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1st of Series of House Hearings -

28 February 1984

MEMORANDUM FOR THE RECORD

SUBJECT: House Hearing on Supplemental Retirement Program
23 February 1984

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1. On 23 February 1984, [redacted] (OLL) and the undersigned attended a hearing on "Supplemental Retirement System" sponsored by the House Committee on Post Office and Civil Service chaired by Congressman William D. Ford. This was the first in a series of scheduled hearings by this committee on the supplemental retirement issue. The stated purpose of these initial hearings is to focus on five general areas.

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

In actuality, this meeting served to highlight the basic differences in philosophy between the House Committee and the Administration on key retirement issues such as benefit levels, funding, and appropriate retirement age. The House clearly comes down on the side of maintaining existing benefit levels while the Administration in the person of Donald Devine (D/OPM) states categorically that reductions will be necessary. (Parts of the verbal exchange between Devine and Ford are summarized in paragraph six (6) below.) The meeting also served to get the Administration on record for the first time regarding their thinking on supplemental retirement. This will be helpful as we develop internal Agency strategy.

2. Hay Associates Respresentatives, which included Edwin Hustead, and Devine made formal presentations at this hearing. Their prepared statements are attached and essentially represent the formal testimony presented to the committee. (Committee representatives included Congressman Ford, Gene Taylor, William Dannemeyer, Frank Wolfe, Connie Mack, William Clay, Donald Albosta, and Mary Rose Oakar.)

3. In his opening comments, Chairman Ford said he expected that the hearings will continue into 1985. He emphasized his view that the "plan must be designed in a manner which will not threaten in any way the integrity of the existing Federal Retirement Systems". He stated that these were in essence, a contract,

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and that there was a moral obligation to ensure continued adherance to the provisions. He further stated that the new supplemental plan must be compatible with existing systems to preclude a situation where employees working side by side would preceive themselves as being treated differently.

4. Hay Associates representatives provided a general overview of the many items that must be considered in developing a supplemental retirement program. Their report which paralled the one provided to the Agency by Ed Hustead in January, dealt basically with the following issues:

- The types of plans available, i.e., defined benefit versus defined contribution and the pros and cons of each.
- Social Security Integration - The various formulas (add-on, offset, step rate, etc.) and methods that could be used to integrate the benefits were described. It was pointed out that one of the first decisions on developing a plan would have to be how much of Social Security "tilt" should be preserved in this integration process.
- Retirement age without reduced benefits.
- Disability and survivors benefits.
- Vesting provisions.
- Indexing.

Hay representatives went on to outline their approach to the design of a new retirement plan and discussed the basic differences between the current CSRS system and plans in the private sector. They then elaborated on the uniqueness of the Federal Government situation, citing Social Security integration requirements, budget considerations and funding of the existing systems as examples.

5. Mr. Devine's testimony was basically on oral presentation of his prepared statement (attached--this statement is slightly different than the one provided to the Agency for review. It does acknowledge special interest of CIA on page 10). In that statement he touched on the following issues, some of which became very controversial:

- Comparability analysis and his belief that a "Total Compensation Comparability" approach would lead to serve cutbacks in Federal employees pay and benefits. He thus recommended only focusing on the retirement issued at this time.
- General Design - He appeared to favor a defined contribution approach because they are fully funded. He cited OPM's survey of Federal employees and a conclusion that Federal employees do not have a uniform opinion on how a retirement system should be structured.

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- Eligibility and Inflation Protection - He acknowledged these very likely will be the most controversial and difficult issues. He is convinced that reforms to the current system will have to be made and cited the President's 1984 and 1985 budget proposals as the correct approach to changes. (COLA reductions, increased employee contributions, raising of retirement age, etc.) Although not stated orally he did have included in his prepared statement that special arrangements may be needed for special groups of employees. He included CIARDS and the Foreign Service retirement system in that category.

- Funding - He highlighted what he thought were significant deficiencies in the current systems resulting in a $515 billion unfunded liability. He felt the new retirement plan should be funded on a current basis. He discussed amoritazation of the current system as necessary to meet future obligations.

