EBRI

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Statement of

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Before the

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Committee on Post Office and Civil Service

Hearing Related to the Development of a New Retirement System for Federal Employees Who are Subject to Social Security

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* The views expressed herein are those of Mr. Salisbury and should not be attributed to EBRI, its Officers, Trustees, Sponsors or Staff.

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Introduction

Mr. Chairman, it is a pleasure to appear today on this most important subject of retirement income provision for Federal employees who are subject to Social Security. The studious approach being taken by this Committee is to be applauded as one that should always be followed by the Congress when economic security is at stake.

I appear today in my capacity as President of the Employee Benefit Research Institute, a Washington, DC based nonprofit, nonpartisan public policy research organization dedicated to increasing knowledge of employee benefits through research and education. EBRI does not take pro or con positions on public policy proposals or make policy recommendations. EBRI does provide information that will assist those who must make policy decisions.

Today I will attempt to be responsive to the major issues raised in your invitation letter of January 25, 1984, without duplicating what you have heard before. You raised five primary questions:

(1) Comparability Analysis

(2) General Design

(3) Eligibility and Inflation Protection

(4) Financing

(5) Coverage

I will review each issue in turn, but first I want to briefly review why employers sponsor retirement programs. These purposes should provide a benchmark for your work.

RETIREMENT BENEFITS AS A HUMAN RESOURCES TOOL

Retirement income programs are created to help meet the economic security needs of the elderly. Employer sponsored programs have developed because both employers and employees value them. Employers have found that retirement programs meet moral and social needs as well as corporate business needs.

- o Management of work force size and composition is made easier by retirement programs. Older workers can leave employment with income and dignity. Younger workers can move up the ladder. Productivity and morale may be enhanced.
- o Management of taxes for both the employer and employee is enhanced by retirement programs. Contributions to plans, like wages, are a deductible business expense. Unlike wages, they are not treated as current income to the employee and income tax on fund earnings is also deferred until the employee actually receives a cash benefit.
- o The quality of labor-management relations can be enhanced by the provision of retirement income programs. Pension programs are so widespread that employees now expect them to be provided. As a result, they are valuable in attracting and retaining employees.
- o Economic efficiency can be obtained from the group nature of pensions due to lower administrative costs, the ability to integrate plans into the total compensation package, and as a means of assuring that employees have funds to augment Social Security.

All of these factors tend to advantage both employers and employees.

COMPARABILITY ANALYSIS

The private sector generally approaches planning on the basis of total compensation assessments--all cash and non-cash benefits being considered.

For this purpose employee benefits are generally valued at current year cost. In addition, when a consulting firm is asked to do a comparability assessment relative to other companies, the benefits delivered are compared as well as the cost of those benefits.

This "quality" assessment is undertaken since a relatively new company with retirees can promise a given benefit at a lower cost than an older company that has many retirees. I make this point in order to stress that any comparisons must be made with care. A new retirement system for new hires may require a lower total cost to produce equivalent benefits to an older system. Therefore, if a total compensation approach is used, both costs and benefits must be considered.

GENERAL DESIGN

As you are aware, two major types of pension plans exist today in the United States. These programs make up two "legs" of the retirement economic security "stool": (1) employer pensions and (2) structured individual savings. These complement Social Security and personal savings/assets.

- Defined benefit employer pensions - those that promise a given benefit upon retirement with the contribution fluctuating and the employer bearing the risk of poor investment returns. Investment gains may or may not be passed on to the retiree. These include multiemployer plans where several employers provide benefits through a single pension plan. A multiemployer pension plan is one in which:
  - more than one employer is required to contribute;
  - is maintained under one or more collective bargaining agreements;

  - o must cover a substantial number of employees in an industry in a particular geographic area; and
  - o employers' contributions to a single fund are set forth in a labor agreement.

- o Defined contribution employer pensions - those that promise a given contribution with the ultimate benefit generally being the final account balance. The employee bears the risk of poor investment returns and receives the benefits of good investment returns. Profit-sharing plans are one form of defined contribution plan. Some defined contribution arrangements allow the employee to purchase an annuity which provides a guaranteed stream of income.
- o Individual pensions - generally defined contribution in approach - with the employee making contributions, and bearing the risk of poor investment returns, and receiving the benefits of good investment returns. This includes individual retirement accounts (IRAs) and Keogh plans for the self-employed.

An individual retirement account (IRA) is an individual pension plan that can be set up by any worker regardless of employer pension provision. IRAs are offered by many types of financial institutions, including commercial and thrift banking institutions, mutual funds, life insurance companies, and credit unions. The IRA permits an individual to contribute up to $2,000 per year to an account, and take a personal federal income tax deduction equal to

3/ See James H. Schulz and Thomas D. Leavitt, Pension Integration: Concepts, Issues and Proposals (Washington, DC: Employee Benefit Research Institute, 1983) for a complete discussion of integration.

the amount of the contribution. In addition, earnings on the total assets in an IRA are tax-deferred until retirement, when distributions from the account are taxed at regular rates. A person with an unemployed spouse may contribute an extra $250 per year to an IRA.

