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THE PRESIDENT AND PRIVATE PENSION POLICY

by Barbara J. Eversberg

The first interim report of the President's Commission on Pension Policy, released in May 1980, contains several recommendations similar to reforms strongly urged upon actuaries three years ago (Record, Vol. 3, No. 4, p. 902) by Karen Ferguson, Director of the Pension Rights Center, Washington, D.C.

Similarities can be seen in views on the issues of (1) Mandatory Pension Coverage, (2) Vesting, and (3) Survivor Protection.

One of Ms. Ferguson's suggestions was for mandatory employer-sponsored Individual Retirement Accounts; some minimum amount would be withheld from an employee's pay and placed in an IRA. The President's Commission decided that serious consideration should be given to establishing a minimum advance-funded pension system, which might be either a tier of Social Security or a universal employee pension system with a central portability clearing house. Ferguson called for at least 5-year vesting, and the Commission believes that, as a general principle, non-vested periods shoud be shortened. Ferguson wanted vested benefits to be completely non-forfeitable when a participant dies leaving a surviving spouse; the Commission recommended that all survivors of employees who die before retirement with a vested benefit should receive either a survivor benefit under the pension plan or a life insurance benefit.

The Commission's final report is scheduled to be released in February 1981. The fate of its recommendations is markedly uncertain since the "President" in the "President's Commission" is not the same as the President who will receive their report. If incoming President Reagan holds true to his campaign assertions that "the best government is the least government," the above-mentioned reforms might have rough waves to ride.

There are arguments against these reforms which segments of the public would list under headings such as "individual choice," "individual responsibility," "no free lunch," or "trade-offs." As a sample of such possible counter-arguments:

(1) Employers enter into deferred compensation as a means of retaining workers in their employ. Those employees (and only those, some would say) who can "hack it" with the same employer for at least ten years have earned their pensions by not having exercised their freedom to:

- move to a place with a pleasanter climate
- work for a more understanding boss
- be nearer to their parents
- be farther away from their parents
- seek higher compensation or a more rewarding job experience

And when persons or families make the decision that the breadwinner(s) will change employment, it becomes their personal responsibility to weigh personal or financial advantages against the loss of non-vested pension benefits.

(2) Employees who are unmarried, or whose spouses are not dependent, might prefer some other additional benefit rather than increased survivor benefits under their pension plans. Although objections to somebody apparently "getting something for nothing" are rare, undoubtedly objections would be heard if the general public became aware of the costs of some of these proposed pension reforms and of the alternative uses to which these monies could be put.

(3) To some, the argument that pensions must be mandatory because some people cannot or will not otherwise provide for their own retirement falls into the same unpalatable category as proposals for mandatory employer-sponsored safe driving clinics or dental check-ups, or bonuses for employees who stop smoking. Any of these may be labelled "unnecessary interferences with personal life-styles."

Other recommendations in the Commission's Report, however, appear more in harmony with the oft-cited principles of individual choice and responsibility. These include the recommendation that:

a. Tax treatments of employee and employer contributions to pension plans, and of earnings thereon be the same;

b. A tax credit for people with low and moderate incomes, to encourage employee pension contributions and individual savings for retirement, be considered; and

c. Tax treatment of savings earmarked for retirement be the same as that of pension contributions.

These recommendations, although not placing any new restrictions on employers and employees, would reduce government revenues. The incoming President has repeatedly expressed his belief that government revenues can be cut back. Even those of us who like these recommendations because they might benefit us personally have a right to know and a responsibility to find out what price we will pay if they are effected. The questions we must ask about pension reforms are these:

1. What will this "improvement" cost?
2. What else might be had for the same price?

Even when these questions are answered, decisions will still be difficult because we may disagree on which purchases should be made and whether the price is right. □

CALL FOR PAPERS

The 16th Actuarial Research Conference sponsored by our Committee on Research will be held at University of Manitoba, Winnipeg, August 27-29, 1981. Its main theme will be: "Computers: The State of the Art and Its Implications for The Actuarial Profession."

Emphasis will be on new lines of thinking and recent developments (hardware and software) of interest to academics, actuaries in life, casualty and consulting fields, computing scientists and statisticians. The theme is broad enough to include such topics as numerical analysis and simulation.

If you might contribute a paper, write to the conference coordinator, Prof. H. J. Boom, Dept. of Actuarial & Business Mathematics, University of Manitoba, Winnipeg, Man. R3T 2N2, Canada. Contributors will be asked to submit abstracts before July 1, 1981.

Deaths

Paul V. Montgomery, F.S.A. 1913*
Edward J. Mullen, A.S.A. 1948
Elizabeth W. Wilson, A.S.A. 1924

*Mr. Montgomery was the Society Fellow of longest service. An appreciation of his record in our profession will appear in our next issue. □