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THE FUTURE OF DEFINED BENEFIT PENSION PLANS

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1. Trends in plan terminations and frozen plans
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MR. JAMES B. TERRY: Much has been said and written about the demise of the defined benefit plan as we know it today. Economic and political forces have been impacting pension plans as never before. One example is the Association of Private Pension and Welfare Plans ("APPWP") brochure for their upcoming annual meeting. Let me read some of the reasons why they want members to attend the conference. Senator Robert Dole, Chairman of the Finance Committee, has suggested withholding taxes on corporate contributions to employee pension funds rather than taxing the income upon withdrawal. Ways and Means Committee Chairman Dan Rostenkowski's tax freeze would permanently freeze the $90,000/$30,000 Section 415 limits. Recently released budget figures identify the revenue loss from the exclusion of pension contributions and earnings as the number one tax expenditure in the tax code. In 1984 they expect 56 billion dollars of tax expenditure losses due to tax deductibility of pension contributions.

On one side we see the need from the federal government for additional revenue gains. On the other side we see additional proposals for legislation which provide additional restrictions or administrative problems for defined benefit pension plans.

Peter Grant will begin by discussing the impact recent economic events have had on defined benefit pension plans.

MR. PETER G. GRANT: One of the things that Jim mentioned is that defined benefit pension plans have been taking a tremendous battering recently, not just from the legislators and Congress, but also from general economic circumstances. Until 1982, investment returns were way below expectations relative to salary increases, cost of living and things of that nature. The congressional action that has been taken in terms of the Economic Recovery Tax Act of 1981 ("ERTA"), the regulations that were issued under 401(k) and the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") have all tended to favor defined contribution plans over defined benefit plans. And the Pension Benefit Guaranty Corporation ("PBGC") comes out with more scary news every week about the size of liabilities it may have to take on and how

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high the PBGC premium may go if they are going to keep functioning. Unfunded liabilities are discussed in the press by many people who do not really understand what the unfunded liability is they are talking about. The Financial Accounting Standards Board ("FASB") has issued preliminary views on corporate accounting for pension plans. This will certainly make defined benefit plans at least appear to be much less attractive than defined contribution plans. The mere fact we are having this discussion today indicates the concern that exists not only with our clients and our legislators but also with the professional bodies.

What does the future hold in this area? One of my favorite descriptions of a life insurance company is of a car careening down a dark country road with the president of the company steering it, the agency vice president with his foot on the accelerator, the controller with his foot on the brakes, being directed by an actuary who is looking at a map that he just drew from looking out the back window. What I am going to do is take that traditional actuarial view, look out the back window toward where we've been, and draw some conclusions about where we may be going in the future with defined benefit pension plans.

The fact that corporations are under extreme financial pressures is something I do not think anyone here has to dispute. As Dick Daskais said earlier on one of the other panels, working here in the Midwest in the heart of smokestack America, we see the financial pressures more acutely than in any other region of the country. There is a lot of evidence of the pressure corporations are under from a financial standpoint in terms of plan terminations and more particularly requests for waivers of the minimum funding standards. I am not sure that total plan terminations over the last year or two are much in excess of what they were in the earlier years of the Employee Retirement Income Security Act of 1974 ("ERISA"). But they certainly have attracted more attention because there are more larger plans getting into difficulty than in the early stages.

I will quickly look at the three different types of plan terminations. One type is corporations trying to get out of the pension business, so they can stay in their own business. This includes companies like Facet Enterprises, Rath Meat Packing and White Farm Equipment who are trying to get out from under fairly heavy defined pension liabilities and into another form of retirement program while staying in business. There are some interesting things about those three circumstances - at least in Facet's case, because it was the earliest, probably the best known and has a longer tail to look at. They replaced the defined benefit plan they terminated, with a target benefit plan which did almost exactly the same thing as the former defined benefit plan, so they really did not get out of the defined benefit plan business. They just shifted the focus of it. What they wanted to get out of was the unfunded liabilities and the requirement to fund them. The agreement they struck with the PBGC, at least so far as I can tell from looking at the numbers, means they will still pay the unfunded liability they were obligated to pay under the ERISA funding standards, but under a different basis. They will only pay it if they make a profit, because the settlement the PBGC arranged provides for a payment of the unfunded liability over time, but dependent on the percentage of profits to a fairly large degree. The same thing seems to have happened both in Rath and White Farm although the figures are not as readily available. The PBGC seems to have evolved a strategy where if you have unfunded defined benefit pension liabilities, you will pay one way or another, unless you go out of business.

A second type of plan termination involves a company going out of business. Braniff is an example of this type. The PBGC was established to handle this type of situation.

The third category which we have talked to our clients about many times in the past, is a situation like A&P. They had a defined benefit pension plan with a very large surplus which they wanted to recapture to help them keep their business going. There was considerable publicity when A&P took the action to terminate their plan and try to extract the surplus. One of the things that has not attracted a lot of attention is that they still have not been able to do so. They have been prevented by civil suits and still have not been able to extract the $250 million surplus they were after. We see employers with a defined benefit plan promising to provide the benefits, but if they put too much money in, they have a devil of a time getting it back out. If this is to be the situation, why would an employer put in a defined benefit plan? How do you answer the question "what's in it for me?"

Another indication of the financial problems corporations are having is the number of waiver requests to the IRS. Now I really have no idea how many waiver requests the IRS processed last year. I do know from discussions with them in a couple of situations that they had enough requests that they certainly kept busy and it took a long time to process them. The good news was that the waiver requests were actually processed and many approved. That is good news because the waiver process is one of the safety nets sponsors of defined benefit pension plans have.

Corporate executives along with investment managers have a lot of difficulty seeing very far beyond the short term. Corporate executives need to produce results this quarter and if not this quarter then certainly this year and if not this year then within the next couple years and when they look at a pension plan obligation that stretches 80 years into the future it is difficult for them to focus on the difference in the time frame. One of our responsibilities as actuaries, especially during tough times, is to make certain corporate officers recognize the different time frames. The last two years are unprecedented, because we have to go back 50 years to find as difficult economic times. We must find intelligent and clever ways of making certain our clients recognize the pension time frame and not make retirement plan decisions based on short term financial considerations.

The FASB has published their preliminary views on pension plan accounting, and if any of you have not read them I urge you to do so and to influence your clients to read them, understand them, and evaluate the impact of them. To paraphrase the accountants and maybe the politicians, "accounting is too important to be left to the accountants" in terms of those preliminary views and I think we must express our views on them. One of the results if the preliminary views are promulgated in their current form is that the consciousness of corporate executives, financial executives and the investor community toward unfunded liabilities will be raised. Most corporations with large unfunded pension liabilities are already well known to the investment community and financial executives. However, the FASB proposal will put the liabilities on the balance sheet, and in many cases it is going to show liabilities which have never been shown to the public before. At present, actuarial liabilities are rarely disclosed anywhere but in the footnotes.