Employer pension programs provide several kinds of benefits: early and normal retirement, survivors, disability and other ancillary benefits. In addition, many plans coordinate their benefit or contribution structure with Social Security. These plans are said to be integrated with Social Security.1/

Retirement income programs were initially provided as a gratuity to reward long service employees. The first private program was established by the American Express Company in 1875. By 1929, 397 private plans had been established covering approximately 10 percent of the nonagricultural labor force.

The creation of plans accelerated during the 1940s as a result of restrictions on employee cash wage increases during the war. Pensions provided a way to increase total compensation expenditures without violation of wage guidelines. Plan growth accelerated further in 1948 when the National Labor Relations Board defined bargaining over pension plan terms to be a legal obligation for employers.

By 1950, pension participation had spread to 25 percent of private nonagricultural workers and by 1959 to 40 percent. By 1979, participation had grown to approximately 48 percent of all private nonagricultural workers and over 68 percent of full time workers between 25 and 64 years of age.

The establishment of employer plans, as noted, has been steady since statistical series began in 1939 (Table 1). By September 30, 1983 there were nearly 804,000 employer plans in effect.

The greatest number of participants are in defined benefit plans, with defined contribution plans frequently being provided as supplemental arrangements. Since 1975, however, defined contribution plans have been the fastest growing component of the pension universe.

Pension Plan Growth by Type of Plan a/

Years	Percent Defined Benefit	Percent Defined Contribution
1956-1966	54.4	45.6
1967-1974	55.3	44.7
1975-1982	24.2	75.8
1983	33.9	66.1

Source: EBRI tabulations from Table 4.

a/ 1983 is for 9/30/83.

The Institute has extrapolated these numbers back to 1956 from 1975 data collected by the government. Table 2 shows the relative absolute growth by year and the varying annual percentage growth rate of the entire plan universe. Table 3 provides growth rates since 1956 for each major type of plan while Table 4 shows the relative percentage split of plan growth by year 1956 to 1983. Table 5 is a summary table based upon EBRI extrapolations from 1956 to 1983.

Only very recently have any major employers begun terminating defined benefit plans in order to shift entirely to defined contribution plans. A number of major corporations, however, have always relied entirely on defined contribution profit sharing arrangements.

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Plan Design

Many, and perhaps most, employers now feel that the primary objective in maintaining or adopting a retirement plan is to provide future retirement income to employees. In addition, they have an interest in using such programs to help maintain the organization's efficiency and vitality. Such goals require that plans be available for long periods of benefit accumulation. For career employees who do not change jobs frequently, the defined benefit plan provides a known result with minimum employee risk.

Plan Type

The adoption of a pension plan does not guarantee that benefits will be sufficient to support an individual fully during retirement. The defined benefit approach does, however, allow the employer the ability to design a plan which attempts to meet stated retirement income objectives.

Defined contribution plans base contributions on predetermined fixed formulas. There are several types of defined contribution plans. A common type is profit sharing. In these plans, annual contributions are based on the sponsor's profitability. Generally, the size of the employer's payment to the plan is derived from a predetermined formula, although it may be decided at the employer's discretion. Allocation of the employer's total contribution is based upon a formula that is usually related to the employee's compensation.

A second major type of defined contribution plan is the money purchase pension plan. Annual contributions to money purchase pension plans are usually based on annual compensation. For example, sponsors may contribute 10 percent of total annual compensation to the plan. A lump sum distribution may be given of the final account balance. If an annuity is purchased, the monthly benefit will vary depending on factors such as age, sex and retirement date.

A third major type of defined contribution plan is the thrift or savings plan. These plans typically permit employees to contribute from 2 to 6 percent of their pay voluntarily. Employer contributions are usually a fixed percentage of employee contributions--most commonly 50 percent, but sometimes higher. Thrift and savings plans are frequently offered as supplemental protection when employers also offer other defined benefit or defined contribution plans.

The Revenue Act of 1978 added provisions to section 401(k) of the Internal Revenue Code to allow so-called "salary reduction" plans to be established. These plans are administered by the employer, but are principally funded by the employee through a reduction in pay. Like thrift plans, the employer may provide a matching contribution. These plans are currently the "hottest" growth area for capital accumulation with a retirement income purpose. 1982 and 1983 saw installation of 401(k) plans by a very large number of employers.

Stock bonus plans are another form of a defined contribution plan. Stock bonus plans permit employers to contribute shares of company stock to a plan. The shares are then allocated to individual participant accounts, usually based on a percentage of annual compensation. Employee Stock Ownership Plans (ESOPs), Tax Reduction Act Stock Ownership Plans (TRASOPs), and Payroll-Based Employee Stock Ownership Plans (PAYSOPs) are the most common stock bonus plans.

Under most defined contribution plans, there is no way of knowing in advance how much will be in the employee's account at retirement. The size of the account can be affected by the amounts contributed, the impact of investment gains or losses, or the value of distributed plan forfeitures.