6. A great deal of controversy between Chairman Ford and Devine developed over the data and statistics used by Devine and the unfunded liability issue. In answer to a question posed to Hay representatives as to why the unfunded liability was a problem they essentially stated that it was not a problem for the government. It is an important aspect in private industry where companies can easily go out of business, but that was not the case for the Federal government. Devine contended just the opposite, stating his belief that the $515 billion unfunded liability was an extreme burden to the taxpayers and an unfunded obligation was inconsistant with practice in the private sector. Chairman Ford stated that he thought it was counter productive to include this as part of the issue on the development of a supplemental retirement program and further chastized Devine for his scare tactics using the unfunded liability arguement. Ford stated he disagreed with Devine's statements on benefit comparability and saw obvious problems with Devine's information and data. He thought that Devine's presentation did a disservice to the prupose of the committee and that facts were needed, not a compilation of special interests. He stated that not withstanding his Administration representation, D/OPM has a responsibility to provide a work force that meets the needs of the government and that Devine cannot keep up an adversarial role with the committee. He considered Devine's efforts as unsound personnel practice. Ford continued that no conclusions should be drawn from any statistics until Hay Associates finished their study which incrementally would be in August with final reports in the November/December time frame.

7. Ford also stated for the record that the House study would be coordinated with the Senate to avoid duplication of effort, i.e., the studies should complement each other. He also acknowledged the total complexity of the retirement issue. In addition to the formal testimony the question and answer sessions touched on the following:

- Advantages of Social Security to lower-paid short-term employees.

- The increase in capital accumulative plans in the private sector.

- The types of firms used in the Hay Associates survey - 60% industrial; 40% in finance and investment; 1/3 less than 1,000 employees, representation

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of Fortune 500 companies; broad representation similar to types of employment intended for the survey.

- Changes in fringe benefits in the private sector - Increased dental insurance; capital accumulation plan; decrease in medical insurance coverage to more co-insurance. No major changes in retirement area except for additional COLA's in the pensions.

In conjunction with discussions on whether the entire supplemental issue could be studied and resolved by the end of 1985, Hay felt from their standpoint, that was sufficient time. However, Congressman Wolfe suggested that a year's extension should perhaps be considered given the fact that there very likely would be new members of Congress involved after the fall election. There was no further discussion on this suggestion but it could become an issue as the review progresses.

7. It is clear that Ford does not plan to push for any type of legislation until early 1985. This appears to be supported by the timing on the availability of the final Hay report. In any event, it undoubtedly will be several months before any initial conclusions or decision are made by the committee on the parameters and the types of plans to be considered.

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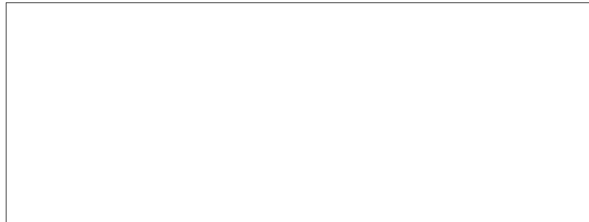

Attachments: a/s

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24 FEB 1984

MEMORANDUM FOR: Director of Personnel

STAT FROM: [redacted]
Liaison Division
Office of Legislative Liaison

SUBJECT: First House Post Office and Civil Service Committee Hearing on Supplemental Retirement (23 February 1984)

SUMMARY: Yesterday the Administration and the Congress, in the person of the House of Representatives, officially joined in battle over the subject of supplemental retirement for new federal employees subject to social security. The lines of disagreement between the two were clearly drawn and both parties, while agreeing that they need to come to some agreement, are not about to do so over the near term. The major issues are how unattractive the new system will be, compared to the existing systems, and what, if anything, will be done to reduce benefits to participants of the existing systems (in our case, the Civil Service Retirement System and CIARDS). The House appears willing to support the existing level of federal employee retirement benefits, or something very nearly the same, while the Administration clearly is driven by a desire to reduce federal retirement costs

1. Attached for your information and use is a complete set of documentation resulting from the subject hearing yesterday. It includes the witness list and prepared statements of all participants. Also included is a summary of the questions and answers, albiet not a complete one I am afraid, that were exchanged between members of the Committee and the people testifying.

2. It is interesting to note that the testimony of Mr. Devine, Director of the Office of Personnel Management (OPM) did not get through the legislative clearance process within the Office of Management and Budget (OMB) in a timely fashion. In speaking with a House Post Office and Civil Service Committee staffer on Wednesday afternoon, the day before this hearing, he stated that the Committee had not received Mr. Devine's testimony and that the Committee was being told by OPM that it (the testimony) was being held up by OMB. In fact, Mr. Devine apologized to the Committee at the begining of his testimony for not delivering his testimony on a timely basis (48 hours prior to the hearing) and acknowledged that he had had some problems with OMB.