The FASB had to make some compromises to accommodate the peculiar nature of pension liabilities by introducing a couple very unaccountant-like smoothing

devices. They introduced an intangible asset and a measurement valuation allowance to cope with all of the things that we have been trying to cope with over the years. If you master their new terminology and get through the whole thing, really the FASB is proposing the same thing we have been doing in funding pension plans for a long time. The difference is that they are putting it on the corporate balance sheet where it will be much more obvious.

For a number of my clients the FASB proposal will improve their balance sheet and greatly reduce their pension costs. We have performed calculations for about 25 different plans in our office and in more than half of those the pension cost actually decreases. The major problems seems to me to be administrative and includes investors learning to cope with a variable balance sheet. My opinion is the FASB preliminary views will certainly influence the future of the defined benefit plans, but it will certainly not mean the demise of such plans.

If we look at the 1982 wage settlements and recognize that wage agreements were negotiated in some of the worst economic times corporate America has faced, there is absolutely no evidence unions are willing to give up on defined benefit pension plans. The 1982 negotiations had a lot of cutbacks. They had pay freezes and pay reductions, giving up of cost of living allowances, paid time off and holidays. They allowed cost control features to be inserted in some of the welfare plans like mandatory second surgical opinions in some of the medical plans, and as a last resort they perhaps allowed larger deductibles or more elements of employee contributions. But I cannot think of a single instance where there were pension reductions. The statistics I have seen show that 53% of the settlements negotiated last year involved higher pensions and when you look at the numbers, these increases averaged about 17½%. Certainly, there is not much evidence that unions are willing to give up defined benefit plans.

The poor investment climate means higher cost in the short term for sponsors of defined benefit plans, but safety nets are available. No such safety nets are available to employees in defined contribution plans.

The poor business climate has meant more pressure to reduce staffing levels and to control staffing levels. In the reduction of staffing levels, the early retirement provisions play a very important role in most of the reductions in force that corporations have accomplished. Defined contribution plans do not easily accommodate early retirement incentives. I challenge you to duplicate any of the relatively common early retirement features in defined benefit plans by means of defined contribution plans. I have tried and it almost cannot be accomplished.

If there is a major failing of the private pension system in the United States and in almost any other country in the world, the lack of post retirement increases linked to some inflation measurement is that failure. It is difficult to fund an inflation proof pension. There is not really a solution other than the elimination of inflation, which is perhaps more than the defined benefit plan sponsor can be responsible for. The defined contribution solution is not much better - let the employee worry about it. This probably would influence the government to make further mandates in the retirement area.

Another solution to the post retirement inflation problem that has been talked about increasingly over the years and is currently the subject

of potential legislation in Canada is the so-called excess interest solution, where there is recognition that the assets of a pension fund are actually earning in excess of what the actuarial assumption is. If we give the retirees the excess earnings, that will somehow take care of post retirement inflation and it will be free. Well of course it is not going to do it free. It is an actuarial legislative shell game, and as long as you can spot where the pea is you know that costs are not coming down.

In summary, I believe the questioning of the efficiency of defined benefit plans is healthy. I think it is certainly primarily motivated by financial concerns and that leads us to a couple of conclusions. First, there are significant safety nets available to take care of the most extreme financial views, and second, there is certainly a lot of room for actuarial ingenuity in responding to corporate financial pressures when times are bad. Unions are strongly in favor of defined benefit pension plans and corporate management cannot easily accomplish a number of objectives without the use of defined benefit plans. The influence of FASB will be felt, but it is something we will grow accustomed to over the years. I will close by saying that the challenge to us and the other professionals in the area is to make certain that management and even more importantly the legislators understand defined benefit plans better and understand the contributions they make to the security of the country.

MR. TERRY: Tim Mlsna will next summarize the legislative and regulatory impact of recent years and will provide his thoughts on the future.

MR. TIMOTHY M. MLSNA: Commencing with ERISA, Congress has enacted a series of Acts impacting employee benefit plans which have consistently increased employer costs and employer liabilities associated with maintaining defined benefit pension plans. Many of such Acts have either specifically promoted or enhanced the appeal of defined contribution type plans or have resulted in that effect by unintended design.

ERISA added the following provisions which increased employer costs and liabilities: The thirty percent of net worth liability upon termination of a single employer plan was created. The potential thirty percent of net worth liability upon withdrawal of a substantial employer from a multiemployer plan (if the plan subsequently terminated within five years) was created. Earlier eligibility was required. Faster vesting was required. Faster funding was required. The $75,000 limit on maximum pensions was imposed. PBGC premiums were imposed. Government reporting requirements were increased. Participant disclosure requirements were increased.

The 1977 Amendments to the Social Security Act increased the cost of maintaining defined benefit pension plans which were "offset" integrated with Social Security benefits. (Shortly thereafter the IRS independently issued Revenue Ruling 78-252 which required the amendment of certain integrated plans to comply with its interpretations of the benefit accrual requirements of ERISA, thus increasing the costs of such plans.)

The Age Discrimination in Employment Act Amendments of 1978 ("ADEA") added complexity and cost to certain plans by requiring continued employment and benefit accruals in certain cases.

The Multiemployer Pension Plan Amendments Act of 1980 ("MPPAA") greatly increased employer liabilities by providing that virtually all employers who ceased contributing to multiemployer plans would incur large withdrawal liabilities and by increasing the amount of such liabilities to up to 100 percent of an employer's net worth.

TEFRA added the following disincentives to the maintaining of defined benefit pension plans: The maximum pension permitted was reduced to $90,000 per year, approximately 60 percent of what the limit otherwise would have been for 1983. Further, indexing of such amount will not occur until 1986, resulting in at least a 50 percent reduction in maximum benefits. The unlimited estate tax exclusion was reduced to a $100,000 exclusion. Extremely complex top-heavy rules were included for plans maintained primarily by small corporations, which starting in 1984 shall require minimum benefit accruals and faster vesting and will limit compensation which can be taken into account for plan purposes to $200,000. Withholding on benefit distributions was added. Loans to participants from qualified plans were restricted, again primarily impacting plans of small employers.

The Social Security Amendments Act of 1983 provides for certain deferred and reduced Social Security benefits, which will again impact the cost of maintaining certain defined benefit pension plans integrated with Social Security benefits.