Employers adopt defined contribution plans for a number of reasons:

- o The employer may use the plan to supplement an existing defined benefit plan;
- o The employer may view it as a first step toward retirement income security for his employees;
- o The employer wishes to avoid long-term funding and liability commitments and requirements;
- o The employer needs a program that provides for short-term workers.

Plan Characteristics

Because the Federal government is a major employer, comparisons can most appropriately be made to large private corporations in assessing plan design. I have drawn information from a survey of 659 major U.S. employers conducted by Hewitt Associates in 1982. More than 75 percent of the *Fortune* 100 and 50 percent of the *Fortune* 500 are included in this sample. You will receive reports that include data from this survey, and others, from your consultant.

Defined benefit plans are most common. Characteristics include:

- o 96 percent of employers had a defined benefit pension plan.
- o 89 percent based benefits on final average pay--5 years or less.
- o 93 percent were explicitly integrated with Social Security.
- o 6 percent provided unreduced benefits at age 55 with 30 years service; 16 percent at age 60; 35 percent at age 62; and 39 percent at age 65.

- o 81 percent use 10 year cliff vesting.
- o 9 percent require employee contributions.

Capital accumulation or defined contribution plans are also sponsored by the majority of employers.

- o 64 percent sponsor savings plans and 20 percent sponsor profit sharing plans--both of which could be sponsored by a government unit.
- o 100 percent provide employer contributions.
- o 84 percent provide more than one investment option.

These numbers indicate that many employers sponsor more than one plan for their employees. The most recent data available is from 1979. In that year 59 percent of active participants were in more than one plan provided by their employer.

Reports that will be made to this Committee by Hay/Huggins and the Congressional Research Service will report on this survey and several others. At that time you will see that variations are not significant.

Defined benefit plans calculate the ultimate benefit based upon formulas. Examples of such formulas are:

- o Flat Benefit Pension: $12 a month per year of service (used by 2 percent to 6 percent of plans).
- o Career Pay Pension: For an integrated plan the formula might be one percent of the employee's earnings up to the Social Security wage base plus 2 percent of such earnings in excess of the Social Security base for each year of plan participation. For a non-integrated plan 1.5 percent per year (used by 2 percent to 22 percent of plans).

- Final Pay Pension: For an integrated plan the formula might be 1.5 percent of the employee's final five-year average earnings times his years of service (or plan participation) minus one-half of his primary Social Security benefit. For a nonintegrated plan the percentage might simply be 1.25 percent (used by 74 percent to 98 percent of plans).

The flat benefit formula is most frequently found in union-negotiated plans. The career pay and final pay formulas are more often found in plans for salaried employees. The latter is most common today.

Although plans are intended first and foremost to provide retirement income, they must, by law, make some provision for the payment of benefits in the event of death or preretirement termination. Most plans provide for the payment of early retirement and disability benefits as well. To receive ancillary benefits, employees usually must meet eligibility requirements, limits for which are prescribed by law. Most plans require that employees work a specified length of time before they qualify for benefits.

Defined benefit programs normally require longer waiting periods for employees before they are entitled to benefits, or vested, than defined contribution plans. Defined contribution plans usually pay the vested employee's individual account balance in full upon death, termination, retirement or disability. Defined benefit plans generally distribute the vested benefit as a stream of level monthly payments, deferred until the employee reaches normal retirement age.

The more liberal eligibility and vesting requirements under defined contribution plans serve to make these plans more generous providers of ancillary benefits than defined benefit plans. Many employees whose age and service would not qualify them for early retirement, death, termination, or disability benefits under a defined benefit plan do qualify for such benefits under a defined contribution plan. Many employees prefer full and immediate payment under the defined contribution plan to the continuing income provided by the defined benefit plan.

Comparing Defined Benefit and Defined Contribution Plans 2/

Both defined contribution and defined benefit plans are organized retirement plans. Without inferring who actually bears the incidence of program costs, most of these programs are largely supported by employer contributions. From the employee's perspective either type of plan helps provide income security in retirement. From the employer's perspective, either helps in the orderly recruiting, maintenance and retirement of the necessary workforce.

The defined benefit plan provides a clearly stated retirement income level generally related to years of service and a measure of salary toward the end of employment tenure. The defined contribution plan, on the other hand, provides for specified contributions to an individually allocated investment account. Without comparing the actual level of benefits provided to specific individuals under one plan or the other, the two types of plans can be compared from an equity perspective. In this regard Trowbridge argues:

> That the employer contributes the same percentage of pay for every covered employee is a philosophical strength of the defined contribution arrangement. The underlying principle of equity is that individual workers enjoy benefits of equal value.

2/ This section draws from a paper prepared by EBRI staff in 1982 titled Defined Benefit or Defined Contribution: Which is Better for the Civil Servant?

In defined benefit pension plans, as in most group insurance arrangements, the principal is one of equal benefits. Equal benefits are rarely the same as benefits of equal value, because employees vary as to age, sex, and other risk characteristics.

