

RECORD OF SOCIETY OF ACTUARIES 1981 VOL. 7 NO. 4

ARE PENSION PLANS MEETING ANYONE'S NEEDS?

*Moderator: PRESTON C. BASSETT. Panelists: ANDREA FESHBACH, PAUL H. JACKSON,
A. HAEWORTH ROBERTSON*

1. What are the needs?
2. Who needs coverage?
3. How much coverage is needed?
4. When do these needs begin?
5. Who should decide what the needs are?
6. Who should provide for the needs?

MR. PRESTON C. BASSETT: This is a different format from the usual panel discussion in that the panelists have not been asked to prepare formal written statements. Rather, we will try to keep more of a discussion type of program. The panelists will open up topics and I have asked them to pause once in a while to see if other panelists want to question them, add something, or if the audience would like to participate.

On the panel today we have two old hands and a fresh look. We are delighted to have Andrea Feshbach who has almost 10 years of experience in the pension field, and is now currently with Touche Ross in Minneapolis. She will be adding her comments along with those of Paul Jackson of the Wyatt Company in Washington, D.C., a frequent contributor to our programs, and Haeworth Robertson of William M. Mercer Company, also in Washington, who also has been a contributor to this topic and has recently published a book which I am sure many of you have read.

The problem that faces us immediately on looking at this topic, is two key words, "anyone's" and "needs." "Anyone is pretty broad; Andrea was the first to point out to me that "anyone" does not mean only the pensioners, it may be the plan sponsor, the employer, or it may be society in general and I know Andrea will talk about this a little later.

"Needs" is an interesting question. How do we define "needs"? I had an illustration this morning. Four of us met for coffee in the speaker's lounge on the 8th floor to get this program organized but decided to go to breakfast on the 5th floor. Needs might have been satisfied on the 8th floor, but our group felt that we should have a more elaborate breakfast, and I cannot say whether this was a need or a desire. Then one person had eggs sunny side up, another had eggs Benedict, a third had eggs in an omelet and one person did not have any eggs at all. How we distinguish between needs and desires is going to be an interesting topic.

That gets us set for the program and Haeworth Robertson is going to lead off.

MR. A. HAEWORTH ROBERTSON: I am going to make some preliminary remarks dealing with the questions that are listed in our program, "What are the needs?", "Who should decide what the needs are?", "Who should provide the needs?"

When such questions are considered, there is a tendency to gather a group of experts to sit around and examine the health status of the elderly, the practice in other countries, a multitude of other factors -- and then decide what they think peoples needs are, even what their rights are, and then proceed to make sure that these benefits are provided, no matter what. For example, a study group might conclude that everybody should be able to retire at age 65 on a pension equal to 75%, 80%, even 100% of pre-retirement earnings, and that the government should pass laws to insure that everyone gets those benefits, through Social Security or a mandated private pension system.

It is not proper for the government to engage in such standard setting. It is proper for the government to set minimum standards and to take action to insure that the minimum standards are satisfied. I do not think it is proper for the government to set ideal standards, at least in a nation where freedom of choice is emphasized.

In trying to make our American pension system match up with those in other parts of the world, we frequently forget that our social and economic system emphasizes freedom and not coercion. Instead of spending its time trying to figure out what the ideal retirement age is and what the ideal retirement benefit is, and then trying to force everyone to have those benefits, the government should be setting only minimum standards. Then, the government should concentrate on providing an environment in which individuals and groups of individuals can satisfy their own individually selected standards. For example, an environment like this might have some of these characteristics: an individual should have the incentive and the opportunity to work in employment suitable to his or her physical and mental capacity throughout his or her lifetime. This would require training, retraining, second, third, fourth careers; more sophisticated matching of people with jobs that are available. It will probably require some governmental intervention. The government has already intervened in this area -- in its Age Discrimination In Employment Act, in trying to assure that women and minorities get equal treatment with everyone else. Probably more governmental intervention will be necessary and will in fact come into play.

Private pension systems should be more highly developed than they are now. Tax and regulatory policy should encourage the expansion of private pension systems and not discourage it. Right now we have many conflicting signals from various agencies within the government about whether they really want us to have a private pension system that is bigger and better than it is or whether they want us to cut back on it.

Investment vehicles that are dependable, through which an individual can save for his own retirement must be more highly developed. Our investment vehicles -- purchasing houses or various savings institutions, the stock market, all of that -- they are fairly well developed now compared to the way they were in the 1930's, but they still have a long way to go before an individual can rely upon them and use them to provide for his own savings, future retirement and so forth.

The government figures heavily in regulating all these investment institutions and they will probably continue to do so, but they ought to do it with the idea of having more adequate and dependable vehicles available to us to save. We need a stable economic environment with low or non-existent inflation. If the government in all of its study groups spent as much time studying inflation as they spend trying to solve the problems created by inflation, maybe we would have figured out some answers.

