog's breakfast. First of all, under Social Security employer contributions are deductible, employee contributions are not, while benefits are 100% tax free. In the private pension plan areas, employer contributions are deductible, employee contributions are not, while benefits are fully taxable except for the portion of the benefit that is related to employee contributions.

Canadian tax policy also enables individuals to make contributions to Registered Retirement Savings Plans up to the lesser of 20% of pay or $3,500. This limit includes employee contributions to a corporate pension plan. Such contributions are deductible to the individual while benefit payments are fully taxable. In the United States Individual Retirement Accounts (IRAs) permit an individual who is not a member of a corporate qualified plan to contribute up to $1,500 per year to a tax shelter. Contributions are deductible with benefits fully taxable.

The IRAs are a beginning. They enable individuals to defer income to their retirement years. There is a clear need to broaden the opportunity for savings of individuals in the United States. Encouragement through tax incentives is an obvious way to do this, as has already been done in Canada. One of the unique concepts outlined by the President's Commission is that of a tax credit for the lower wage earner. This does not exist in Canada, and it is quite clear on examining Canadian RRSP statistics that Registered Retirement Savings Plans are utilized very heavily by higher-paid people. The novel idea of a tax credit could encourage lower-paid individuals to contribute to such vehicles. The purpose of expanding opportunities for individuals to look after their own retirement needs is vital if pressure is to be taken away from corporations in this very expensive area. The fact that Canada has shown high utilization of Registered Retirement Savings Plans should give the United States courage to take similar action.

The need for increased opportunities for savings in the United States becomes abundantly clear when it is noted that Canadians save in excess of 10% of their disposable income today and have been doing so for the past seven years. In the United States, however, savings averaged about 7% of disposable income from 1970 through 1975 but have since fallen off dramatically to less than 5% of disposable income. In fact, during the last quarter of 1979, the average United States individual saved only 3.5% of disposable income -- 1/3 of his Canadian counterpart.

Universal Minimum Advance-Funded Pension System

The President's Commission has viewed this concept as an advanced funded tier of Social Security. They consider the ability of employers to contract out of such a system as a desirable feature. Again, however, they want to explore the cost implications of such a system and its impact on workers, employers and the economy.

In Canada this option is one of four proposed in the Lazar report. Essentially what has been proposed is that employers be mandated to establish either a defined benefit plan providing 1% of average inflation-adjusted earnings for each year of service, or a defined contribution plan to which both employer and employee would contribute 4% of pay, offset for contributions to the Canada/Quebec Pension Plans.

An alternative to these two options is for the employer to provide a 1/2 of 1% defined benefit plan with the employee making a combined 4% contribution to the defined contribution plan and the C/QPP.

As mentioned earlier, the Lazar report does not suggest that further study on this alternative is needed. It is evident that the economic impact of such a recommendation on capital markets, future costs and inflation need to be explored before such a program is installed. This is in addition to the questionable desirability of impacting further on regulation of private pension plans.

Indexing

The President's Commission places the greatest emphasis on increasing pension coverage before full inflation protection should be considered. Their thrust is that inflation protection for pensions should be encouraged but not required at this time. They would rather emphasize voluntary actions by employers through positive encouragement rather than regulating such an event.

In Canada, the Lazar report is encouraging full indexing of benefits provided by private pension plans They are also suggesting that Old Age Security and Guaranteed Income Supplement benefits be adjusted based on a standardized measure of change in average wages and salaries rather than in accordance with the change in the cost-of-living index.

The Lazar report offers a number of suggestions for coping with full indexation. Regardless of the alternative recommended, there will be increased costs to employers if indexation is regulated. The alternatives outlined by the Lazar report include the use of additional investment earnings, indexed bonds or annuities, and inflation insurance sponsored by the federal government.

Vesting

In Canada there is a definite interest in shortening vesting periods. Their goal is to increase the pension pieces that individuals acquire as they move from job to job. Also, because of the contributory nature of pension plans in Canada, there is an emphasis on the need to lock in employee contributions rather than having them refunded on termination of employment.

The President's Commission is also encouraging shorter vesting. Cost studies are now being undertaken to explore the financial implications of improved vesting. Locking in is not a consideration in the United States since most pension plans are noncontributory.

Another issue in both countries is the ideal of improved portability. Canadians are suggesting that the concept of adjusting deferred vested pensions for inflation would help to improve ultimate pensions to mobile employees. They suggest that this, when combined with improved vesting, should go a long way to providing adequate pension entitlements at retirement. It is noteworthy that this approach has been put into place in the United Kingdom as the result of pension legislation that came into effect there recently. The concept of inflation adjustments to deferred vested pensions does not seem to be an issue in the United States.