In summary, defined contribution plans define individual equity in terms of equal employer contributions and accept the necessarily unequal benefits that equal contributions provide. Defined benefit plans define equity in terms of equal benefits and accept the necessarily unequal employer contributions. 3/

In addition to these equity differences that apply under the ceteris paribus conditions, there are other differences in the two approaches to pension provision that arise because other things are not always equal. These arise partly because of the inherent differences in the two types of plans, but also because of tradition and the differential treatment of the plan types under the tax and regulatory code.

The relative desirability of a defined benefit versus a defined contribution plan depends a great deal on the goals the plan is supposed to meet. If everyone's goals coincided, then an ultimate plan design could be arrived at easily. There are several players concerned about the design of a new federal retirement plan who do not have coincidental goals. Therefore, they need to evaluate the relative merits of the two major approaches to see if a consensus can be attained on a general approach. In order to reach such a consensus, some of the differences in the two retirement plan approaches should be considered.

Defined benefit (DB) plan are often preferred because they can provide retrospective credits whereas defined contribution (DC) plans are prospective. This is especially the case at the time the plan is established

3/ "Defined Benefit and Defined Contribution Plans: An Overview," in Economic Survival in Retirement: Which Pension Is for You? (Washington, DC: Employee Benefit Research Institute, 1982), pp. 3-34.

if there are workers with several years of tenure who will be covered by the new plan. This ability to grant past service credits is particularly attractive where an employer is offering a pension for the first time. This is not the case with the federal government but may be important if current workers are given the option and encouraged to transfer to the new program. It is also important in the case of benefit enhancements. Under DB plans such enhancement can be granted on the basis of prior service. With a DC plan this is far more complicated, if not practically impossible.

An important reason that it is difficult to provide such retroactive protection under a DC plan is that employers do not typically keep lifetime historical earnings records on which such a benefit increase would be based. The most important reason, however, is because of the different funding procedures used in the two approaches. The DC plan by nature is always fully funded, although a federally sponsored plan might be somewhat unique in this regard. To grant retroactive credits under such a plan could require a crushing contribution to fund such benefits. The DB plan, on the other hand, would allow the creation of an unfunded liability that could be amortized over several years. While it is impossible to project the likelihood of future benefit enhancements in a new federal retirement program, the CSRS has a long history of gradual benefit improvements that have been granted retroactively.

A second difference between DB and DC plans is that they are structurally different. This is important because it affects the participants' understanding and attitudes toward the plan. In the DB plan the participants can be educated to understand that their benefits will replace a closely estimated percentage of their final earnings and that the pension in combination with Social Security will maintain an estimable portion of the preretirement standard of living. The DC plan provides a clearly perceptible growing account balance. A problem that many workers have is in comparing the relative values of the two types of plans. The defined benefit is stated in flow terms while the defined contribution is a stock.

The stock and flow differentials in the two plan types can be easily reconciled by actuaries and economists. For the individual worker the stock concept may be more easily understood during the period of accumulation, but it is the flow of income that is important in retirement. A person's standard of living is largely determined by the flow of goods and services they can consume over time. While the defined contribution accumulation can be converted to an annuity at retirement most workers cannot readily estimate the extent to which their preretirement earnings will be replaced until the end of their career. In part, this is the result of the arithmetic involved in converting stocks to flows. It is also the result of uncertain projections of the stock values which themselves are subject to inflationary and market forces that are not always understood.

The latter point relates to a third difference between DB and DC plans. In the defined contribution plan, investment performance directly affects the level of benefits. Because contributions and interest accruals relate to specific persons, the risk of adverse market performance is borne by the individual worker. Under the defined benefit plan, on the other hand, the individual is promised a level of benefits related to final salary. Adverse market performance can reduce the value of the pension portfolio as in the case of the DC plan. However, the employer has guaranteed the benefit and has to adjust contributions to make up for bad investment performance.

There are also traditional differences between DB and DC plans that have evolved because they are perceived differently by workers. The perceived accrual of a capital stock in the defined contribution plan raises the employee's consciousness of the value of accumulating assets. The accumulated value of the asset is also much more portable than a vested defined benefit promise. The individually assigned assets can be liquidated and reinvested in an individual retirement account, making them highly portable. This combined perception of a definable asset, along with relative portability may combine to account for typically shorter vesting in DC plans. For the highly mobile worker, the defined contribution plan may be preferred because of its portability characteristics. For the long-term stable employee, on the other hand, the primary concern is likely to be an adequate level of benefits to maintain preretirement earnings standards. This will more likely be assured through a defined benefit plan. Most defined contribution plans do not have automatic provisons to convert the accumulated assets to an annuity at retirement. The more typical cash-out provisions in these plans are often criticized because it is feared the accumulated funds are often not used for retirement income security purposes. It is the conflicting goals of different workers, employee groups, employer and public policy goals that makes selecting one type of plan over the other difficult.

Multiple Plan Sponsorship

An increasing number of employers believe that the most effective retirement program is one that provides both defined benefit and defined contribution plans, making maximum use of the particular cost or benefit advantages of each.