In summary, I would like to repeat an earlier statement. The government should concentrate on providing an environment in which individuals and groups of individuals can satisfy their own individually selected standards.

MR. PAUL H. JACKSON: I have one comment, Haeworth. When you say the government should encourage or set an environment for people to be able to provide their own retirement income, for example, do you think these advantages such as deferral of tax on contributions, should be without limit or do you think there should be some limits as we have under ERISA on pensions? In other words, should this environment be open ended, all the way, or should there be some ceilings on the encouragement?

MR. ROBERTSON: First of all, I'd like to take issue with you on the matter of deferral of tax on contributions. That is a statement that is made by the federal government from time to time as their excuse as to why they ought to be regulating pensions in the first place, but most private citizens pay taxes that are based on a cash statement. They do not receive the contribution, it is put into a trust fund. They pay a tax on the benefit when they receive it and it can be demonstrated, not by looking at a private pension plan, but by looking at what could happen if the employer paid the benefits when the benefits came due. The employer, by paying earlier a discounted amount, is claiming a smaller tax deduction -- the present value of tax receipts to the government is unchanged by the way, that we tax pension contributions to the corporation and to the employees. So there is no deferral of tax.

MS. ANDREA FESHBACH: I would like to pick up on something else Haeworth said. He spoke about the need for suitable employment and the fact that this may take several careers within one lifetime. However, the only portable pension system that we have at the moment is the one that the government has set up. The rest of us, if we have several careers in one lifetime, may never receive an employer paid pension under the current vesting rules.

MR. ROBERTSON: That is true. Without making this too personal, I am one of those people. I am within two years of having a vested retirement benefit from four or five employers.

MR. JACKSON: This gets into the question of whether this is something that should be perceived by people in congress as an apparent need that society has, or whether the individual citizens can take care of themselves. By and large, there are people who work for employers who offer no pension coverage at all; there are people who work for employers who have massive pension benefits; there is everything in between; and the individual selects -- he is not forced as would be the case in some other countries. To the extent that the decision as to the amount that should go into pensions is determined by individual groups as opposed to a uniform system imposed

from above, one is in a position of tailoring the benefits more to fit what the needs are.

I have a basic problem in discussing the question of needs. I do not see anything in the discussion that would relate to what underlies the private pension sector, namely an earned right. I remember coming to Washington in the mid-1960's and being somewhat surprised to find that the welfare mothers were holding a sit-down strike. I guess I come from a different generation, but I did not believe that was a matter of strike.

We do have a different perception today: an individual sits down and says I need so much, whereas they are really saying they want something. There is a great difference between needs and wants. If we add up everything we want, what we want adds up to five times what we have the ability to pay for. If you add up what we need, maybe we can provide that.

I ran across a headline in the Washington Post that caught my eye. It read "To Change Pensions, A&P To Shut More Stores." It said the Great Atlantic and Pacific Tea Company will close more unprofitable stores and restructure retirement plans for salaried employees in another attempt to perk up its troubled supermarket business. Restructuring the pension plan covering 10,000 salaried employees will free a \$200 million surplus that has accumulated in the existing fund. The new plan will allow salaried workers to take advantage of new tax changes relating to individual retirement accounts. It further read, "Under the old pension plan being eliminated December 31, A&P made contributions based on a complicated formula that took into account the number of employees and their ages. The formula did not account for rising interest rates, however, so interest earnings resulted in the hefty surplus. After changes in the pension plan, the company will contribute 4% of each salaried employee's annual salary. The employee will then be able to contribute 6% of his salary, which will be matched by the company, 50¢ for each \$1."

This demonstrates yet another need we have not touched on -- the need of an employer for money. It is peculiar that a company can obtain \$200 million of needed surplus by cutting benefits for salaried workers.

MS. FESHBACH: Most people, when they retire, need to maintain a standard of living similar to what they had before -- houses may not be paid for and there is a certain style of life that they have become accustomed to. The argument on one side is that if you leave one person with the same level of income they had before and cut somebody else to a quarter of what they had before, then the person who is being cut is not going to feel that his needs are satisfied in the same way as a person whose income stays the same, even though they may both end up with the same dollar amount.

MR. JACKSON: Why does one measure the success of the private pension system in terms of the percentage of pre-retirement income that it delivers? That pre-supposes that pre-retirement income is adequate. Basically, private pensions are simply a mechanism for delivering money to certain people. This is a simple observation, but if money is not good, neither are the pensions that are delivered.

I think Haeworth mentioned that it is the government's responsibility to provide a monetary system that can serve as a store of value, and right now I guess money is like a bucket that is leaking rather rapidly. Another

aspect is that when we talk about needs, we have people who think immediately in terms of the needy. It is observed, of course, that those who are needy do not have pensions. It is not observed that those who have pensions are not needy, and maybe they are not needy because they have pensions.