On the horizon there is additional negative proposed legislation which has been actively promoted in recent years but not yet enacted. Some possible legislation would include the following: Single employer plan termination legislation has been promoted by the PBGC for the past several years, incorporating at various times the following proposals:

The group of related companies liable upon a plan termination would be broadened to include all 50 percent related corporations and joint ventures, rather than 80 percent related entities.

Termination liability to the PBGC would be increased to 100 percent of net worth. As a variation on the method of seeking additional funds, this proposal has been modified to mimic recent PBGC settlements and impose, over and above a 30 percent of net worth liability, a liability to the PBGC for up to 30 percent of the pre-tax profits earned by the 50 percent controlled group during the ten years following plan termination, with such additional liability being capped-off at 125 percent of the liabilities assumed by the PBGC in excess of 30 percent of net worth. The liability finally paid could therefore exceed 100 percent of net worth. A final variation provides for unlimited liability for all guaranteed benefits and allows the PBGC to propose a settlement when it accepts a plan termination, which an employer would have to go to court to overturn.

An employer would not be permitted to terminate a defined benefit pension plan with unfunded guarantee benefits unless it could prove to the PBGC that its creditors would force it out of business if it did not terminate the plan and could also prove the termination was in the best interests of employees and the PBGC.

A controlled group that sells or otherwise disposes of a subsidiary or division and transfers a plan in connection therewith would continue to

remain liable for withdrawal liability upon a subsequent termination of the transferred plan during the next fifteen years. A subsequent proposal has cut back the period of potential liability to ten years.

The PBGC's claim for withdrawal liability would have a preference status with respect to a company in bankruptcy. This suggested change has not appeared in some recent proposals. However, other proposals grant the PBGC a lien for the 30 percent of net worth and other liabilities and for all existing waived funding amounts.

At various times it has been suggested that the PBGC premium be increased to $6.00, $9.00 or $12.00 per year, or that a two tiered risk related premium be established.

In addition to incurring PBGC liability with respect to all guaranteed benefits upon plan termination, it has been proposed that an employer remain liable to pay off all vested but unfunded and nonguaranteed benefits at the time of plan termination.

It has been proposed that by statute employers not be permitted to terminate plans during the term of a collective bargaining agreement which provides for the maintenance of such plans.

The PBGC would be permitted to impose liens on employers who seek funding waivers and impose other stringent conditions as it deems appropriate in connection with funding waiver requests.

Plan reversion legislation has been prepared providing that reversions upon the termination of defined benefit pension plans not be permitted. For a very brief period, PBGC announced it was holding up the issuance of notices of sufficiency for plan terminations which provided for reversions, although the PBGC quickly reversed itself and agreed to issue notices to plans providing for reversions. However, public interest groups, unions and covered employees (through class actions; e.g. the A&P case) would tend to support such a prohibition of reversions. For strong policy reasons promoting plan funding, the IRS, Department of Labor and the PBGC should oppose any change prohibiting reversions and, in fact, the IRS has reissued its long standing Revenue Ruling approving such reversions.

ADEA legislation has been proposed removing the age 70 discrimination cap so that age discrimination is a violation at all ages. (As an unrelated matter, the EEOC is now reviewing its position regarding benefit accruals after age 65 and may seek to require greater accruals.)

In light of the recent Grumman and Bendix takeover battles and the stock contributions made or announced by financially strapped companies such as United States Steel, Reynolds Metals Co., Wheeling-Pittsburgh Corp., Eastman Kodak Co., Martin Marietta Corp., American Airlines, Republic Steel, Alcoa and American Motors Corporation, Representative Edward Raybal has requested that the Department of Labor investigate the area of stock contributions, alleging that such contributions are tools of management and not in the best interests of employees. It can be anticipated that the Department of Labor will either recommend legislation or, more likely, issue regulations questioning such contributions unless they fit into restricted (unattainable) safe-harbors. It can be anticipated that unions will not oppose legislation or regulations restricting stock contributions, as they disfavor stock plans

generally. Certain public interest groups may also be anticipated to not oppose such changes.

It has been suggested that the $90,000/$30,000 benefit limits be made permanent, that parity be repealed and that only partial deductions be given for Section 404 deductions for plan contributions.

The FASB has proposed in its "Preliminary Views: Employers' Accounting for Pension and Other Postemployment Benefits" that net pension liabilities and certain intangible assets be included on employers' balance sheets. Such proposal would require a single accounting method for measuring plan costs and liabilities for balance sheet reporting purposes. In general, the proposal requires that pension liabilities be reported based on the unit credit method applying a salary scale, service proration and assumptions of the actuary in accordance with FASB Statement No. 35.

It is anticipated that the inclusion of such pension liabilities may be detrimental to future financings by some corporations and may result in technical defaults on existing debts by virtue of the impact on debts/equity ratios which are often limited in lending agreements. Further, as a result of the FASB proposal being more of a "snapshot" picture of an employer's pension liabilities, which will vary from year to year more than current standard actuarial determinations of liability, an employer may have to pay for two valuations each year, one for financial reporting purposes and one for pension funding purposes. This divergence of funding and accounting methods will further complicate an area that many employers no longer are capable of fully understanding. If the divergence results in deducted pension expenses for financial reporting purposes which are less than the recommended actuarial contribution, it is likely that employers will bring pressure to adjust contributions to equal the deductions taken.

I understand that the FASB proposal is meeting some strong resistance and in any event would not be finalized prior to late 1984. One modification already advanced is to phase the liabilities onto balance sheets at a rate of ten percent a year over ten years.

The IRS has announced it will be issuing plan audit guidelines for determining whether an actuary's assumptions regarding plan funding are reasonable. It can be anticipated that such guidelines will establish safe-harbors which do not apply to many situations and which shall raise serious issues for employers regarding the continued maintaining of plans. Ira Cohen has indicated that the purpose of the guidelines will be to determine if there is a consistent pattern of substantial losses for reasons which are likely to reoccur, and that no interference from the IRS will be warranted unless a deviation of a least 50 percent exists.

To put this in perspective, this could mean that if a plan is funded using 6 1/2 percent earnings assumption and the plan earned an average of 3 1/4 percent for several years, the IRS could allege that the assumptions were unreasonable. If the period of time the IRS focuses on includes a period of recession, it is likely that the IRS guidelines would raise the issue of reasonable assumptions.