An employer could, for example, adopt a defined benefit plan providing a very modest level of benefits and supplement such benefits under a defined contribution plan. In this manner, the cost risk under the defined benefit plan would be minimized and the combined retirement benefits could meet the necessary standards of adequacy. And, there would be a greater ability for the retiree to accommodate unanticipated inflation.

Alternatively, an employer with a defined contribution profit sharing plan could adopt a defined benefit plan solely to guarantee a certain minimum level of retirement benefits--e.g., 40 percent of final pay--from both plans combined. In this case, the defined benefit plan is called a "floor plan." Its purpose is to make up any retirement benefit deficiencies in the primary defined contribution plan. Minimum benefit objectives can be met with certainty under this particular combined plan approach, but cost control is lacking. Even slight deficiencies in expected benefit levels under the profit sharing plan can result in sharp cost increases under the defined benefit make-up plan.

Conclusion

The Congress should consider how it wishes the private sector to provide retirement income in reaching conclusions on plan design. During this period in which (a) Federal worker benefits are under fire from groups like the Grace Commission and (b) private worker benefits are being carefully scrutinized against criteria of tax efficiency and benefit equity--it seems especially important.

While distinctions between public and private sector employment can legitimately be made--such distinctions are frequently not recognizable by voters.

ELIGIBILITY AND INFLATION PROTECTION

Over the past few years, inflation has brought the financial plight of the pensioner into sharp focus. Retired employees living on fixed pensions, or on incomes derived from the investment of a lump sum distribution at retirement, have been hurt by the declining value of the dollar. The automatic increases in Social Security benefits provided for by law have helped, but often not enough for above-average earners.

Most employers are both aware of and concerned about the financial problems of their pensioners. Few, however, are able to provide automatic cost-of-living adjustments under their plans because of the prohibitive cost that would be involved. Surveys indicate that no more than 9 percent of plans do so. If they are provided, the initial benefit is generally reduced to balance costs. What many are willing to do, on a voluntary basis, is grant periodic benefit increases after retirement that take inflation into account. Surveys indicate that over two-thirds of sponsors have done this since 1973. Due to the monthly benefit payment approach of defined benefit plans, adjustments can be made easily, if resources are available.

The employer with a defined contribution plan is likely to have provided lump sum settlements to retired employees. The employee may purchase a partially indexed annuity which would require a reduction of the amount of the initial benefit.

Assessing the true cost of a Federal retirement program that is fully indexed for comparison to the private sector demands a comparison based upon common funding assumptions. The contribution flows required by a pay as you go funding approach will be very different than for funding of normal cost plus amortization of unfunded liabilities.

The Congress must decide how certain it wishes to be about the annual cost of the retirement program. As we learned during the 1970s, unanticipated inflation can play havoc with costs.

FINANCING

The normal concept of advance funding a pension program is difficult to apply to Federal programs if funds appropriated are invested in government securities. Within the context of the unified budget, we would only escape the uncertainty of the willingness of future taxpayers fully by investing Federal retirement program assets in the private sector.

In other words, even a "fully funded" defined contribution program invested in government securities would be dependent on the willingness of future Congresses to appropriate funds to honor securities or to raise the debt ceiling.

For this reason, the Congress could theoretically fully fund the defined benefit program as well, without actually affecting government cash flow.

Yet, funding does serve a purpose: it makes all parties focus on the real cost of a retirement program and provides a basis for comparisons. Such comparisons would be enhanced if Federal retirement programs were required to meet ERISA funding standards. Since the program for new hires will be a start up program, this should be easy to accomplish.

Protecting retirees against inflation is viewed as a desirable social objective--that may or may not be achievable. If the Federal government continues to provide full indexation, it should be explicitly costed in the program. This can only be assured if a uniform funding standard like ERISA's is being used.

Some have proposed that a defined contribution program be established and that the government guarantee a fixed rate of interest. Some have suggested that a return above inflation be guaranteed. It must be noted that this would no longer be a fixed percentage of payroll program and from a "funding uncertainty" standpoint would take on characteristics of a defined benefit program.

There is a precedent regarding the question of whether or not a new system should use the same trust as the old. In the early 1970s, the United Mine Workers split their plans and established a new and different plan for active workers. The plans have separate trusts and separate funding. The Committee might wish to explore why the UMW followed this course and why the government encouraged it.

COVERAGE

The first priority must be on establishing a retirement program for new hires which takes Social Security coverage into consideration.

This design process should not be allowed to be made difficult by considerations regarding the current CSRS: either proposals to expand or cut back the CSRS.

For the longer term, the Federal government should seek to provide all employees with the most soundly designed and funded retirement program. That may or may not mean changes in the CSRS for current workers. Since there are such strong feelings on both sides of that question, it might best be left for another day.

Private retirement income programs began to develop in the last century. The government provided explicit legal recognition in 1921. Since that time the number of plans in operation has grown to over 800,000.

The most prominent type of plan in terms of the number of covered and participating workers are of the defined benefit type. Most major employers also sponsor defined contribution plans for workers. Only recently have there been signs of a movement to total provision through defined contribution plans following termination of a defined benefit plan.