There was a Pennsylvania Dutch expression that went: "Sugar is the stuff that makes oatmeal taste bad when you don't put enough of it on." Using that same measure, private pensions are bad because some people do not get enough of them. Therefore, we are regulated, and Congress leaps in. The survey that was conducted pre-ERISA by Senator Williams and Senator Javits concentrated for example on the needs of people who go to work some place and leave. They simply took a sampling of everyone who left an employer. Of course, the sample was heavily weighted with people who were leaving back in the 1920's with six months of service, and they found very few people getting pensions; therefore, the whole system had to be restructured and we ended up with ERISA. The needs vary by the perspective of who it is that is looking at it.

MR. MIGUEL RAMIREZ: Is there a necessity for private pensions on top of Social Security? I would say something is needed because the Social Security structure provides larger benefits for the lower paid (as a percentage of pay), and a much lower benefit for the higher paid. Is the provision of income for people at high earnings levels a problem that is significant to society as a whole? Is Social Security doing it's job for the general population?

MR. ROBERTSON: If the need is to continue into retirement the standard of living that existed prior to retirement, Social Security falls far short for at least half the population. People who earn average wages or less under the Social Security program have most or all of their retirement benefit needs met. The people who earn average wages or more need supplemental benefits if they are going to come anywhere close to preserving the standard of living that they had prior to retirement.

That really is not a limited group -- it is a large group, millions of people. It is a fourth to a half of the working population that needs, either through private savings or participation in employer pension plans, to supplement Social Security. Our session here is kind of general and it has addressed the whole retirement need regardless of the source from which it is provided, and that would not exclude our talking about Social Security and how it might change or be changed.

MR. BASSETT: Haeworth, if we are talking about needs, we have a system that pays Social Security to everybody whether they need Social Security or not. What do you think about a system which is a welfare program, where the government would only pay Social Security where there is a need?

MR. ROBERTSON: I recall that when I was just a little kid in the 1930's, we had neighbors who were on "old-age pension," and pension was kind of a dirty word then. It is not now. People were reluctant to apply for Social Security benefits or even welfare benefits because it was a disgrace. When Social Security was adopted they tried to get rid of that stigma so they told everybody that they were making contributions, under an insurance program, that were put into a trust fund under which you created earned rights to certain benefits. So you did not feel so bad when you took the benefits.

We have said that for some 40 years, and now people think they have bought and paid for their benefits. Therefore, they are not as reluctant to take them. I would be opposed to any kind of social insurance program that gave benefits only to people who demonstrated a need, because if we set up that kind of ground rule, then a rational individual trying to survive in the world will figure out a way to need the benefits when it comes time to collect them. If that means you have to transfer your assets to your brother or sister or cousin or hide them, you will do it.

For that reason I do not think a national system that pays benefits based only on need is a healthful environment for us to be living in.

MR. JACKSON: You could not have a national system that consisted solely of that. If goals are set that are too high, they are not going to be met for everyone under a program like Social Security; and meeting the goals for some or supplementing what may be too little at least for those who are in need, may be one approach to the problem.

My own appraisal of Social Security is that the level of benefits should be raised to the point where the first significant group of individuals -- maybe 10% to 30% -- say "that is enough." If you go beyond that you are then providing excess benefits for that group of people and if you stop there you are obviously then requiring the remaining 60 to 80% of the people to do something else, whether they do it through corporate plans or privately.

But even in the private sector, some balance is needed. You cannot look at a pension plan and say this provides more benefits, therefore it is a better pension, because in effect pensions are a labor cost and someone else is spending part of the employee's income. For the government to spend it is wrong, and it is also wrong for a private employer to spend too much of it. You need a balance where you cover the minimum requirements down at the bottom and beyond that when you have made sure that employees are not going to be destitute, you let them spend their own earnings.

MR. BASSETT: The question, then, is who provides the needs? There seems to be agreement that the government should provide the basic floor of protection, which I guess is close to what they do now, and that employer plans should put a little bit more on top of it, in a favorable government environment. Paul, you feel that more should be left to the individual to decide how he or she should save or spend their money. Again having a favorable investment environment from the government.

MR. JACKSON: I would even go further and say that the decision not only ought to be left to the individual, but also to the individual company. There are companies where the first problem is achieving a level of pay that is adequate -- that level that permits them to employ the right type of person. The employer then proceeds to spend his next few dollars on things like health insurance, disability insurance, life insurance -- pensions are way down the line.

MR. ROBERTSON: I would like to pick up on one statement, and I would like to see how the audience feels about it. It was a statement that we cannot leave decisions on providing for retirement up to the individual because he does not know enough. I have heard other people say that. I have heard other people say that the average individual is not sophisticated enough to

to look out for himself, to make plans in advance, and therefore somebody else has to do it for him. There must be many people who feel that way or the government would not have adopted such a comprehensive social insurance program as we have. I would like to think that this is not true. I would like to think that individuals, if they do not know now, can learn to assume responsibility for themselves, to plan and save further for retirement. Just as they somehow or other stumble through their adult working lifetime, they can plan. Can they or can't they? How paternalistic do we have to be?