This is not a new concept regarding IRS audits. I am aware of one pending case in which an IRS audit of an employer's fiscal year raised this exact issue of reasonable actuarial assumptions. The IRS focused upon a number of

the then most recent plan years, which included disasterous results for 1974, yielding an average return of approximately zero percent for the period. The plan had been funded using a 6 percent assumption resulting in contributions of approximately $3,000,000 to $5,000,000 per year. The IRS position advanced was that the plan should have been funded on a zero earnings assumption, thus resulting in large funding deficiencies and excise taxes for each of the years at issue.

The IRS has announced it intends to shorten by six months the time period by which plan contributions must be made to qualified plans, to the date 2 1/2 months after the end of each plan year. For those employers who have been taking advantage of the maximum 8 1/2 month delay, such modification will result in a one time cost. The IRS position is that such delay is not mandated by ERISA and is in the nature of an interest free loan from the plan to the employer, which would otherwise be a prohibited transaction.

With respect to the termination of a defined benefit pension plan, as a result of various PBGC positions there is a total uncertainty from a terminating employer's point of view as to the date of plan termination which will be accepted by the PBGC, the net worth of the employer, who the employer might be deemed to be, the method of valuing dedicated bond funds which may be in place under the plan and whether a proposed termination actually is in the best interests of the PBGC and employees. (In PBGC v. Wisconsin Steel and International Harvester the PBGC is claiming that International Harvester which sold Wisconsin Steel to Envirodyne Industries, Inc. and transferred a pension plan in 1977 was the employer when the plan was terminated by Envirodyne Industries in 1980.)

Net worth is determined under the statute on any basis which the PBGC determines reflects the value of the employer's controlled group. It is not clear that dedicated bond funds will be valued to provide for the liabilities they are intended to cover. There is no guidance as to when a court will overturn a PBGC determination that a plan termination is not in the PBGC's interest. The PBGC claims to indefinitely retain the right to assess liability to prior employers in certain circumstances. And finally, under the statute, if the PBGC does not wish to accept an employer's proposed termination date, it may wait indefinitely before filing an action under Section 4042 seeking to establish a plan termination date. In general, even when an employer determines it wishes to terminate an underfunded defined benefit pension plan, there is no reasonable method of placing parameters on what the thirty percent of net worth liability might be.

Contingent upon the outcome of various challenges to the use of sex based actuarial tables, it may be required that pension plans switch to a single table for determining actuarially equivalent benefits or to a unisex table, requiring that the accrued benefits existing at the date of change be grandfathered under the better of the old tables or the new tables. This can be expected to increase costs in many situations.

A major problem regarding the protection of the tax favored status of qualified plans is that the IRS, DOL and PBGC have risen to the level of consumate lobbyists with unparalleled ability to obtain legislation they desire. Legislation is thus prepared by the agencies to protect themselves or raise revenue in a meat-axe fashion, with Congress not understanding the impact on prior policies.

After the PBGC determined that the assumptions upon which the multiemployer pension plan insurance system was based were unsound, like any good insurance company the PBGC obtained legislation providing that it would not have to pay claims but that the insurance system would stay in place with employers paying the liabilities of multiemployer pension plan failures.

After the IRS placed dollar limits on permitted pension benefits in ERISA, political expediency and budget balancing considerations again led the IRS to the trough to again limit permitted pensions, and again reduce the tax favored aspects of pension plans. In addition to restricting qualified pension plan benefits, the IRS has succeeded in enhancing revenues through the limiting (or taxing) of uninsured health plans, estate tax exclusions and fringe benefits of all types provided by professional corporations.

These two "successes" of the PBGC and IRS were won over fierce opposition by the pension community, primarily because Congress is incapable of understanding the complex pension area and has a presumptive belief that agencies, unions and self-annointed public interest groups understand the problems and have the correct answers.

With an eye towards future revenue enhancement, it has variously been proposed that the parity provisions be deleted before they become effective, that the $90,000 pension limit be permanently frozen without future cost of living adjustments and that the Section 404 deductions available for qualified plan contributions be reduced to a partial deduction (such as a deduction for 75 percent of the contribution), with recent budget reports specifically stating that Section 404 deductions are the single largest drain on tax revenues.

As indicated, it is obvious that Congress has put political, budget and revenue considerations ahead of the previous strong national policy encouraging and supporting the growth of the private pension system. I would anticipate that the national retirement policy which has previously existed has already passed the crossroads and that further erosion of such prior policy and favorable tax treatment regarding defined benefit pension plans will continue.

In general, two forces negatively impacting defined benefit plans independent of the destructive acts of Congress are the heightened awareness of the potential costs of defined benefit promises as a result of the financial instability of the Social Security system and the closer scrutiny of plan costs and liabilities as a result of the severely depressed world economy of the past several years. As companies are driven to the edge and then into bankruptcy, dumping pension liabilities is enhanced at a time when the liabilities loom larger because of the unsatisfactory performance of plan asset investments during recent years.

With the now popular 401(k) salary reduction plans being available, and especially in light of recent hard times, I would think that most companies that have defined benefit plans will be adding 401(k) plans to provide supplemental retirement benefits rather than improving defined benefit plans in the near future.

Because of the very large and uncontrollable (from an employer's point of view) liabilities associated with multiemployer pension plans, the future of

multiemployer pension plans is less clear than that of single employer pension plans. Perhaps the most telling proof that multiemployer plans as they now exist are not viable is the fierce battles which have raged regarding changes in the multiemployer law, starting with the PBGC's carefully planned and hard fought successful attempt in 1980 to remove itself from the liability stream, after failing to provide the contingent employer liability insurance Congress previously mandated it provide.

Multiemployer plans are no more sound today than when Congress made the mistake of converting them to defined benefit pension plans in 1974 or after compounding its error in 1980. Since September 2, 1974, the growth of multiemployer pension plans has been doomed by the inherent conflicts imposed upon the collective bargaining process by the new wrenching legal realities of ERISA and the voluntary nature of the collective bargaining process which does not require employers to commit new businesses and assets to the blank check liabilities of multiemployer plans which employers cannot control. An intellectually correct and honest battle was led by Representative Erlenborn against these wrenching changes in the multiemployer pension plan legal relationships and promises in 1974 and again in 1980, but in each case huge employer liabilities and new pension promises were bestowed by Congress upon employees representing windfall gains on the union side of the bargaining table.

It is no surprise that, since 1974 to a certain extent and primarily since the changes of 1980, employers of all sizes and levels of sophistication have been waging a war of attrition against multiemployer pension plan exposure. Benefit managers coast to coast have developed partial withdrawal avoidance programs designed to shrink and minimize withdrawal liabilities while the contributing employers are restructuring their business to avoid continuing or new multiemployer pension plan liability exposure. The continued weakening of multiemployer plans is thus assured.