Design of retirement plans has revolved around a number of common issues for many years.

Employer Role--Traditionally employers have designed programs and have directly made most contributions to plans.

Individual Roles--Direct employee contributions have generally been restricted to savings plans and are now expanding to 401(k) salary reduction arrangements.

Flexibility--Employee choice regarding whether or not to participate in defined benefit plans or primary defined contribution plans (profit sharing or money purchase) has not been common. Choice has been restricted to decisions regarding how heavily to participate financially in savings or salary reduction plans.

Vesting--For defined benefit plans, ten year vesting has been common since passage of ERISA. For defined contribution programs, some vesting is generally provided after 2 or 3 years and full vesting between 6 and 10 years.

Portability--Employees have generally had the ability to carry benefit credits with them when they remain with the same employer if in a single employer plan or within the same industry if in a multi-employer plan.

Retirement Ages--The normal retirement age has generally been maintained at 65 years. Provision for retirement at earlier ages has been subject to employer and industry variations tied to particular worker or industry economic circumstances.

Disability--There is generally provision for payment from the plan in the event of disability in coordination with separate disability income insurance and Social Security.

Survivor Benefits--All defined benefit plans must offer a survivor benefit option with payment provided for in the event of death after age 55 or earlier if the worker has retired and has begun drawing a pension. Defined contribution plans provide for vested account balances to go to a named beneficiary in the event of death.

Indexation--Private defined benefit plans have generally not provided for automatic benefit adjustments in recognition of inflation due to the problem of unanticipated cost. Most employers have provided for ad hoc adjustments in recognition of a portion of inflation increases.

These design decisions have been made and agreed to for specific reasons. They have been explicitly and implicitly supported by Federal law.

Comparability Analysis. General Design. Eligibility and Inflation Protection. Financing. Coverage.

EBRI is prepared to help in any way that we can.

I thank you for the opportunity to work with you today.

TABLE 1

SUMMARY OF QUALIFICATIONS AND TERMINATIONS
1939-1983

Period Ending	Number of Qualification Rulings to Date	Number of Terminations to Date	Net Number of Plans in Effect	Increase in Net Number of Plans Over Previous Period	% Annual Growth
Sept. 30, 1983a/	958,551	154,608	803,943	38,130	5.0
Dec. 30, 1982	906,071	140,258	765,813	70,200	10.1
Dec. 31, 1981	820,720	125,107	695,613	68,095	10.9
Dec. 31, 1980	739,183	111,665	627,518	56,063	9.8
Dec. 31, 1979	669,841	98,386	571,455	46,036	8.8
Dec. 31, 1978	612,964	87,545	525,419	50,398	10.6
Dec. 31, 1977	547,280	72,259	475,021	19,601	4.3
Dec. 31, 1976	511,864	56,444	455,420	10,007	2.2
Dec. 31, 1975	485,944	40,531	445,413	21,931	5.2
Dec. 31, 1974	455,905	32,423	423,482	54,601	14.8
Dec. 31, 1973	396,520	27,639	368,881	55,475	17.7
Dec. 31, 1972	336,915	23,509	313,406	45,815	17.1
Dec. 31, 1971	287,580	19,989	267,591	37,329	16.2
Dec. 31, 1970	246,916	16,654	230,262	30,268	15.1
Dec. 31, 1969	214,342	14,348	199,994	26,346	15.1
Dec. 31, 1968	186,267	12,619	173,648	22,339	14.8
Dec. 31, 1967	162,485	11,176	151,309	19,214	14.5
Dec. 31, 1966	141,964	9,869	132,095	16,973	14.7
Dec. 31, 1965	123,781	8,659	115,122	12,496	12.2
Dec. 31, 1964	110,249	7,623	102,626	10,667	11.6
Dec. 31, 1963	98,541	6,582	91,959	10,250	12.5
Dec. 31, 1962	87,397	5,688	81,709	9,359	12.9
Dec. 31, 1961	77,179	4,829	72,350	8,652	13.6
Dec. 31, 1960	67,792	4,094	63,698	9,399	17.3
Dec. 31, 1959	57,835	3,536	54,299	6,792	14.2
Dec. 31, 1958	50,569	3,062	47,507	6,551	16.0
Dec. 31, 1957	43,615	2,659	40,956	6,074	17.4
Dec. 31, 1956	37,190	2,308	34,882	4,944	16.5
Dec. 31, 1955	31,943	2,005	29,938	1,769b/	6.3
June 30, 1955	30,046	1,877	28,169	3,290	13.2
June 30, 1954	26,464	1,585	24,879	4,204	20.3
June 30, 1953	22,069	1,394	20,675	3,657	21.5
June 30, 1952	18,289	1,271	17,018	2,347	16.0
June 30, 1951	15,899	1,125	14,671	2,517c/	20.7
June 30, 1950	13,899	--	--	--	--
June 30, 1949	12,865	711	12,154	896	8.0
June 30, 1948	11,742	484	11,258d/	1,888	20.1
Aug. 31, 1946	9,370	--	9,370d/	1,584	20.3
Dec. 31, 1944	7,786	--	7,786d/	5,839	300.0
Sept. 1, 1942	1,947	--	1,947d/	1,288	195.0
Dec. 31, 1939	659	--	659d/	549	--