MR. BASSETT: I am going to ask Andrea to pick that one up. Andrea can look at it from a perspective of having several years until retirement, and I would therefore like to know what she thinks about saving money today.

MS. FESHBACH: The first thing I think is that younger people starting out their careers have much more need for current cash than for retirement savings. There are many things that you have to buy early in your career, such as a house. You are not earning much money and the idea of saving for something you may or may not receive forty years from now is ludicrous. Most people who are working in their younger years plan to do some working in the future and maybe part of that income can be set aside for retirement. The idea that the twenty-five year old should be saving for retirement is ludicrous to me and I would be very happy to hear responses from the audience.

Another point that I would like to make is that we are talking about employees. There are people out there who are unemployed and would very much like to have a job, any job, with current cash income. They do not really care what kind of retirement benefits are attached. They would prefer to have employers who could provide jobs with current cash income in an unfettered environment and not have to make large pension contributions because that really is secondary.

MR. JACKSON: I would like to pick up on one of the things that Andrea said here. When you start thinking of the question of who needs coverage, there are some startling facts about our work force. Half of the people have less than three years of service, 25% are under age 25 and 20% work less than 1,000 hours a year. There are overlaps. 50% of the jobs in firms employing fewer than 50 people are covered by private pensions. This is the area where private pensions have not really taken hold. However, 75% of the new jobs that are created are created in firms employing fewer than 50 people, and 80% of the new jobs are created by firms that are less than five years old. So there is an obvious problem -- if we start forcing coverage of pensions into this sort of an area, one thing we may do is reduce the formation of new jobs. Another thing we may do is increase unemployment because the requirement to add a pension to other labor costs is the equivalent of an increase in the minimum wage, and an increase in the minimum wage leads to an additional increment of unemployment down at the bottom end of the scale. So by focusing on one aspect of the question, are pensions enough and focusing on the needs of the old, it seems to me we may well be undermining the needs of the young at the same time. Obviously, the people who need pensions are old people, but the question is who is going to pay for them and if the people who are paying for them are young, you have to have a consensus in society as to what the proper balance is. Haeworth pointed out another thing that I would like to agree with completely. There is a belief that the average American is a dummy. In fact,

if two Americans were talking to each other, the average American is always someone who is about four notches below them intellectually, and it does not matter where you are talking. You could talk in the local gas station, drugstore, college, anywhere. The average American is no dummy.

There was a television program on Social Security not too long ago and I saw some good solid American citizens in locations like Arkensas, citizens that I would have expected to be self-reliant, but who had sort of a pitiful expression on their faces. They were lost, they were reliant, totally reliant on their Social Security. If they did not get it, they did not know what they were going to do. This is one of the products, one of the end products, of having a Social Security program that you tell everybody to rely on. They do rely on it and they stop taking care of themselves. Then we end up with a nation of people who have to be taken care of, rather than a nation of people who take care of themselves. So we are talking about the national ethos as well as policy here.

MR. BASSETT: Paul, are you saying that you do not think that the individuals are intelligent enough to save?

MR. JACKSON: No, they are intelligent enough to save, but they are being damaged by the existence of Social Security, or of too much emphasis on how you can forget about your retirement years because the government will take care of you.

MR. HOWARD YOUNG: Haeworth started out talking about all the fundamental principals -- that we are a country in which we have freedom of choice. There is another fundamental principal, and that is, we are a democratic society. I do not look at government as them versus us. It is all of us together. When we talk about the intelligent decision making of individuals, we should give a certain amount of credit to the idea that some national institution may be made up of intelligent decision makers working on a group basis. We do not, as individuals, try to save our money by individually making loans to people who will repay us in the future. We establish banks and financial institutions and operate in group ways. There are times when it makes a great deal of sense to do that on a national scale, or on some other very large scale, rather than on some small subgroup scale. The whole question of whether young people ought to be saving for their own retirement or contributing to Social Security for somebody else's retirement, tends to ignore the experience of the 1930's in which a lot of people who tried to save for their own retirement found that it failed and their children then became responsible for them. One of the things the young people today ignore is the fact that they have minimal, if any, need to contribute to the maintenance of their parents after their retirement.

There are issues of efficiency. If you really try to achieve inflation protection, and you think through all the difficulties and all the mechanisms that are necessary to do that, you may very well conclude that Social Security is the most efficient way to do that on a national scale. I do not agree with the Minimum Universal Pension System proposal because I find it a completely inefficient concept. If you are going to require people to have pensions, then why not do it through Social Security. There is a distinct advantage in having a pension system which has a uniform cost for all employees. That is a very fundamental factor in the Social Security system.