The basic problem with multiemployer plans is that there is no effective employer control over the creation of new plan liabilities or investments and plans are under continuing pressure to overpromise benefits because unions are expected to come away from the bargaining table with impressive packages for their members. As an example of lack of employer control, despite the unprecedented high interest rates of the past several years virtually all multiemployer plans continued to compute withdrawal liabilities at a 5 percent discount rate, resulting in artificially high determinations of liabilities and over 100 lawsuits challenging the Multiemployer Act. In the face of such a stacked deck, why would an employer voluntarily commit assets to a business which would be required to contribute to a multiemployer plan? The simple answer is that employers will not.

While continually adding onerous provisions which have had a significant negative impact on defined benefit pension plans, Congress has continually expanded and promoted defined contribution plans. Coupled with the increasing liabilities associated with defined benefit pension plans and the seemingly constant retroactive nature of changes in the defined benefit area (which often do not apply retroactively to defined contribution plans, since those plans are always fully funded), Congress has since ERISA authorized the following new defined contribution arrangements: Individual Retirement Accounts were established by ERISA effective in 1975 for employees not covered by any plan, with the contribution limits being expanded by ERTA effective in 1982 for all employees, regardless of whether they are covered

by other qualified plans. Also permitted in 1982 were deductible employee contributions to qualified plans. As an expansion on the IRA concept, simplified employee plans were created by the Revenue Act of 1978. In a series of Acts, starting with the Tax Reduction Act of 1975, Congress has authorized leveraged ESOPS, TRASOPS and most recently PAYSOPs. Pursuant to the Revenue Act of 1978, effective for years beginning in 1980, Congress authorized qualified Section 401(k) cash or deferred and salary reduction profit sharing plans.

Recently proposals have also been made to increase the IRS limits available under individual retirement accounts and to create a new 1 percent tax credit available for new profit sharing plans.

There is no question that defined contribution plans have increased in popularity in recent years, especially salary reduction plans which have received so much exposure and may provide retirement benefits on a very economical basis from an employer's point of view.

Recalling ERBI's statistic that only 24.2 percent of new plans are defined benefit plans, my own further observation is that in recent years many of the new defined benefit pension plans have been defined benefit pension plans for professional corporations which are established solely to get larger deductions and in fact are viewed by the actuary and shareholder as a defined contribution plan in that the remaining trust fund will benefit the shareholder or several shareholders equally.

Consistent with the predilection of Congress for defined contribution plans rather than defined benefit pension plans, and cognizant of the needs of many smaller and medium size corporations, both privately and publicly held, I have prepared my own recipe for the defined contribution plan of the future intended to strike a middle ground between the fully guaranteed promise to employees and large potential employer liabilities of defined benefit pension plans and the more limited promise to employees and limited employer liability of defined contribution plans. This product of course is not new, but with certain minor changes enacted by Congress it could rival 401(k) plans and cafeteria plans for sales by consultants in the mid 1980's. Following for your consideration is a proposed inclusion to the Single Employer Termination Bill.

Both H.R. 4330 as introduced by Representative Erlenburn on July 30, 1981 in the First Session of the 97th Congress and S.1541 as introduced by Senator Nickles on that same date contained identical provisions in Section 4804 thereof entitled "Target Benefit Plans Treated as Defined Benefit Plans", which provisions proposed the amendment of §415 of the Internal Revenue Code to provide that the defined benefit plan funding limits rather than defined contribution plan funding limits would apply to existing target benefit plans.

It is proposed that such provision be incorporated in current legislation to apply to pre-existing and new target benefit plans and to provide that, in accordance with certain restrictions and transitional rules designed to protect plan participants, existing defined benefit pension plans may be partially or completely converted to target benefit plans. These provisions would be intended to achieve the following objectives: Each year the amount necessary to fund for the targeted defined benefit would be added to an individual's account under a target benefit plan, without regard to the

defined contribution plan limits. A target benefit plan would be a money purchase pension plan for purposes of the minimum funding requirements and funding waivers available under §412 of the Code. In the case of a top-heavy target benefit plan, the IRS could by regulation restrict the reasonable funding assumptions to assumptions no less conservative than PBGC assumptions in effect on the first day or last day of a plan year and could reasonably restrict other funding assumptions and funding methods. Partial or complete conversion of defined benefit plans would be permitted subject to certain restrictions and transitional rules. Certain defined benefit pension plans contain early retirement subsidies and supplements and survivors benefits which are not easily duplicated in target benefit plans. Accordingly, employers may wish to continue significantly diminished defined benefit pension plans which nevertheless continue full early retirement subsidies and supplements and survivors benefits, which provide a substantial part of the targeted defined benefit pension through a target benefit plan. Other defined benefit plans which do not provide significant early retirement supplements and subsidies or death benefits which will not be provided through a target benefit plan or 501(c)(9) trust may be fully converted to target benefit plans. The conversion would be initiated by performing a §4044 allocation of existing defined benefit plan assets to initial target benefit plan individual accounts. To protect participants, including participants who terminate employment shortly after a conversion, the following restrictions and transitional rules would apply: (A) Records would have to be maintained following a conversion regarding the unfunded guaranteed and nonguaranteed defined benefits which were converted. Converted guaranteed benefits would be required to be provided in the event of a target benefit plan termination prior to the funding of such benefits. (B) The target benefit plan would be required to (i) amortize unfunded guaranteed past service liabilities at the time of conversion over the lesser of ten years or an employee's remaining service until age sixty-five, and (ii) amortize unfunded nonguaranteed past service liabilities at the time of conversion over not more than twenty years. (C) Vested employees who terminate or retire following the conversion would continue to receive allocations to their accounts for the applicable period reflecting the unfunded guaranteed and nonguaranteed past service liabilities at the time of conversion which have not yet been amortized, unless the employer otherwise provides such benefits. A conversion of a defined benefit plan to a target benefit plan would not be a defined benefit plan termination for PBGC purposes and would not be a plan termination requiring full vesting for IRS purposes. A target benefit plan resulting from a conversion of a defined benefit plan insured with the PBGC would continue to be covered by the PBGC with respect to converted and still unfunded guaranteed benefits during the ten year period following conversion, but only to the extent such amounts are not provided out of excess earnings in the target benefit plan attributable to all converted guaranteed amounts.

The proposal would create a middle ground between the current choice of (i) defined contribution plans which fully insulate employers from depressed economic conditions and poorly performing financial markets and place the entire risk of such conditions on employees and (ii) defined benefit plans which fully secure participants' benefits and place the entire risk of the world economy on employers. Target benefit plans give participants the value of a defined benefit with actuarial funding that may offer participants security as to market performance which greatly exceeds that of regular defined contribution plans, as future contributions to a target benefit plan may be based on actuarial assumptions which take into account prior actuarial investment losses. Finally, the alternative of conversion to the choice of a

current termination resulting in PBGC liability would be attractive to employers and would be expected to reduce PBGC liabilities over the years.