Treatment of Women/Spouses

Both Canada and the United States have similar concerns about the treatment of women and spouses in the pension area. In both countries widows seem to have been shortchanged. Although ERISA took a step toward helping widows by requiring the retiring employee to opt out of a continuation of his pension income to his surviving spouse, Canada has not taken similar action. The President's Commission seems to feel that stronger action needs to be undertaken in this area. In Canada the Lazar report recommended that 75% of an employee's pension should be continued to the surviving spouse. Other studies have recommended that between 50% and 60% of an employee's pension should be continued. Either way there is strong interest in some form of continuation of an employees pension to the surviving spouse.

There appears to be some consistency between Canada and the United States about the desirability of splitting pension credits with a divorced spouse. There also seems to be an understanding that such an arrangement would be messy, particularly where several partners are involved with any one employee. Also, companies are concerned over the legal ramifications if an employer is required to split pension credits from their corporate pension plan between one or more spouses of one of their former employees. A recent Canadian survey indicated that many employers were not interested in such a feature being incorporated in their corporate pension programs. Further, the fact that many women are working today may suggest that the pressures currently being experienced may be alleviated somewhat in the future.

The United States is also considering the desirability of defining pensions as property which would then make them a matter for distribution on marriage breakups.

Retirement Ages

Level of retirement age is also an issue in both countries. As life expectancies have increased, there is definite pressure to increase normal retirement age because of the increasing costs of Social Security programs.

The concept of maintaining a consistent ratio between the number of individuals in retirement years to those in working years is an important one for establishing an appropriate normal retirement age under government programs. This is highly desirable if the costs of Social Security programs are to be maintained at a consistent level as life expectancies change. Another way of stating this philosophy is that workers should come to expect a constant percentage of their adult lives being lived in their retirement years. This philosophy is being explored in the United States. Canada does not seem to be clear on what to do with normal retirement age under its government-sponsored programs, although the projected costs of government-sponsored pension programs is an issue.

The Lazar report takes exception to the use of subsidized early retirement for long-service employees. The stated reason for this thrust is the desire to eliminate inequities between short- and long-service employees. The real pressure has come from overly generous civil service pension plans where individuals can retire at age 55 and 30 years of service with full unreduced pensions. From there they can then move to other employment during which time they can build up additional pension credits. While working for their new employer, they can have pension income from their federal civil service pension plan transferred tax-free into a Registered Retirement Savings Plan where it is tax sheltered. Essentially, these individuals enjoy not only additional income while working but also the opportunity to accrue additional pension credits with their new employer.

There is a somewhat, but not totally, analogous situation in the United States where federal civil servants retire early having generated a pension which is not integrated with Social Security. These individuals can then move to new employment outside the federal civil service where they have both the ability to generate additional retirement income with their new employer and the opportunity to accrue a Social Security benefit from such employment. On the other hand, these former civil servants do not have the same opportunity that is available to their Canadian civil servant counterparts to shelter their Social Security pension through a vehicle such as an RRSP.

Employment of Older Workers

This subject has not been discussed to any great extent in Canada. The President's Commission has expounded the view that the employment of older workers represents the fourth leg of the retirement stool. The President's Commission believes that, should Social Security become a taxable benefit, the earnings test under Social Security should be eliminated, thereby providing for a greater incentive for older workers to generate income through employment in their retirement years.

It is interesting to note that both the Canada and Quebec Pension Plans have abolished retirement tests that initially existed under these programs. The reason for their elimination was excessive criticism associated with the offset of employment income while in retirement years. Whether this elimination of the retirement test in Canada has been useful in encouraging older workers to enhance their retirement income through employment is a moot point. It will take a few more years' experience under both the Canada and Quebec pension plans to determine whether the elimination of the earnings test has proven to be a valuable incentive for increasing the income of retired workers or whether it has simply been a waste of money.

Concluding Remarks

Before any far-reaching changes are made to the current retirement income systems in either Canada or the United States, some important issues should be resolved.

1. The extent of the role of the state in the pension system area and the relative role of the individual and employers. The lack of emphasis on the individual's responsibility for his own welfare is disconcerting in the Canadian environment.

2. The real extent of the pension problem, based not on a static past position, but on a projection of the current trends and growth in the pension system as it is presently constituted.