MR. JACKSON: Howard, I would like to tackle you on two points. I agree with you on most of what you said. I agree that we have portable benefits in Social Security and that is a very efficient, effective way to deliver them. You mentioned indexing and the need for indexing. The problem with indexing is, indexing reflects a deficiency in the basic monetary unit that is promised everybody. It is promised them in wages, it is the underlying basis for debt, for borrowing, our whole economic system rests on it and, if the dollar were fixed up, we would not have to index pensions. When you start going around indexing things for certain groups, the question is, if you index the dollar for everybody and end up with no inflation you would be in one position, if you have inflation and you index some individuals, then you are in a different position in which some people have to be worse off. Nobody has yet told me which group of people they want to be worse off. So, I would just rather carry the indexing back one step further to the federal government.

Finally, the matter of uniform costs for all employers is a goal which possibly unions would support. However, even unions have deviated from it by being willing to take American Motors or Chrysler and back off on some benefits, that they are not prepared to back off of for General Motors or Ford in recognition of the fact that uniform scale of benefits with uniform costs imposed on everybody will merely put some people out of business earlier than others. I might add that so far as Social Security is concerned, while it is a uniform cost for everybody, Social Security constitutes 100% of the benefit for some small new companies. There are situations where possibly health insurance or other benefits might have been chosen first if the government had not decided that 13% of pay should go into Social Security. Those individuals left to their own devices might have selected a different order. We have a zero sum game here, where you are moving chips around the table in a limited economic sphere, and if you push more to one side, you have to take away from another.

MR. JAMES R. SWENSON: I would like to comment on several issues. First of all, with respect to Haeworth's question. I do not believe that people need to be saved from themselves, I think that people are smart enough to do the right thing. Secondly, most students of retirement income will generally concede that there is a need for a Social Security program to provide a floor of protection. The problem results when you try to define what a floor of protection is and how high that floor should be. First of all, if you look at poverty levels, you will find that, after adjustment for in kind transfer type programs, poverty levels among the elderly is actually better than among the non-elderly. Now, that is not to say that all is well and good with elderly, but perhaps there is some rationale for saying that basic needs, very basic needs admittedly are being met.

The President's Commission on Pension Policy conducted some studies and established some national retirement income goals in which they said that retirement income programs should preserve the persons pre-retirement standard of living, which is generally the highest standard of living ever achieved by the individual. They adjusted the standard of living, or the wages that a person was receiving just prior to retirement, for three factors: first, they adjusted for the differences in taxes both before and after retirement; second, they adjusted for the differences in retirement related expenses; third, they made adjustments for the fact that there is no longer a need to save for retirement once a person is retired. Based upon these studies they found that the Social Security benefits for an aver-

age wage earner earning \$15,000 per year replaced approximately 2/3 of that pre-retirement adjusted income. I contend that is a very high replacement rate. I further contend that the President's Commission's goal was really equivalent to maintaining the person's highest standard of living. First of all it did not recognize the incidence of home ownership. Roughly 72% of those over age 65 live in their own homes and 84% of those homes are fully paid for. That is a very significant form of retirement income savings or retirement income that could have been recognized by the President's Commission. Second, there was no adjustment for the fact that the elderly simply do not have to take care of dependent children. If the commission had instead decided that they were going to establish as a goal one that says that an intergenerationally equitable goal is maintenance of a standard of living essentially equivalent to the standard of living being enjoyed by those persons currently working, their goal would have been much less significant. Let me conclude by stating that I did agree with several recommendations made by the President's Commission on Pension Policy and that one of the statements that they made that I am particularly in sympathy with is that we are dangerously dependent upon the pay-as-you-go financed Social Security program.

MR. BASSETT: In defense of the President's Commission, since I was part of it, I would like to make two comments. The amount set aside for savings, which was deducted, was for most people the savings individuals have in buying their own home. That was actually our main consideration in the percent that we set aside for savings. The second point you mentioned, dependent children, we are looking at people who we assume retire around age 65, we did not think that support of children immediately prior to retirement at that age was a significant factor.

MR. SWENSON: Just one comment on that -- percentage of savings -- percentage of savings varies from 3 to 15% depending on one's income level, and I contend that most people in this room who are paying for homes are paying more than 3 to 15% for their homes.

MR. BASSETT: Yes, but most of the amount paid is going for interest, not savings.

MS. FESHBACH: One mechanism that people have right now which is definitely geared toward retirement savings on a personal level is the IRA. I do not have any statistics on how many people, not covered by pension plans, have been contributing to IRA's and of course we will not know until January, or maybe even considerably later, how much the new universal IRA is going to be used. However, it seems that at least some people are taking the responsibility into their own hands through the IRA. I certainly agree that some education as to how much might be necessary to save would be useful, and I do not think that the people are getting that right now.

MR. WILLIAM DAVID SMITH: I would like to comment on one of the marvelous aspects of the American society: our economy's ability to create a need where a need did not exist last year. Created needs are things like garage door openers, video recorders, and numerous bathrooms in the home.