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3. As a result of this exchange, I have compared the draft testimony that we received from OMB with the testimony actually given by Mr. Devine yesterday. While the bulk of the changes are editorial in nature, a few substantive changes do seem to have been made. You will note at the top of page 5 of the final statement actually given by Mr. Devine that the first six lines have been added. They amplify on the point that the unfunded liability of current federal retirement systems is inconsistent with the law (ERISA) that requires private sector companies to fully fund their retirement plans on a current basis, and that if the government were held to the same private sector retirement law, that the current retirement costs for the federal government would be over 55% of payroll costs for a full 40 years, as opposed to something on the order of 14% in the private sector. At the top of page 10 of the final testimony, OMB added the phrase "...as well as the persons covered by the foreign service and CIA retirement systems,...". Further down on page 10, in the forth line of the FUNDING paragraph, OMB has added the phrase "..on a dynamic basis.." after the number $515 billion. While this may appear insignificant, it has great meaning to a budgeteer.

4. The principal value of the hearing, it seems to me, was twofold. First, it was knowing formally for the first time where the Administration was coming from on the issue of supplemental retirement. Secondly, it was the exchanges that took place between Chairman Ford (D,MI) and Mr. Devine and Congressman Frank Wolf (R,VA) and Mr. Devine. Both Members of the Committee were strongly pro-federal employee in their statements and questions, while Mr. Devine was strongly pro-"we need to reduce the cost of federal retirement programs because they are too great a burden on the taxpayers compared to retirement costs in the private sector". In his opening remarks, the Chairman stated that he viewed existing federal retirement benefits for current (pre 1 January 1984) employees as a part of a binding contract that existed between the federal government and its employees that could not be breeched because there has been performance on the part of the exployees, and that unless his recollection of his "Contracts 101" course in college was faulty, a contract in fact existed. The attached question and answer summary will give you an additional flavor of their exchanges.

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5. I am also attaching a copy of Mike Causey's column in this morning's Washington Post because it is, in my judgement, a fairly accurate summary of some of what transpired yesterday.

6. The next scheduled hearing on this subject by this committee is 01 March 1984. At least three more are planned during March. I will attend and report on them as appropriate

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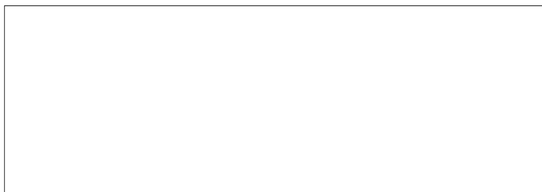

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The following summarizes the questions asked and answers provided during the course of the House Committee on Post Office and Civil Service hearing on supplemental retirement on 23 February 1984. It is not a complete summary, but rather is intended only to provide a flavor of the exchanges that took place.

Chmn Ford (D,MI): Is the unfunded liability problem that OPM talks about really a problem?

Hay/Huggins (a House Post Office/Civil Service Committee paid Consultant): It is not a real problem. Rather, it is a theoretical problem that would exist only if the federal government were a corporation in the private sector and subject to the ERISA law that governs the the funding and administration of private sector retirement and pension plans. In the public sector, it would only be a problem if one anticipated terminating the federal retirement programs that have accummulated this "unfunded liability", and no one is seriously considering doing that. Rather, it is merely a scare tactic that has no technical merit unless one plans to terminate one or more of the existing plans. My gosh, the Social Security system has an "unfunded liability" of some $6 trillion, but you don't hear the Administration crying wolf about this one.

Chmn Ford: I understand that capital accumulation plans are becoming very popular in the private sector. Would you tell us something about them?

Hay/Huggins: Thrift/savings plans are the most popular type of capital accumulation plans in the private sector. The witness went on to describe a thrift plan in more detail.

Chmn Ford: Is a low paid or is a high paid employee better off with Social Security?

Hay/HUggins: A low paid employee is much better off, in retirement, with Social Security because of the built-in tilt that Congress intentionally incorporated into the system. Also, a short term employee is better off in Social Security than is a long term employee. The same is true of a married person as opposed to a single person, all because of the policy decisions the Congress made when they designed the Social Security system.

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Chmn Ford: How does the private sector typically integrate its retirement/pension plans with Social Security?

Hay/Huggins: A company typically decides whether or not it wants to change the built-in tilts in Social Security or not. If it does, there are various ways of doing so, and of doing so to varying degrees. With respect to disability, typically social security picks up disability payments if the disability occurs before an employee retires or reaches retirement age, whereas the company retirement plan will typically cover the disability if it occurs at retirement age.

Chmn Ford: In the annual Hay survey of private sector retirement plans, what is the average size of the firms surveyed?