3. The economic impact of the various measures on proposed capital markets, future costs and inflation.

4. The extent and desirability of the regulation of private employers in the pension area.

Although the President's Commission in the United States has publicly announced the desirability of analyzing both cost and economic implications of their recommendations, the Lazar report does not seem to suggest that further analysis should be undertaken. Both countries have a very large task ahead of them in deciding on the direction of national pension policy. It is abundantly clear that there will be considerable debate on the direction of national pension policy beginning with calendar year 1981 in both countries.

MR. BASSETT: The President's Commission on Pension Policy is studying the subjects of earnings-sharing, spouse's benefits, etc., that Keith was mentioning. The Commission agreed that, as far as private pensions go, pensions should be clearly defined as being property. The thinking is that if they are defined as property, they automatically become part of the proceedings in divorce settlement as the property of the couple. Of course, we have seen a lot of this happening in the community property states, where it is common practice for the actuary to testify during divorce proceedings as to the present value of the pension rights that have been earned during the course of the marriage. So I think the President's Commission may change its mind, but at this point they're leaning towards clearly defining pensions as property, and then leaving it to divorce settlements to decide.

On the earnings test, we have heard complaints that people between 65 and 72 are penalized a dollar for every two dollars they earn because of a reduction in Social Security. It may be time to change but we shouldn't lose sight of the fact that Social Security was adopted as an earnings replacement system. It was not a system of providing people with an adequate retirement income, it was to replace some of the lost earnings. Viewed in this respect, it's hard to justify the continued paying of Social Security while people do have earnings, particularly unlimited earnings. I think there has been a lot of confusion on this.

I think the earnings test is another area that has not been clearly thought through. What are the implications and what would be the cost of eliminating the earnings test? This means that people with outside income, no matter how much, would then get Social Security. Is this really a socially desirable result?

Both Bob Myers and I can't understand the reasoning of Congress when they say there will be no taxation of Social Security benefits. The Advisory Council proposed that half of the Social Security benefits become taxable to the employee -- the part that is paid for by the employer in theory. There was quite an uproar by public interest groups, and The Senate even went so far as to pass a resolution that they should not be taxed. However, if you examine it, the low-paid people would not pay a tax. The only people who would pay a tax on Social Security benefits would be the people with outside supplemental income. And yet, those same people who are supporting the low-paid and advocating increased benefits for poor people were opposed to these taxes.

MR. ROBERT J. MYERS: The President's Commission on Pension Policy seems to be favorably considering the concept of earnings sharing between spouses under Social Security. I hope that the President's Commission will examine this matter very thoroughly, because it is not as simple as it would at first appear.

The concept of earnings-sharing is very appealing from a theoretical standpoint. In fact, philosophically I strongly favor such an approach. It is important to note, however, that the proponents of this approach usually talk about it only in very general terms.

If the Social Security program were being inaugurated now, I would strongly favor including the earnings-sharing concept. However, I am convinced that it is technically impossible to change the present plan in this manner or to phase this concept in over a period of years without creating more anomalies and inequities than are done away with. If the change were made so as to give beneficiaries the better of both the present basis and the earnings-sharing basis, the cost of the program would be greatly increased.

The National Commission on Social Security, after long and careful study of various earnings-sharing proposals, has decided that none of them are feasible. The National Commission, however, has made certain recommendations which, within the existing benefit structure, will produce better results for some of the situations affecting women about which concern has been expressed.

Not all women's groups favor the earnings-sharing approach. At the various hearings held by the National Commission on Social Security, there was much more strong testimony by women's groups who opposed the earnings-sharing approach and favored the continuance of the present basis.

The arguments the womens groups gave, some of which I think were good, included that under most of the earnings-sharing approaches the homemaker would be worse off. They made a very strong plea on the grounds of maintaining the home, having the women stay home and take care of the family and so forth. Under many of the earnings-sharing approaches the disability and survivor protection for the family would be reduced.

An argument in favor of earnings-sharing would be that the two-worker family doesn't get as much as the one-worker family. This is all based on the concept of individual equity, and I don't think they seem to realize that the nature of OASDI is a social benefit and based largely on social adequacy and the concept that one social benefit per person is all that should be paid.

Finally, it is worth quoting that the National Commission is making a strong recommendation for raising the minimum retirement age for unreduced benefits from 65 to 68, beginning the phase-in some 20 years hence and completing it in 2012.

MR. DWIGHT K. BARTLETT: The President's Commission strongly suggests that we should consider mandating prefunded pensions, presumably in the private sector. That recommendation has made strange political bedfellows of its opponents -- both those against any government mandate, and those who feel such a charge belongs with Social Security. There has been much controversy over whether prefunding pensions in the private sector really increases savings more than the provision of those same pensions through Social Security. Based on the lack of evidence for this position, some might say that we might as well provide additional pensions on a pay-as-you-go basis through Social Security.