I was recently visited by two of my daughters who are young adults, and I was startled one morning to see in my second bathroom an array of containers of things which I call "glop." There was glop for the skin, glop for the ears, glop for toenails, glop for fingernails, glop for the teeth and

three kinds of glop for the hair. I have not added up the cost of this glop, but I am sure it is hundreds of dollars per year. Many of these things do not really add any fundamental improvement to the human condition. They are applied with usage of hot water at great cost. What I am leading up to is a feeling that the American society is rather loose in its expenditures and I seriously doubt that there are very many middle class families who could not, merely by using the resources that they have, set aside 5% per year for retirement without changing their present standard of living at all. It is just astonishing to me the thousands of hours of records that every family owns, tapes, multiple TVs, numerous cars. It is all fun, it is all nice to have. But if we really sit down and add up the cost, it adds very little to our enjoyment of living and could well be used to provide for a better standard of living into retirement age. All of this requires an education and a knowledge on the part of our populace that they are wasting resources that they are going to need some day.

MR. JACKSON: One question that has not been addressed in all of this is the question of who should pay. I think of the gentleman who was saying the individual citizen cannot save for himself and Social Security will do it. There is a suggestion that Social Security is coming somehow or other from the federal government which owns lands and oil wells and these things just spew from the ground. Actually, the money is taken from individual workers and given back to other people. So the individual worker is saving for himself. In the pension area, when congress considered mandating things in private pension plans they were in the ideal position -- politically adding to someone's benefit and not having to raise a tax anywhere else. Somebody else had to pay. The question of what is enough, or what will meet our needs, may have one answer when we are paying for it and another answer when someone else is paying for it. The question of how to go about paying for it is one that has not been addressed here. For example, does an employer pay for it by an annual expense or do you have situations such as we have in the multi-employer area now where given employers pay for it through the forfeiture of their business. There are two situations now being appealed. One is Johnson Trucking, which shut down its operation because of the deregulation in the trucking industry, and later received a letter from Central States Teamsters asking them for \$16,700,000, when their net worth was \$7,500,000. Transport Motor Express received a letter from Central States asking for \$8.1 million out of a net worth of \$3.6 million.

How do we pay for this? There are complaints from individual employers on some of these things, people who do not think it is fair. But I would make one statement -- he who makes the promise ought to pay for it and I think that goes for congress too. I personally am delighted that the Social Security system was not funded in advance and now consists of a pretty much pay-as-you-go program because we have a balance that sort of controls our desires in the sense that, in improving someone's benefit, you must take something away from someone else. It strikes me that the balance is more rationally achieved when you look at both sides of the scale than when you simply focus on the one side and come up with what was described to me once as the title of a classical music composition, "Variations on a Theme" by Samuel Gompertz entitled "More."

MR. MURRAY L. BECKER: I think it is useful to look back at what we have done over the last hundred years. We had an agrarian economy which had old folks being taken care of by their children. For a long period of

years as we emerged into an industrial country, it became possible for anybody who really wanted to save to take care of their own retirement and we had a stable currency so that when they got there, their savings paid off. Consequently, for many years people were not dependent on their children. We have now gone full circle. In the last 20 years, the increases in Social Security have made it evident to people that since Social Security is adequate, they do not have to save. Anybody who did not believe that message got the second message which is, what is the point of saving because by the time you get to retirement the expected inflation will make your savings totally worthless. Therefore, you had better spend it while you have something.

So we have reached the situation again where we were a hundred years ago -- the retired people are dependent on their children once more and the only difference is it is being done in a collective way instead of being done in an individual way. Anybody who says people have not saved, therefore we have to do more and more of the same thing that we have done, is simply preaching the self-fulfilling prophecy that we have created. We have made it difficult for people to save, we have made it stupid for them to save. And now that savings are not savings, we have got to provide more Social Security -- that just makes the problem even worse. So it seems to me that we have gone too far.

I agree with almost everything that Paul Jackson has said. What we really have to do is we have to tackle inflation first, because then it will be possible for people who want to save to save. If we get that problem behind us, then we can look at whether too much Social Security is helpful. Maybe it is harmful, and something could be done about reducing the level of benefits given.

MR. JACKSON: I would like to second the comment on saving because this ties in with Haeworth's comment about the intelligence of the average American and his ability to save. Right now the most common means of saving, that is obviously extra saving, is a savings account. It gets 5 or 6% interest. That interest is taxed as income to the individual at a point in time when the dollar is declining. The dollar has a half life of five years, and it is declining at the rate of maybe 10 or 15% per year. An average American would have to be stupid to save that way and we should not be surprised that he does not.

On the point that Howard mentioned, as to taking care of old folks and now we do not have to, there is a basic underlying question here of to what extent children are responsible and to what extent they want to accept responsibility for their parents. I would suggest that money is not enough -- even increasing Social Security to some grand level where they can live comfortably. If the children simply cut them off from their lives, that is not a responsible action on their part. Therefore, I feel that Social Security tends to interfere with family relationships that really are the underpinning of our entire society.