MR. TERRY: Our final panelist is Hugh Hardcastle. Hugh will provide his view of the future of defined benefit plans. You will see it is not too negative given all the economic problems and legislative changes that have already been discussed.

MR. YELLOTT F. HARDCASTLE: The part I elected to take in this presentation is - what does the future hold in store for us in the defined benefit, qualified pension field? My focus will be on whether we have any real future at all.

There are two points I will make in starting. First, I probably should disqualify myself since I am an inveterate optimist. Second, since accepting this opportunity, I have been amazed to discover the dearth of good, hard data. There are very few statistics available. I do have some which I will use later on. My point is, however, that all the gloom and doom articles and presentations are individuals' opinions. In most instances they are knowledgeable opinions, based upon a real and deep level of expertise in this field. However, I do not feel that the whole picture has been presented.

I believe there is a tremendous future for defined benefit pension plans. I do not think anyone would question the importance of the whole retirement income package in today's market. As Dr. Rosenblum, Professor of Insurance at Wharton, put it in the International Foundation Employee Benefits Journal of March, 1983, "Benefits are no longer just a fringe, but a core component in planning for individual financial security."

Given all this, why do I look for defined benefit plans to continue to play a major role? Everyone knows that growth in defined contribution plans has been much greater than for defined benefit plans for the last few years.

First of all, defined contribution plans cannot do the whole job. Defined contribution is a career average type plan. Because of this, the end product is less sensitive to inflation, less sensitive to an employee's situation just prior to retirement. It only works well for the long service employee who has been covered his whole working lifetime by the plan. To put it another way, it will not deliver an adequate benefit for the 50-year-old executive your client is trying to entice nor for most of your employees who are key individuals when you start a plan. You need time for the compounding force to really work.

If the plan is a matched thrift or savings type of plan, a decent benefit level will seldom be delivered because disposable income is required. If your gross income is below $35,700 (and about 90% of the U.S. population is below that), how much disposable income do you have? In short, for a large segment of the working population, defined contribution simply will not deliver enough benefit.

There is another drawback to defined contribution plans - the employee bears the risk. If the investment policy of the plan sponsor turns out to be terrible, it is the employee who suffers. His account balance simply does not grow. The timing of retirement, which is frequently a function of a date of birth, can have a tremendous impact on the benefit received. If an

employee had half of his/her account in an equity fund and is 65 in July of 1982, he/she would have a much lower benefit than if he/she had happened to reach 65 after August when the stock market took off. Even over a long period of time, a few months can have a big impact. Measured from March 1, 1970 to March 1, 1980, a large equity fund that I have worked with showed an annual investment growth of 2%. Change the measurement period from September 1, 1970 to September 1, 1980 for the exact same fund and the return becomes 5.8%.

Some plans are set up to provide the employee the choice of investment mix. There the risk is obvious.

Another economic risk is borne by the employee when the plan is a profit sharing one, such as the 401(k) that is so popular now. If this is the primary source of retirement income, the employee is at the mercy of the profitability of that employer.

Given that defined contribution plans will not do the whole job, how about Social Security? Frankly, I do believe Social Security should be counted on to provide an adequate level of retirement income. I am virtually certain that Social Security will be with us for a long time to come. However, to remain a financially viable institution it will continue the recent trend of retrenching. It needs to get closer to its original concept of providing a floor level of benefits. Besides, Social Security is too much of a political football to depend upon to be the primary source of retirement income.

When you look at the whole picture, then, defined benefit plans must continue to develop and grow because there is a social and economic need for them and nothing else can deliver the benefit with the same degree of certainty.

The unions recognize this. Despite the reduction in their strength over the last five years, they still have tremendous clout. Yes, many bargaining units are implementing defined contribution plans. However, in looking at my own clients' actions, I would agree with Ross Spencer's comment in the Janaury 1983 issue of the Employee Benefit Plan Review when he said, "This increased interest, however, is not aimed at replacing existing defined benefit plans, but at supplementing them."

Assuming the need has been established for defined benefit pension plans, what do we do about ERISA, MPPAA, TEFRA, and FASB, let alone a possible TEFRA II?

Let's back up a minute and look at a little history. When ERISA was passed, there was a great hue and cry over its expected impact on defined benefit plans. The forecasters were not all wrong. From July, 1975, through the end of 1977, plan terminations outnumbered defined benefit plan formations. However, in early 1978, a curious thing happened. Some court rulings emerged. ERISA was found to be, generally, a workable law. According to a study done by the PBGC, defined benefit plan formations began to exceed terminations in early 1978 and continued to do so at an ever increasing rate up through September 1981. In the last year of the study, from October 1, 1980 through Septemebr 30, 1981, there were 4,949 plan terminations, while plan formations totaled 16,722.

ERISA will continue to be refined and improved. It is far from perfect. However, the initial horror and confusion has abated. We have learned to

operate within its framework to deliver the benefits needed.

Multiemployer trustees, especially management trustees, are reacting the same way to MPPAA. There was the initial shock and outrage at liabilities now identified. Most employers still feel their only real obligation should be to the contribution they had negotiated. This act delivered a rude awakening.

Some trustees are still so paralyzed by the law that they will never have anything to do with defined benefit plans again. However, there is a growing number who recognize that the law is not all that bad, that it really is protecting the responsible employers who remain.

Moreover, many groups are finding that this withdrawal liability is not quite so bad after all. A survey was just completed by the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry in conjunction with the Mechanical Contractors Association of America. The data from the survey was compiled and analyzed by the Martin E. Segal Company and covered 210 plans, 25,413 employers and 298,513 participants. The results are as follows: 61.9% currently have no unfunded vested liability, 97% are at least 50% funded. None of the plans had issued a withdrawal liability bill to any employer because of (1) the high level of funding, (2) the effect of the "de minimis" rule, or (3) the definition of withdrawal under the construction industry.