MR. CLARE: I think that some of the trial balloons on pension that were being floated by both politicians and civil servants for the Government of Ontario were taking the original Feldstein conclusion, and were treating it quite seriously at its face value. In other words, they believed that private prefunded pensions improve capital formation significantly in comparison to providing those benefits through a public system.

MR. BASSETT: I'd like to made a quick comment in defense of the push for mandatory pensions. I think the President's Commission is very concerned about lack of growth in capital and that the Social Security system is facing some financial problems in the next twenty, thirty or forty years. On that basis they feel that it is better financially, both in terms of benefit security and capital formation, if it's done in the private sector than by Social Security.

MR. ROBERT J. SCHNITZER: From the inception of the President's Commission, I was somewhat skeptical of the chances of its doing something even halfway towards what it is expected to do. I just wanted to ask you, Pres, what your thoughts are on how likely the Commission will succeed in producing, in some measure, a coherent retirement income policy for the United States.

MR. BASSETT: Seriously, the problems that face the retired, disabled and survivors in the United States are not going to be solved by this Commission. It will have some proposed solutions for some of the problems. But it will open up other issues for debate in Congress and among public interest groups -- the Society of Actuaries and others. We do not plan to take a position on some issues, such as the social investment of assets. Peter McCollough has already stated that it's too big a topic to handle at this point; therefore, we will suggest that some future commission look into that problem. It may be that when time runs out there will be other problems that we will not be able to handle in the time frame that we had, and that require more study or more development. Maybe the problem of earnings-sharing will be in that group. I don't know where we are going to stand on a lot of issues yet, very honestly.

It's awfully difficult to pin down why a large percentage of the retired population in the United States is receiving income under the poverty level. Is it because of broken work histories, is it because they retired at age 62 rather than 65; is it because we don't provide earnings-sharing or sufficient benefits for dependents or divorcees; or is it because the Social Security system that they are now under is obsolete? We don't know how all these different issues impact on the retired people. We don't have a lot of statistics, but we are getting them, and I hope we will use them wisely. One of our studies concerns the impact on savings of individuals as a result of private pensions and Social Security. It will be a 6,000 family survey. We will have some recommendations that are, certainly, going to be challenged.

In the area of mandatory pensions, the Commission is now looking at five different plans. We don't know whether we should have them or not, but if we do go for mandatory pensions, we're considering defined contribution plans, as well as defined benefit plans. We're looking at whether they should be in the public or private sectors. We're also looking at thrift and savings plans. We'll be looking at all five approaches with all kinds of options under each, together with cost figures. We have an extensive research project that will produce results by the middle of December. On the basis of that we will try to make some conclusions or at least recommendations as to whether or not to recommend mandatory plans, and if so, what kind of a mandatory plan would work best.

MR. SAMUEL ECKLER: Has there been much feedback on the interim recommendation about compulsory private pension plans?

MR. BASSETT: We've had reasonably good feedback on it, and the results are mixed. The report was too incomplete to stir up much reaction. We said we are going to look at mandatory pensions further. We are strongly inclined towards it. We are looking at earnings-sharing. We think that the retirement age should be increased. We are going to be looking at the cost impact, so there was not too much ammunition in the interim report for people to say we have gone off the deep end. We'll put out another interim report in November, and, hopefully, there will be more refined conclusions there.

MR. HOWARD H. HENNINGTON: I want to ask if there is any possibility that the President's Commission could recommend that its time be extended and then take the lead in more solid, scientific research than has been evident up to this point. It appears to me that the interim report was done under deadline pressure, that it was quite superficial -- at least in comparison to what I had hoped for. In fact, it dealt with a lot of areas, with a great deal of emphasis on Social Security, a subject that other commissions are already working on. I would have hoped that it would have been much more focused, much more based on solid research, and wouldn't make interim reports until really ready to come out with something solid.

MR. BASSETT: My first response is that the Commission and the staff do not have the knowledge to make the kind of definitive statements that you and many of us might like. The interim report was put out to raise issues and get responses from knowledgeable people. We have had many helpful hearings on various issues. We have gathered much written material, lots of testimony that has been very helpful to the Commission. We can't possibly do it all ourselves, so we have sent out some contracts to do research work, a handful that are going to be very helpful to us. With the time frame and the money that we have, we can't do all the necessary research. This Commission recognizes that there will have to be more study in certain areas. This Commission will most probably put out its report at the end of February, and will terminate on schedule. If there are unfinished items, they will be so noted and recommendations made for further study by further commissions. That is the way I read it today.