MR. ROBERTSON: I would like to make a little survey of the audience based on some of the things we have said. How many of you believe that 50% or more of the population does not know enough to provide for its own retirement or does not know how or cannot be expected to plan for themselves? (Approximately 60% of the audience responded.) Well, how many of you think that 50% or more of the population is not paid enough to save for their own

retirement? (Approximately 20% of audience responded.) I would have to agree that anybody who is not employed does not make enough to save for retirement. Very low paid people probably do not make enough to save for retirement. I do not know where the dividing line is but I cannot help but think that at least 2/3 or 75% of the population must be paid enough to save for their own retirement and that all they have to do is reduce their standard of living.

MR. GUS HONTALAS: We are discussing an area of needs and ignoring the group that is the most needy. I think this was mentioned earlier by someone from the floor. The group that is most needy, I would hope most of us would agree, is not able to save. Now I am not sure what element of the population that is but certainly it is at least the 8% unemployed. I would have to believe that it is more than that 8%. Those individuals cannot save even if they want to. They are not buying the glop, they are not buying the video recorders, they may be fortunate enough to have one bathroom inside the building, they may be fortunate enough to have enough food. They certainly are not fortunate enough to pay for the education of their children. I would hope that, as we are discussing, we keep in mind the group that is also needy for pension benefits.

I agree that there is a large percentage of the population that can pay for themselves and I do believe that they could, if they were not blitzed by the media and Madison Avenue for what they truly believe they now need. The pension industry has not and probably cannot match the dollars of the television industry and the need for automobiles, etc.

MR. ROBERTSON: Let me expand on one point that you raised. You are talking about the "needy," which is something other than the need for income on the part of a worker. Would you suggest for example that, if it could be demonstrated that 2% of payroll in the United States allocated through the government to people who are starving, to people who are homeless, would satisfy those needs and that the 2% could be transferred, for example, from the Social Security program? Social Security does not provide for the needy at the moment, it provides for retired workers, and they are generally among the people who are less needy than others.

In discussing the needs of the needy it is important to design whatever systems we need to provide for those needy, but without at the same time imposing unnecessary limitations on the rest of the population. If we could agree that 30% of the population knows enough to save for their own retirement, then through education we can expand that number. It is a mistake to look at 5, 10, 15, 25% of the population and say they do not know enough to come in out of the rain and therefore we are going to do all of this for them as part of a national program where the same is done for everybody. Then all the rest of us will learn not to know enough to come in out of the rain.

MS. FESHBACH: I am going to switch the emphasis from talking specifically about employed people to perhaps society as a whole and another aspect, which I do not know very much about but perhaps some of you do, and that is the economy. When you are talking about not spending money on glop and instead saving for retirement, you are changing from current consumption to deferred consumption -- what does the money do in the meantime? If you are

talking about corporate pension plans, it gets invested back into the economy. Judging from the actions of certain municipalities and corporations when faced with financial problems, one thing they do is try to get investment from the pension funds back into their own operations. Now you are talking about the possibility of government taking a larger role, government plans all seem to be pay-as-you-go. I would like somebody to comment on what happens when you switch from pay-as-you-go to a deferred system which involves investment in the economy or vice versa.

MR. JACKSON: One of the problems we face is the question of when needs really commence. This is important because there is a very real difference between pensions and savings in this regard. Whether we are talking about Social Security, or a private pension plan set by an employer, we are talking about a program which can make a quick response to a current need. When we are talking about savings, we are talking about something that has a sort of long fuse on it, a very slow response. You could argue that needs commence when people first become unable to work. I mention that because for an example, the American Express plan, which was the first pension plan in America, provided benefits only to employees who had twenty years of service and were 65 and were disabled. Now our pension plans have progressed in the direction of providing benefits without a requirement of disability. You could argue that what we really want is a system that encourages people to work as long as they can work and permits them an orderly reasonable financial alternative to work when they no longer can. I might also add that one of the problems involved in all of this is that new needs commence every time we have another shot of inflation and another loss of purchasing power. That is one of the reasons, coupled with the slow response of savings, why a lot of people just haven't been willing to place that much into savings accounts. They can buy things, they can buy homes, they can invest in their children's education, perhaps even art objects.

MS. FESHBACH: Except for the issue of portability, I do not make that much distinction between individual savings and savings within company pension plans. Perhaps I should, but it seems to me that it is all money that could have been spent in wages which is either paid in wages and then saved, or else goes directly into a pension plan without passing through the employee first.

MR. BASSETT: This brings up the whole question of portability and the problem of people who move from job to job. It is a topic on which we have only spent passing comments. Does anybody want to talk about that problem? How we might solve the problem of maintaining the purchasing power of vested benefits, how early benefits should vest, the value of early vesting and so forth?

MR. JACKSON: Vesting is not the same as portability. I would observe that the one form of portability that has been developed in the private sector is the multi-employer pension plan which is now in serious financial shape thanks to the PBGC and the law that was written to protect the PBGC. Multi-employer plans do provide portability for a worker with a given skill who belongs to a union that has negotiated a program with many employers. My guess is that true portability is on the decline in America.