Hay/Huggins: Approximately one-third have less than 1,000 employees, some 60% are in the industrial sector, with the remaining 40% or so in the financial/ services sector.

Chmn Ford: Is W.R. Grace Co. included in your survey?

Hay/Huggins: No, it is not, but to the extent that the company makes its retirement information public, we will be glad to collect it for you and compare it with any other system you may want.

Chmn Ford: Good. Please do so. We will be hearing from Mr. Grace at a later point during these hearings.

Cong. Wolf (R,VA): Do you really think that the Congress can get a new retirement plan enacted in 1985?

Hay/Huggins: I think so. You will have a lot of data available from which to design and debate the ultimate system, but I think there is time.

Cong. Wolf: Do you talk to federal employee groups formally in the conduct of your work for this Committee?

Hay/Huggins: Not normally, but we can do so if the Committee desires that we do so.

Chmn Ford: I do not think that this would be appropriate because the federal employee groups can and do express their wants and complaints directly to the Committee, and should continue to do so, rather than to our consultant.

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Cong. Wolf: How do you do job comparisons and comparability studies between the private and public sector?

Hay/Huggins: We do it at the macro rather than the micro level. We do not compare individual jobs so much as we do large occupational series and types of industries.

Cong Wolf: What are you doing in your work for this Committee to protect current employees from losing any of their current retirement benefits?

Hay/Huggins: You are the people who will do that, but we will propose policy alternatives to you. There are at least two ways to do this, both having to do with funding. You can choose to amortize increased costs over a 20 or 30 or 40 year period, or you can choose to comingle contributions from the new system with funds from the old (Civil Service) system so that there is no disruption of the cash flow.

Cong. Wolf: Is the latter the best way to give present employees a warm feeling that their current benefits are safe?

Hay/Huggins: Probably, but that is a political question that requires a political action.

Chmn Ford: Have there been any fringe benefit improvements in the private sector in the last three years or so?

Hay/Huggins: Not much. There have been some gains (dental and orthodentia coverages are better, more capital accumulation plans are available, and COLA protection is generally better), but there have also been some losses (mainly a greater sharing by the employee of continually escalating hospitalization and medical costs). The net effect has been about break-even.

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Cong. Wolf: Will the eventual supplemental retirement system be better or worse than the existing system?

Hay/Huggins: That is an open ended question and I will give you an open ended answer. We will recommend to you a baseline system that will cost just what the current system costs, although the component pieces may differ. We will then provide you with a whole range of additive and deductive features from which you can choose as you go about making the policy/design decisions, together with the costs associated with each. In the final analysis, you will answer your own question.

Cong. Wolf: Do you see problems with side by side employees receiving different retirement benefits?

Hay/Huggins: Probably, but this dilema exists all over the place. We will describe some of the problems that occur in this type situation and will tell you some of the things you might do to mitigate the situation.

Chmn Ford: Are you suggesting in your testimony that current federal employees will not get benefits.....?

Mr. Devine (Director, Office of Personnel Management): We need to structure a financing plan to amortize the unfunded liability over a 30 year or 40 year period to ensure that we can pay all the benefits of our current (pre-1/1/84 hirees). The unfunded liability of some $515 billion is not an insignificant one, although I understand one of your earlier witnesses may the point that this was not really a problem.....

Chmn Ford: Are you suggesting by your testimony that some $7 trillion of Social Security undunded liability is also a very real concern and that we should amortize that debt in the same fashion, scaring all of the people in this country in the process? And don't tell me that comparing the federal government situation with companies in the private sector subject to ERISA is a relvant comparison.

Mr. Devine: ".......". His answer was a long, rambling, generally unintelligible one. In sum, the Chairman and Mr. Devine agreed to disagree on whether or not the unfunded liability of federal retirement systems was a real problem or whether it was a theoretical one.

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Chmnn Ford: I take you at your word when you tell me that the Administration wants to work with the Congress, but I would be remiss if I did not take you to task for the case you are trying to make to this Committee. You have blatently misused statistics throughout your presentation (Chmn Ford proceeded to cite several examples). We need good data and facts in designing this new retirement system, not a lot of extraneous data intentionally pulled together out of context, or otherwise, to make a point. I urge you not to become a budget advocate for the Administration at the expense of sound personnel management practices and theories.

Mr. Devine: Our intent is to be practical and to constructively work towards the design of a new system. We too are worried about a brain drain from the Executive Branch, but in our case it is because we see qualified, experienced employees at the height of their productive careers leaving the government because of a retirement system that allows them to do so, to the detriment of all of us, as opposed to retirement practices in the private sector that require such employees to remain until age 60, or 62, or 65.