SOURCE: Charles D. Spencer Associates for 1939 to 1975, EBRI tabulations of IRS data for 1976 to 1983.

a/ 9 month period, January 1, 1983 to September 30, 1983
b/ Six month total
c/ Increase from June 30, 1949
d/ 28 month period based on an average of 2,507 plans per year

TABLE 2

PENSION PLAN GROWTH

Year	Net Total Plans Created	Defined Benefit	Defined Contribution	Total Plans	Total Plans % Growth
1956	4,944	2,983	1,961	34,882	16.5
1957	6,074	3,347	2,727	40,956	17.4
1958	6,551	3,659	2,892	47,507	16.0
1959	6,792	3,554	3,238	54,299	14.2
1960	9,399	4,711	4,688	63,698	17.3
1961	8,652	4,545	4,107	72,350	13.6
1962	9,359	4,712	4,647	81,709	12.9
1963	10,250	5,399	4,851	91.959	12.5
1964	10,667	6,072	4,595	102,626	11.6
1965	12,496	6,983	5,513	115,122	12.2
1966	16,973	9,521	7,452	132,095	14.7
1967	19,214	10,690	8,524	151,309	14.5
1968	22,339	12,224	10,115	173,648	14.8
1969	26,346	13,824	12,522	199,994	15.1
1970	30,268	15,370	14,898	230,262	15.1
1971	37,329	20,888	16,441	267,591	16.2
1972	45,815	26,520	19,295	313,406	17.1
1973	55,475	31,608	23,867	368,881	17.7
1974	54,601	30,002	24,599	423,482	14.8
1975	21,931	10,769	11,162	445,413	5.2
1976	10,007	-4,180	14,187	455,420	2.2
1977	19,601	1,616	17,985	475,021	4.3
1978	50,398	5,103	45,295	525,419	10.6
1979	46,036	12,488	33,548	571,455	8.8
1980	56,063	14,552	41,511	627,518	9.8
1981	68,095	19,253	48,842	695,613	10.9
1982	70,200	23,146	47,054	765,813	10.1
1983 a/	38,130	12,912	25,218	803,943	5.0

SOURCE: IRS Disclosure Data; EBRI tabulations.

NOTE: Total plan figure includes the number of pension plans dating before December 31, 1939. Yearly record keeping for the number of defined benefit and defined contribution plans began in 1956.

a/ 9-month period, January 1, 1983 to September 30, 1983.

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TABLE 3

PENSION PLAN CREATION AND GROWTH BY TYPE OF PLAN FOR YEARS 1955 to 1983

	Defined Benefit Plans			Defined Contribution Plans			Total Pension Plans		
	Yearly Number Created	Cumulative Number Created	% Growth	Yearly Number Created	Cumulative Number Created	% Growth	Yearly Number Created	Cumulative Number Created	% Growth
1955 a/		16,226			13,712			29,938	
1956	2,983	19,209	18.4%	1,961	15,673	14.3%	4,944	34,882	16.5%
1957	3,347	22,556	17.4	2,727	18,400	17.4	6,074	40,956	17.4
1958	3,659	26,215	16.2	2,892	21,292	15.7	6,551	47,507	16.0
1959	3,554	29,769	13.6	3,238	24,530	15.2	6,792	54,299	14.3
1960	4,711	34,480	15.8	4,688	29,218	19.1	9,399	63,698	17.3
1961	4,545	39,025	13.2	4,107	33,325	14.1	8,652	72,350	13.6
1962	4,712	43,737	12.1	4,647	37,972	13.9	9,359	81,709	12.9
1963	5,399	49,136	12.3	4,851	42,823	12.8	10,250	91,959	12.5
1964	6,072	55,208	12.4	4,595	47,418	10.7	10,667	102,626	11.6
1965	6,983	62,191	12.6	5,513	52,931	11.6	12,496	115,122	12.2
1966	9,521	71,712	15.3	7,452	60,383	14.1	16,973	132,095	14.7
1967	10,690	82,402	14.9	8,524	68,907	14.1	19,214	151,309	14.5
1968	12,224	94,626	18.8	10,115	79,022	14.7	22,339	173,648	14.8
1969	13,824	108,450	14.6	12,522	91,544	15.8	26,346	199,994	15.2
1970	15,370	123,820	14.2	14,898	106,442	16.3	30,268	230,262	15.1
1971	20,888	144,708	16.9	16,441	122,883	15.4	37,329	267,591	16.2
1972	26,520	171,228	18.3	19,295	142,178	15.7	45,815	313,406	17.1
1973	31,608	202,836	18.5	23,867	166,045	16.8	55,475	368,881	17.7
1974	30,002	232,838	14.8	24,599	190,644	14.8	54,601	423,482	14.8
1975	10,769	243,607	4.6	11,162	201,806	5.9	21,931	445,413	5.2
1976	-4,180	239,427	1.7b/	14,187	215,993	7.0	10,007	455,420	2.2
1977	1,616	241,043	.7	17,985	233,978	8.3	19,601	475,021	4.3
1978	5,103	246,146	2.1	45,295	279,273	19.4	50,398	525,419	10.6
1979	12,488	258,634	5.1	33,548	312,821	12.0	46.036	571,455	8.8
1980	14,552	273,186	5.6	41.511	354,332	13.3	56,063	627,518	9.8
1981	19,253	292,439	7.0	48,842	403,174	13.8	68,095	695,613	10.9
1982	23,146	315,585	7.9	47,054	450,228	11.7	70,200	765,813	10.1
1983c/	12,912	328,497	4.1	25,218	475,446	5.6	38,130	803,943	5.0