We are beginning to learn how to work with the law. It is not perfect. Some parts of it are really not very good. It is simply one more step in the evolution of pension law. I am reminded of Winston Churchill's statement concerning democracy. "No one pretends that Democracy is perfect or all-wise. Indeed, it has been said that Democracy is the worst form of Government except all those other forms that have been tried from time to time." (November 11, 1947)

It is too early to tell with TEFRA, of course. We are in the process of working out solutions to the benefit limitations, the intricacies of the grandfathering provisions, and the top-heavy rules. My hunch is that the pattern will be the same as I have described already. One of the reasons for this optimism came to light earlier this year at the Enrolled Actuaries meeting in Washington, D. C. In listening to the general session with Ira Cohen and Rick Watts of the IRS I was struck by the reasonableness of their approach. I have subsequently found this to be the case in dealing directly with their technical branch. They seem concerned with making the law work as the legislators intended, rather than nit pic over the fine print. Another ray of light came from Secretary of Labor Raymond Donovan, at the March 16, 1983 meeting of the Advisory Council on Employee Welfare and Pension Benefit Plans, when he said, "... the two main goals of the Office of Pension and Welfare Benefit Programs would be vigorous enforcement and deregulation."

In the February 1983 issue of Office Administration and Automation there's quite a good article by Anna M. Rappaport entitled, 'If ERISA Didn't Kill Pensions, FASB May'. It gives, in my opinion, a very balanced view of what the accountants are setting forth in their latest preliminary views. I would agree with her assessment that what is proposed is "extremely controversial and involves many practical difficulties."

Even if you have not studied the new proposal by the FASB you are probably very familiar with FAS 35 and 36. For many years accountants have been trying to make sense of pension costs and liabilities. I maintain, though, that for all the failings, the efforts of the accounting community have been beneficial to actuaries and to defined benefit plans on both on a short term and long term basis.

Speaking for myself, the required disclosure of FAS 35 and 36 has generated more questions by clients than almost any other single event. Numbers are being shown and discussed in the financial reports of the company that used to be shown only in the actuarial report. Because of this, and because of the ignorance that surrounds pension funding and the attendant liabilities, there's a lot of confusion as to what is being disclosed. Sometimes banks are rethinking their view of the debt position of a company because of the disclosure of unfunded liabilities for accumulated benefits. Because of this, plan sponsors are becoming more aware of what is going on and more active in their role of setting funding policy - something they should have been doing all along.

I strongly believe all this questioning is good. The better understanding the plan sponsor has of how his defined benefit plan works, and what its role is in the total benefits package, the more likely he is to retain that plan.

Doesn't it strike you a little odd or maybe paradoxical that the more we are required to disclose, the more confusion is generated? It did to me, too, until I looked up the definition of "disclose". It simply means 'lay open'. There is nothing in the definition that has anything to do with comprehension.

That, my fellow actuaries, is our job. This brings me to the main point of my whole presentation. It is up to us.

Yes, I am optimistic about the future of defined benefit pension business, for all the reasons I have been talking about. I am not playing ostrich though. TEFRA, FASB, MPPAA, etc. have all put tremendous pressures on pension plans, especially defined benefit ones. They are more difficult to design, to understand, to cost than ever before. This is partly our own fault. As Anthony Deutsch put it in the March 1983 issue of the Enrolled Actuaries Report, "Observation leads us to conclude that pension actuaries are a pretty hard-working lot. Perhaps this explains in part why we have been so ineffectual as a profession in having a meaningful role in the shaping of public pension policy." My hunch here is that the author was being gentle. While there are more actuaries involved now than ever before in trying to shape our environment, we are a long way from being an effective force.

All the accounting profession is trying to do is to have pension numbers that make sense, are comparable from one company to another, and are meaningful. How much help do we, the pension experts, give them in their efforts. Usually, our energies are focused on criticism.

We are the experts, or at least, the most trained people in the field. This is a time of flux, of confusion. We must get involved, we must organize the events so that the real needs of plan participants are met. Remember, our charge under ERISA is to work in behalf of the plan participants. Both the complexity and speed of passage of TEFRA should convince us that we cannot

sit back and let laws unfold. There are too many forces at work which may not be very intelligently guided. It is up to us to see that there is a healthy future for defined benefit pension plans.

I will close with a quote from Alvin Toffler, the author of Future Shock, from his book, The Third Wave. "The responsibility for change, therefore, lies with us. We must begin with ourselves, teaching ourselves not to close our minds prematurely to the novel, the suprising, the seemingly radical."

MR. TERRY: Thank you Hugh. We will like to entertain any comments or questions from you in the audience.

MR. STEPHEN G. KELLISON: I would like to bring a perspective from my work with the American Academy of Actuaries in Washington, D.C.

Many of the arguments I have heard today concerning the advantages of defined benefit plans in comparison with defined contributions plans are good ones. However, often we are talking to ourselves and our clients, and not to governmental decision-makers and the media.

For example, much of the writing in the pension field being done in the academic community today is tipped in favor of defined contribution plans. This phenomenon is no doubt attributable to the fact that most college and university professors are participants in the nationwide TIAA-CREF retirement program. They like the program and are sold on its virtues, such as portability and immediate vesting.

I would also call your attention to a quote which appeared in this week's BNA Pension Reporter by William M. Lieber. Mr. Lieber is a long-service staffer for the Joint Committee on Taxation with considerable pension background. He was heavily involved in the development of both ERISA and TEFRA. He is quoted as saying that in Washington when a proposal is criticized as being detrimental to defined benefit plans, the attitude increasingly is "so what."

As another example, consider the supplemental plan for federal employees which must be designed for those new employees hired on or after January 1, 1984. These employees will now be covered by Social Security. Senator Stevens of Alaska, who is chairman of the Senate subcommittee that will be considering this legislation, has floated the idea of a defined contribution plan in order to control costs to the federal treasury. Such a radical departure from the past would summarily have been ridiculed only a few years ago. The fact that it may seriously be considered today is indicative of how far defined contribution plans have come into favor.

One final observation that I would like to make is broader than the fate of defined benefit plans; and that is the question of taxation of fringe benefits. With large federal deficits looming indefinitely into the future, there will inevitably be increasing scrutiny of the tax-sheltered status of fringe benefits programs across the board. Thus, TEFRA may well have been the beginning, not the end.

Also, look for this reexamination to include FICA taxes as well as income taxes. Fringe benefits will likely be a target when Social Security gets into financial difficulty again.

MR. RICHARD DASKAIS: Peter Grant mentioned that in the survey he had made

of the effect of FASB on a relatively small number of companies that quite often the pension cost and pension obligation would decrease as a result of the preliminary views recently issued by the FASB. My more limited experience is about the same. However, if you apply the pension priciples to the other post retirement benefits, the group life and the group health, and you take what could be considered a worst case interpretation - that you have to account for the group health considering escalation of medicare supplement costs after retirement and you have to amortize those costs very rapidly and you have no fund - you may find that your group health accounting cost is almost as large as your pension accounting cost. Although currently, with a typical employee having a $300 or $500 dollar a month pension and a $20 or $30 or $50 dollar medicare supplement cost, I was quite surprised with some of the figures I had developed. Upon review of this, with discussions with a couple of clients, I came to the conclusion that once the principles are accepted with respect to pension plans - that is putting the obligation on the balance sheet and amortizing it relatively rapidly whether there is an intangible asset or whether you spread it - it is very hard to draw a line between pension on the one hand and group health on the other hand and group life which is a more clearly defined benefit somewhere in between.