Chmn Ford: Will the Administration consider qualifying the federal government so that the benefits of a 401k plan can be offerred to federal employees?

Mr. Devine: We are interested in all such ideas and are willing to work with the Congress in developing approaches to a new supplemental retirement system.

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THE FEDERAL DIARY

Hill Panel Works on New Retirement System

Negotiations that could lead to a revamped retirement system for the government's 2.8 million workers opened yesterday in the House Post Office-Civil Service Committee.

The immediate issue is creation of a retirement program for federal workers hired since January. But in the background is the question of what, if anything, will be done with the present system, which covers 340,000 workers in this area.

New federal hires pay into Social Security as well as the Civil Service retirement system. Congress has until the end of next year to come up with a private sector-style pension program that takes into account dual payments to and benefits from the systems.

Federal workers hired before this year remain under the regular Civil Service retirement system, and have a vested interest in any changes that might be made in it. The Reagan administration feels the program is too costly, is more generous than plans available to most other American workers and needs to be revised.

The present Civil Service program—which costs employes 7 percent of gross salary—provides defined benefits. Federal workers now can retire at age 55 with 30 years of service and be guaranteed an annuity equal to about 56 percent of salary. Employes who put in 41 years get 80 percent of salary as an annuity. Most employes pay only the Medicare portion of Social Security (1.3 percent of salary) but not the rest of the Social Security tax.

Workers who are under the new system pay the full Social Security tax of 6.7 percent of salary. But the government, for the time being, is paying the employe share of the Civil Service retirement program.

Reagan administration officials hope that in devising a new retirement program for new federal workers—one that combines Social Security and Civil Service payments and benefits—Congress will also make changes in the regular Civil Service system. Those changes include raising the retirement age to 65, and requiring employes to put up to 9 percent of salary into the retirement fund.

At yesterday's session, committee Chairman **Rep. William Ford** (D-Mich.) made it clear that he thinks present Civil Service retirement benefits should be protected. Ford believes the administration is using scare tactics when it talks about the multibillion-dollar "unfunded liability" of the Civil Service retirement program. That is the amount needed, but not yet collected, to finance the system years down the road.

Ford said the liability might be a problem for a corporation that could someday go out of business. But he said that isn't expected to become a problem for the U.S. government. "It [the unfunded liability] would only be important if there was a threat that Cuba would take over and send us into bankruptcy," Ford said.

Office of Personnel Management Director **Donald Devine** said that while the immediate issue is a supplemental plan for new workers, attention must be paid to the regular Civil Service program. Devine said the program is solvent, but has built up an unfunded liability of $515 billion, "essentially obligating tomorrow's citizens to pay a major portion of the costs for the services we are receiving from federal employes today."

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21 FEB 1984

MEMORANDUM FOR: Deputy Director of Personnel for Special Programs

Deputy Director or Personnel for Policy, Analysis, and Evaluations

STAT

FROM: Liaison Division
Office of Legislative Liaison

SUBJECT: Director Office of Personnel Mangagement Testimony to House Post Office and Civil Service Committee on 23 Februray 1984

1. Attached for your information and use is a copy of the letter sent from the House Post Office and Civil Service Committee, over Chairman Ford's (D,MI) signature, to the Director of the Office of Personnel Management (OPM) requesting his testimony at an upcoming hear on supplemental retirement. It is this letter request that prompted the draft OPM testimony that you reviewed last Friday.

2. The only reason that this letter is useful is that it completes the loop between the House Committee and the OPM and ensures that we have complete privity into at least the public record on the subject of supplemental retirement, at least for now.

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House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

TELEPHONE (202) 225-4054

January 25, 1984

Honorable Donald J. Devine
Director
Office of Personnel Management
1900 E Street, N.W.
Washington, D. C. 20415

Dear Mr. Devine:

On February 23, 1984, the Committee on Post Office and Civil Service will commence a series of hearings related to the development of a new retirement system for Federal employees who are subject to Social Security. The purpose of the hearings is to elicit the views of interested parties on the key issues involved in the design and objectives of the new retirement system. We would appreciate your appearance before the Committee on February 23 to discuss these important issues.

While the Committee intends to consider all of the many complex issues relevant to the development of a new retirement system, we are particularly interested at this time in having your views on the following matters:

Comparability Analysis

In designing the new Federal retirement system, the Committee will, of course, refer to the practice in other sectors of the economy. The Committee would particularly be interested in your view on the range of compensation elements to be considered in such analysis as well as the survey base. Should consideration be limited strictly to retirement systems or expanded to include other fringe benefits and cash compensation so that retirement can be placed within the perspective of total compensation?