SOURCE: IRS Letters of Determination and EBRI tabulations.

a/ Data for the year 1955 are cumulative. Prior to 1956, record keeping for defined benefits and defined contribution plans was not established. Data for the year 1955 reflect pension plan growth beginning in 1935. The number of defined benefit and defined contribution plans for those years is an estimate based on the average of the percentage of pension plans that were either defined benefit or defined contribution for the ten year period between 1956 and 1965.
b/ Represents a percentage decrease in defined benefit plan growth.
c/ Represents a 9-month period, January 1, 1983 to September 30, 1983.

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TABLE 4

PENSION PLAN GROWTH
BY TYPE OF PLAN
1956-1983

Year	Defined Benefit %	Defined Contribution %
1956	60.3	39.7
1957	55.1	44.9
1958	55.9	44.1
1959	52.3	47.7
1960	50.1	49.9
1961	52.5	47.5
1962	50.3	49.7
1963	52.7	47.4
1964	56.9	43.1
1965	55.9	44.1
1966	56.1	43.9
1967	55.6	44.4
1968	54.7	45.3
1969	52.5	47.5
1970	50.8	49.2
1971	56.0	44.0
1972	57.9	42.1
1973	56.9	43.1
1974	54.9	45.1
1975	49.1	50.9
1976	0	100
1977	8.2	91.8
1978	10.1	89.9
1979	27.1	72.9
1980	26.0	74.0
1981	28.3	71.7
1982	33.0	67.0
1983 a/	33.9	66.1

SOURCE: IRS Disclosure Data; EBRI tabulations.

a/ 9-month period, January 1, 1983 to September 30, 1983.

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TABLE 5

CORPORATE AND SELF-EMPLOYED PENSION PLAN QUALIFICATIONS
TERMINATIONS AND NET PLANS CREATED
1956-1983

	Defined Benefit Plans			Defined Contribution Plans			
Year	Plans Qualified	Plans Terminated	Net Plans Created	Plans Qualified	Plans Terminated	Net Plans Created	Total Net Plans Created
1956	3,175	192	2,983	2,072	111	1,961	4,944
1957	3,527	180	3,347	2,898	171	2,727	6,074
1958	3,883	224	3,659	3,071	179	2,892	6,551
1959	3,824	270	3,554	3,442	204	3,238	6,792
1960	5,011	300	4,711	4,946	258	4,688	9,399
1961	4,919	374	4,545	4,468	361	4,107	8,652
1962	5,188	476	4,712	5,030	383	4,647	9,359
1963	5,840	441	5,399	5,304	453	4,851	10,250
1964	6,581	509	6,072	5,127	532	4,595	10,667
1965	7,495	512	6,983	6,037	524	5,513	12,496
1966	10,124	603	9,521	8,059	607	7,452	16,973
1967	11,292	602	10,690	9,229	705	8,524	19,214
1968	12,896	672	12,224	10,886	771	10,115	22,339
1969	14,692	868	13,824	13,383	861	12,522	26,346
1970	16,512	1,142	15,370	16,062	1,164	14,898	30,268
1971	22,493	1,605	20,888	18,171	1,730	16,441	37,329
1972	28,265	1,745	26,520	21,070	1,775	19,295	45,815
1973	33,830	2,222	31,608	25,775	1,908	23,867	55,475
1974	32,579	2,577	30,002	26,806	2,207	24,599	54,601
1975	15,319	4,550	10,769	14,720	3,558	11,162	21,931
1976	4,790	8,970	-4,180	21,130	6,943	14,187	10,007
1977	6,953	5,337	1,616	28,463	10,478	17,985	19,601
1978	9,728	4,625	5,103	55,956	10,661	45,295	50,398
1979	15,755	3,267	12,488	41,122	7,574	33,548	46,036
1980	18,849	4,297	14,552	50,493	8,982	41,511	56,063
1981	23,789	4,536	19,253	57,748	8,906	48,842	68,095
1982	28,189	5,043	23,146	57,162	10,108	47,054	70,200
1983 a/	18,393	5,481	12,912	34,087	8,869	25,218	38,130

SOURCE: IRA Disclosure Data; EBRI tabulations.

a/ 9-month period, January 1, 1983 to September 30, 1983.

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