MR. GRANT: Dick, you are absolutely right. Everything that we have done indicates that the group health impact is far more serious than the impact on pension plans. The only comment I would make about that is that FASB or no, corporations probably should be pre-expensing, prefunding or making some pre-allowance right now for those post retirement medical and death benefits. In that area the FASB is perhaps going to force employers to do something many of their actuaries have talked about with them over the years but have never actually convinced them to do. I know of a couple of companies in Chicago that have adopted a policy of pre-expensing post retirement benefits while the employees are in active service and they have been doing it for a number of years. The ones that have not of course are in for quite a major shock and a huge change in terms of the expense for those benefits.

MR. TERRY: I would like to ask the panel a question. What impact will there be on mergers and divestitures given the potential changes Tim mentioned with the liability staying with the prior organization for a longer period of time - perhaps needing to get PBGC approval or doing additional work before the merger or divestiture is announced, but all of these things not being discussed until the eleventh hour?

MR. MLSNA: We will be seeing many plans not being transferred in disposition transactions. The transactions have to go forward although a number of them will not if an employer has an underfunded plan with respect to a plant or a division it wishes to sell. If the seller keeps the plan and the liabilities, the purchase price has to go up. So you need purchasers with ready funds or some ability to pay for that retention of liability. It will adversely impact a lot of leverage buyouts. In a leverage buyout situation there is very little cash that is normally spent and the venture capitalists out there will be bidding on divisions where they have to pay off the underfunding. They want to take the liabilities if they can.

MR. GRANT: The contrary comment to that is that in most merger acquisitions where large unfunded liabilities are currently exposed, companies ought to be knowing about them and taking them into account right now. One of the key things is that maybe pensions will be dealt with before the eleventh hour, and that is all for the good. From the point of view of the buyer, the

seller, and the people working on the case and the employees who ultimately want to get benefits from the pension plan, they are much better off if that is taken into account way before the eleventh hour. I am certain that my experience is not unique in that no matter how often I talk to clients early, I still get calls two minutes before midnight saying what is going to happen, because this is a deal that I have struck and pension has gone by the board again. It is very difficult to get corporations to pay attention to the pension issues in that type of transaction. The fact that the legislation will force them to pay more attention to it is probably healthy. It will not necessarily restrict the activity.

MR. TERRY: I am hoping that with more disclosure and with more information needed by the corporations at all times, actuaries will become more visible, more important to the plan sponsor and more involved in business decisions not necessarily reflecting the annual changes or valuations in the pension plan.

MR. JOHN J. HALEY: I am a pension consultant and what I am concerned about here is what is the cue for involuntary withdrawal in the next few years. Jim, you mentioned tax expenditures and how that is showing up as one of the major items in the federal budget. This is an area in which actuaries will probably have to get a little more involved. Tax expenditures is a rather dangerous concept in a lot of ways. The government assumes that they are entitled to tax all of this income at a given rate, and the fact is of course they did not. One of the interesting things is that they do not differentiate at all between a tax deduction and a tax deferral so the pension tax expenditure is showing up as $56 billion. But they are going to recover most of that money in some future taxes whereas the mortgage interest deduction, which is the second largest one, is money that they are just never going to see. Also, they tend to ignore second order effects as they call them, so that if this money was not put in a pension plan but maybe put in some tax exempt government bonds instead, they have not really gained anything by changing the rules of the game. It is quite possible under some reasonable scenarios that the present value of the taxes they ultimately collect will actually be greater with the current deferral of taxation. This is an area in which actuaries just have to get a little more involved and provide some input.

Peter, in mentioning the FASB and actuaries providing some input, I quite agree with you I am a little distressed at the sort of "circle the wagons and hold on against anybody" mentality that FASB seems to have with their views. We have seen a number of corporations where there is a major impact from the FASB proposals, shifting them from corporations that had say two dollars earnings per share last year with the FASB proposals having a three dollar reduction in earnings per share effect. That is certainly something that gets their attention. Although you might find maybe half go up and half go down, some of the increases are of such a magnitude that it is going to cause some real problems to these corporations.

One other comment on FASB. Did you use different assumptions for the tests when you compared them, because it is quite possible that you might decide to use a different set of assumptions for the FASB reporting than you would use for your regular funding for your ERISA policy? You mentioned that defined contribution plans does not have quite the safety nets that defined benefit plans have. I generally agree with that although for instance for profit sharing plans there is an automatic built in safety net.

You had a comment on defined contribution plans that they are career average plans. Actually, they are closer to indexed career average plans, so perhaps they are not quite as bad as it might appear at first. With executives at age 50 it is true that it is hard to bring them in and get an adequte benefit under a defined contribution plan, but I think we are seeing a lot of companies cover them by SERPs anyway now, so perhaps putting all the other employees under a defined benefit pension plan is not quite as attractive. They can get that job done anyway.

MR. GRANT: I agree with the majority of your remarks, John. The only thing I would like to make a supplementary comment on is with regard to the safety nets under defined contirbution plans. I agree that there is a safety net for the corporation. The point I was trying to make is that there is no safety net for the employee, and the employee does not feel particularly good by the fact that his companies' profits have gone down, but at least they are not putting too much into his profit sharing plan. That does not help him a lot.

The comment that I think needs to be said is with regard to the $30,000 and $90,000 dollar limits that have been imposed under TEFRA. Tim mentioned this and they are obviously a very serious concern in terms of the adequate and appropriate funding of pension plans and what you can deliver out of a qualified plan. On the other hand you can look at it from an opposite standpoint and say this is not so bad after all because what it is doing is effectively saying that for the broad bulk of your employees, all of their benefits will be delivered by a qualified plan. For the people perhaps most able to look after themselves, the relatively highly paid executives, a lot of their benefits will be delivered by a nonqualified plan and there are some good things about having a nonqualified plan. Because you can then be discriminatory in its application, you can vest it when you want to, you can take benefits away if they are doing things you do not like them to do and there are a lot of advantages to being able to deliver benefits through the nonqualified plan for the people that Congress is going after. I do not think the limitations on deductions are entirely bad.