General Design

In developing a new retirement system the overall design of the retirement system is important. The two major types of retirement systems are the defined contribution and the defined

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benefit systems. Many employers in the private sector today use a combination of these systems to develop their total retirement programs. Within each major type there are designs that ignore the effect of Social Security, thus accepting the full Social Security income distribution, and plans which offset the effect of Social Security through various mechanisms, thus reducing the Social Security tilt. Which type of plan should the Federal Government use and within each type how far should the Government go in offsetting the Social Security benefits either explicitly or implicitly?

Eligibility and Inflation Protection

In addition to the question of overall design there is the question of the adequacy and equity of individual benefits. Prior studies show that the current Federal retirement system replaces about the same level of income as the retirement systems of large employers after a full career at age 62 or 65. The Federal retirement system costs more than the typical private sector system because it permits retirement at earlier ages; benefits are fully indexed after retirement; and the rate of disability among Federal employees is greater than in the private sector. Studies also show, however, that these costs are more than offset by shortfalls in other benefits such as health and life insurance. In developing a new retirement system, should the inflation protection provisions of that system be structured to reduce costs in order to offer new or improved benefits under that system? For example, could indexing of benefits be capped or otherwise limited in exchange for an employer-sponsored thrift plan?

Financing

The current funding is less stringent than the funding imposed on the retirement systems in private sector by Federal law and regulation. However, the funding is more advanced than the Social Security system because the Government does build up reserves for employees while they are working. In the area of funding, do you believe that the current funding level is appropriate or should it be strengthened or reduced? Should the retirement system for new employees be financed through the same fund, and same financing provisions, as the current system? Should the new plan be non-contributory? If the current and new systems are separated what steps, if any, should be taken to strengthen the current system financing to avoid depletion of the fund in the future?

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Coverage

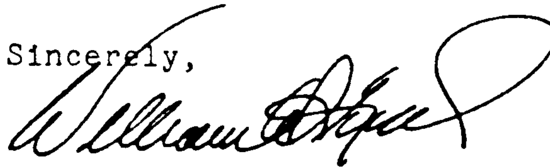
Should participation in the new Federal retirement system be limited to those employees who are subject to Social Security or should provisions be included to encourage pre-1984 appointees to opt into the new system? What kinds of incentives could be provided as encouragement?

The hearing will begin at 10:00 a.m. in room 311 of the Cannon House Office Building. In accordance with Committee rules, we would appreciate your providing 100 copies of your written testimony at least 48 hours in advance of the hearing.

We look forward to your appearance.

With kind regards,

Sincerely,



WILLIAM D. FORD
Chairman

WDF:rlp

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OPENING STATEMENT OF CHAIRMAN WILLIAM D. FORD (D-MI)

February 23, 1984

Today we begin hearings into the development of a supplemental retirement plan for those Federal officers and employees who, effective January 1, 1984, are covered by social security. I expect these hearings will continue at least into next year.

The Committee faces a difficult task. As a result of the the Social Security Amendments of 1983, there are now two distinct groups of Federal employees for retirement purposes--those covered by social security and those who are not. For those not covered, existing Federal retirement systems remain an appropriate and essential part of the compensation package. But for those who are covered by social security, existing systems are inappropriate. Accordingly, we must develop a supplemental retirement plan to coordinate with social security.

In my view there are two paramount principles which should guide us as we proceed to develop a supplemental plan. First, this plan must be designed in a manner which will not threaten in any way the integrity of existing Federal retirement systems. Benefits earned must be protected. Second, the supplemental plan, as coordinated with social security, must be

Personally thinks a contract has been made. Moral obligation on the part of contracting parties vested benefits

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compatible with existing systems to preclude a situation where employees working side by side would perceive themselves as being treated differently.

In this first series of hearings we hope to focus on five general areas: (1) comparability analysis; (2) general design; (3) eligibility and inflation protection; (4) financing; and (5) coverage. Our witnesses will include representatives of the Administration and the Postal Service, employee organizations, and experts from the private sector. During today's hearing we will hear from representatives of Hay/Huggins Incorporated, the private sector benefits consulting firm the Committee has engaged to assist in this project, and the Director of the Office of Personnel Management.