MR. SWENSON: I would like to comment on a couple of issues. First of all to Andrea, I believe that you have quite properly identified the economy as

the key to meeting all needs. Essentially a strong economy is needed to meet the retirement income needs of our nation. The issue of whether Social Security reduces private saving is one that economists have debated for many years and will continue to debate, perhaps without resolution. It does seem apparent however, that the effect of individual savings and of private pension plans does indeed contribute to capital formation of the country. Capital formation is needed to increase productivity which in turn can be used to meet needs of the entire society. So to the extent that we rely less upon Social Security and rely more upon individual saving and private pension plans the country is better off.

To address a second issue, that of portability and vesting, I would just like to comment that there is a need to strengthen the private pension system in this area. Individual savings are completely portable and vested but as far as the private pension system is concerned, there is a need to strengthen. I think improved vesting would indeed strengthen it, but there is a question about what is the proper balance.

I would like to make one further comment and that relates to a point that Paul Jackson made when he stressed the need to control inflation. If you control inflation and you have good vesting, you have solved a problem of portability.

MR. BECKER: It seems to me that everybody skirts the financial issue on portability. Let us take the horror story of the employee with nine years of service with four different employers all with 10 year cliff vesting -- he would get nothing. Now let's take that a step further and give him 10 years of service with each of four employers and now say portability somehow or other means that this employee is entitled to 40 years of pension credit applied to his final average pay from the last employer. There is really no practical way to pay for that. The first employer would absolutely be unprepared to be in a privately adopted pension system which says, when somebody 35 years old leaves, you are obligated to give him a percentage applied to pay he is going to receive at age 60 from a different employer.

The private system can deliver vesting, but any attempt beyond vesting does not solve the problem in a free economy; therefore, why are we even talking about it?

MS. FESHBACH: I would like to comment on that. Let us say that you have decided to be the world's most responsible employer and do everything that you possibly can to provide true portability. You have a defined benefit pension plan and you have decided that, rather than crediting somebody when they leave with the benefit payable at 65, you will instead put aside for them the present value of the amount that you expect the lump sum to be at 65. You put that away, it earns interest and you are hoping that the interest it earns will keep up with inflation. When that person turns 65, there is a sum of money available for them which is the same in 1996 dollars as what you would have had in 1981 dollars. Would this solve any problems? It would obviously be very expensive because you would be putting a lot of money away for people who leave you early in their careers.

MR. JACKSON: It has been suggested that each employer should contribute to an individual's retirement income as though the employer were recognizing that individual's retirement needs as a valid expense for that organization.

Employers establish these programs so that, when their staff becomes older and inefficient, there is a retirement alternative that is available which enables the employer to continue in business. That's what makes it a business expense. Now you have a totally different grounding in the Social Security system which is based on need. In the commercial sector, the employer who is in business has to figure out how to remain in business in order to do so he does not decide to spend stockholder's money on the basis of individual's needs. He could do that by making a massive contribution to the community chest.

MR. DALE B. WOLF: I think we are forgetting one thing, and that is that the employment relationship is a voluntary relationship between an employee and an employer. Presumably when Mr. Robertson changed employers part of his consideration in doing that was his benefit package -- what he was giving up in transferring from one employer to another.

MR. BASSETT: I would like to take the last few minutes here and give the panel the last crack at this topic of "Are Pension Plans Meeting Anyone's Needs?"

MR. JACKSON: Obviously they are meeting somebody's needs. There is not anything in society that pays money from one place to another in which the place that is in the position of receiving the money can say that it is not meeting any of my needs. The fact that you have unions like the United Auto Workers, and others, that perceive a loss of employment rights and possible layoffs as an alternative on one side and retirement rights as something better on the other, shows they are able to focus in on the trade offs.

The fact that you have places like New York City which, when in terrible financial shape, are able to borrow billions of dollars from their pension funds, is another place where private plans are meeting needs.

I prefer to view needs on an individual basis and allow individual decisions to be made. You can perceive the needs at that level, rather than having people sit around talking about these needs from on high and, wherever some broad universal need has been discovered that need is then imposed on everybody. Private pension plans, because of the fact that they do exist and that they are voluntary, are sufficient evidence of the fact that they are meeting some needs.

MS. FESHBACH: Of course pension plans are meeting some needs or they would not exist. Pension needs have a sort of floating place in the scheme of things and as money becomes more or less available and as demographics change, pensions may become more or less important than they have been in the past. Some needs however are not being met -- portability and protection against inflation are two examples. But government regulation will not necessarily answer those needs without perhaps creating new ones.

MR. ROBERTSON: Well, a common subject in much of our discussion was public understanding and education. Evidently we have taught people over the last forty years to believe that Social Security will adequately meet their needs, and most of you know it does not. We have either got to expand the system so it does meet people's needs, or we have got to change their expectation and teach people that they can be more self-sufficient by planning and saving on their own.