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PRESIDENTIAL PENSION COMMISSION REPORT

by Douglas C. Borton

After two years' work the President's Commission on Pension Policy has recommended major changes in the U.S. private pension and Social Security systems. These run the gamut from a highly controversial proposal to require a Minimum Universal Pension System (MUPS) to various less significant changes. The immediate weight, however, that proposals of a body appointed by a President now out of office will have on legislation is much in question. Initial reaction has been mixed and, predictably, has tended to reflect the interests of the commenting individual or group.

The Commission proposes a goal of having every retiree receive, from pensions, Social Security and savings, total disposable retirement income equal to his or her pre-retirement disposable income. At least one Commission member doubts that this goal is realistic, no matter how desirable.*

Possibilities: MUPS & PERISA

Under the universal system proposed, each employer would be required to maintain a defined contribution pension plan covering full-time employees who have attained age 25 and completed a year of service. After a 3-year phase-in period, the employer would contribute 3% of payroll. Contributions would be fully vested immediately. The required new provisions could be incorporated into an existing plan; an employer with no plan could use either traditional funding vehicles or a portability clearinghouse to be established within the Social Security Administration. Because of the low contribution level, it would be well into the 21st century before MUPS would develop substantial benefits even though its immediate impact on the economy would be material from the outset.

Other changes that the Commission believes desirable to improve private pension benefits include:

(1) Death protection of vested benefits, through either the pension plan or associated life insurance;

(2) Requiring spouses to agree to waive the automatic joint-and-survivor pension option after retirement;

(3) Prohibiting taking benefits over $500 in cash except for transfer to an Individual Retirement Account or a new employer's plan.

No changes in ERISA vesting minimums are recommended, but the Commission urges employers to adopt faster vesting voluntarily.

The Commission favors simplification of Social Security integration rules, but doesn't address the central question whether these should be more or less restrictive. It suggests interpreting ERISA's fiduciary standards so as to permit the broader social interests of participants to be recognized in construing prudent investment standards.

Adoption of a Public Employee Retirement Income Security Act (PERISA) is recommended. Unlike the PERISA legislation that was introduced in the last Congress, this one would have minimum funding requirements.

Social Security

Recommendations about Social Security include:

(1) Accelerating the 1985 scheduled tax rate increase, and permitting interfund borrowing;

(2) Gradually increasing the normal retirement age from 65 to 68 over twelve years beginning in 1990, and correspondingly raising the early retirement age (the effect of which would be to restore about the same typical retirement period as existed in Social Security's earliest days);

(3) Bringing everybody, including government and non-profit groups who have withdrawn, into the system, by requiring new employees to be thus covered;

(4) Removing the present minimum benefit subsidies enjoyed by employees with limited coverage; and

(5) Computing benefits by an earnings-sharing approach in cases of separation or divorce or death of one spouse in a two-earner couple.

Other Matters

The Commission does not recommend inflation protection through mandatory indexing of pensions, but does favor establishing a separate pensioners' Consumer Price Index. It proposes several tax changes such as applying pension plan tax treatment to savings earmarked for retirement, and allowing tax deductions or credits for employee contributions to private plans and Social Security. It favors phasing out the Social Security earnings test, making Social Security benefits taxable, and granting a special tax credit to small employers on their MUPS contributions. And it suggests that after more experience has been gained, removing the maximum retirement age under the Age Discrimination in Employment Act be considered.

Comment

In so wide a range of topics, it isn't surprising that many recommendations are general or incomplete. Moreover, the Commission deliberately by-passed issues such as socially desirable investments of pension assets or an appropriate all-sources structure for disability income.

Since the cost-benefit relationship is such a key test of proposals involving large deferred benefits, and since the Commission has not quantified the costs and the savings that would result from its recommendations, actuaries can render a public service by estimating the dollar impacts of those proposals that come up for serious consideration. □

**Ed. Note: Readers' attention is directed to Edwin C. Hustead's letter on this subject elsewhere in this issue.*

A TIP FOR PART 7 STUDENTS

Several chapters of a pending new Pension Mathematics textbook are being issued as a Part 7 study note for 1981 which will *replace* the present Trowbridge & Farr text for the Society's own exams. But students who have started to study Trowbridge & Farr may rest assured that your time hasn't been wasted; that text does give what you need to know. In fact, Trowbridge & Farr will continue to appear on the Joint Board's list of suggested texts for its EA-2, i.e., the Society's Part 7-E (U.S.), Section A.

. . . And For Part 9 Students

A supplement to the 1981 Requirements for Admission booklet is being sent to all Part 9 students who have ordered study notes. It contains the Course of Reading for Part 9G (Group Life and Health, and Individual Health), and for Part 9P (Employee Pension Benefits). Others wanting a copy should write to the Society office.

For the E. & E. Committee
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