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Statement of
Hay/Huggins, Incorporated
a member of
The Hay Group
by Kenneth Shapiro, F.S.A., MAAA

Before the
Committee on Post Office and Civil Service
of the
United States House of Representatives

February 23, 1984

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February 23, 1984

TESTIMONY FOR THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

Mr. Chairman, and members of the Committee, my name is Kenneth Shapiro, President of Hay/Huggins consulting actuarial firm. I have with me Mr. Edwin Hustead, Vice President of Hay/ Huggins, and Mr. Gregori Lebedev, Director of Governmental Consulting Services of Hay Associates. We are honored to appear before the Committee on Post Office and Civil Service to lead off the public hearings on the development of a new retirement system for Federal employees who are also covered by Social Security. As you are aware, Hay/Huggins is involved in an extensive analysis of this issue for the Committee and we look forward to working with you in designing the new retirement system. This new retirement system should not only well serve the retirement needs of Federal employees, but also could become a model for employers outside the Federal Government.

Background

First some background. Public Law 98-21, enacted in April of 1983, lead to the need for the establishment of a new Federal retirement system for certain employees. That law provided that all new employees hired after January 1, 1984 would be covered by Social Security. The legislation also requires the coverage of a few specific people, such as the President and Members of Congress--even if they were covered by the Civil Service Retirement System before 1984. The law itself did not require a new system, but because of it a new system clearly is needed.

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As with most new retirement systems, the employer, in this case the Federal Government, has a transition period to consider and implement the best possible plan. Although there will not be a large number of retirements under the new system for several decades, continuation of the current situation would have required double contributions from new Federal employees--one to Social Security and one to an undefined new Federal retirement system. Also, both systems would affect those relatively few new employees who might die or become disabled in the next year.

To avoid these near term problems, the Congress passed Public Law 98-168. This law solves the problem of double contributions or double benefits pending development of a new system. But PL98-168 expires at the end of the calendar year 1985--leaving us ample, but not excessive time to create a new system.

The design of the new Federal retirement system will be a landmark effort. In recognition of both the critical importance to those who will be covered, as well as the possible extension of the concept outside of the Government, the Committee has decided to take a considered and detailed approach to its design. Hay/Huggins is pleased to assist the Committee along with the Congressional support agencies--in particular, the Congressional Research Service.

Basic Concepts

Our purpose this morning is to describe some basic concepts about the coordination of Civil Service Retirement with Social Security benefits and suggest the proper approach in designing a new system. Let me first summarize the various studies that now are underway.

Hay/Huggins now is conducting two studies that define the prevalence and type of fringe benefit and total compensation systems in the public and private sectors. Our study will

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summarize and evaluate each of the important provisions of the compensation systems with a particular focus on retirement.

The Congressional Research Service has two studies underway for the Committee. The first will compare cost and other provisions of the CSRS with typical pension arrangements in the private sector and by State governments. The second CRS report will analyze program design features, cost, and replacement rates for several options for the new pension system. We have been privileged to join with CRS in five briefings to the staff of the Committee on the concepts and issues involved and anticipate quite a few more briefings as the work proceeds.

In addition to the studies being done for your Committee, the Congressional support agencies have been asked by the Senate Committee on Governmental Affairs to undertake a coordinated study of the issues in designing a new pension system. The General Accounting Office is doing an indepth analysis of retirement practices both in the private sector and by State and local governments. To determine exactly how retirement systems have been set in place, the General Accounting Office is also interviewing large private sector employers. The Congressional Budget Office is estimating the budgetary and economic impacts of proposed changes against the current system's structure, financial condition, and investment policy.

In addition to the efforts directed by Congress, there are a number of studies that are taking place both in and outside of Government. For instance, the Office of Personnel Management has contracted for an analysis of retirement systems in the private sector, hoping to apply these findings to development of retirement options for all employees covered by CSRS. Congress already has in hand the analysis by the President's Private Sector Commission on Cost Control and we understand that other business groups are studying the issue.

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House Coordinating Reports with Senate. Intent not to be duplicative but complementary

As a result of all these and other studies there will certainly be enough data and analysis on which to base your decisions. However, analysis is only helpful if it is brought to bear on the issue. After the studies are completed, the role of Hay/Huggins will be to help focus the effort of the Committee. Our aim is to help sort out all the options, allowing the Committee to create the most viable system.

In the remainder of today's testimony, we will present basic information on the issues and discuss the methods that the Committee might use to develop and implement a fair and equitable retirement system for new Federal employees.

Social Security and CSRS

One of the major objectives of a new system will be to combine the benefit design of the current Civil Service Retirement System with the Social Security system. As the Committee is well aware, these two systems are both necessarily very complex. Integrating them will be difficult.

Our first chart displays the key differences between the Civil Service Retirement System and Social Security. Here we will find areas that will be the most difficult to integrate.

Benefit as Percent of Pay

First, the Social Security system is intended to provide a floor of retirement income to employees. Consequently, although the Social Security benefit increases as length of employment increases, it does so at a progressively slower rate. In the Civil Service Retirement System, on the other hand, the benefit increases proportionately to salary and more than proportionately to service.

The results can be illustrated by looking at short and long service employees. Long service employees under CSRS receive a

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KEY DIFFERENCES BETWEEN THE CIVIL SERVICE RETIREMENT SYSTEM AND SOCIAL SECURITY

	CSRS	Social Security
Benefit as Percent of Final Pay		
— 35 Years' Service	60% to 63%	40% to 19%
— 10 Years' Service	5% to 15%	20% to 10%
Earliest Unreduced Retirement Age and Service	55 and 30 / 60 and 20 / 62 and 5	65 to 67 and 10
Earliest Reduced Retirement	Only for Involuntary Retirement	80% or Less at Age 62
Disability Requirement	Comparable Job	Any Job
Portability	Conditional Vesting	Full Portability
Family Benefits		
Surviving Spouse	Yes	Yes
Divorced Spouse	No	Yes
Living Spouse	No	Yes

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the same 61% of salary at retirement at all salary levels. With the same amount of service under Social Security, the lower-paid employees will receive 40% of pay. But the higher-paid will receive 19% or less of pay as their retirement income. For short service, CSRS only provides around 15% of pay if the service is rendered right before retirement. If the service is rendered in the early part of the career, the benefit looses value over the years, and the final benefit may be worth 5% or less of the final pay. Social Security, on the other hand, provides 20% to 10% of pay for 10 years' service. Not as much as for a full career but still more than the proportionate share of the career.

Retirement Benefit Eligibility

The actual level of benefit provided at retirement under Civil Service Retirement is typically less than the total benefit provided for a full career when you add the benefits of private sector plans with Social Security benefits. However, the CSRS system is more liberal in certain areas. One of the key distinctions of CSRS is its allowance for full retirement benefits at age 55. But we must keep in mind that the employee needs 30 years of service. Few employees work from age 25 to 55 for one employer. The other requirements, which are much easier to meet, are retirement at age 60 with 20 years of service or age 62 with 5 years of service. Social Security now requires an employee to wait until 65 for full benefits. Under the 1983 legislation, the retirement age will move gradually up to age 67. Employees will still be able to retire at 62, but the 20% reduction that applies now will gradually increase in subsequent years.

Disability

A third area of difference is in the definition of disability. As with many private sector systems, at least in the short run, a Federal employee is considered disabled if he or she is unable to perform a job comparable to the current job. Social Security will

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only pay benefits after six months and then only to people who are considered totally and permanently disabled to perform any job.

Portability

Now that Social Security coverage is practically universal in the United States, benefits are fully portable from employer to employer. This contrasts sharply with the CSRS requirement that the employee must serve five years to vest and then that the benefit will lose value before retirement because there is no adjustment for inflation. That benefit can even be forfeited if the employee elects a refund of contributions.

Dependent Definition

A final important difference is in the way each system defines a dependent eligible for a benefit. Both will pay a benefit to a surviving spouse or child but, in the case of CSRS the benefit must be partially paid for by the employee. Social Security also provides benefits to a divorced spouse who meets certain conditions. It also pays benefits to living spouses and other dependents. Neither of these benefits is provided by Civil Service Retirement.

Categories of Plans

There are three important sources of income. The first source is Social Security that is required of all private sector employees and now will be required for all new Federal employees. The second source is the retirement plan offered by the employer. The third is the contribution from the savings of the employees. The general categories of employer retirement systems are summarized in the following table.

There are two major categories of employer retirement plans in common use in the United States. Defined benefit plans

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TYPES OF RETIREMENT SYSTEMS AVAILABLE

- **Defined Benefit Plan**

  Add-On

  Offset

  Step Rate

- **Defined Contribution Plan**

  Add-On

  Step Rate

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provide a promised level of benefit at the point of retirement. For instance, an employer might promise to provide 1.5% of the average of the final five years' salary for each year of service with the employer. Thus, a twenty year employee with a final five year average of $30,000 would receive 30% of this average or $9,000 per year. The other approach is to provide a defined contribution to an investment fund. For instance, an employer might provide 10% of each year's pay to an employee. This is placed in a fund, with the fund and its investment income used to provide a retirement income.

In a defined benefit program, the employer is at risk; he or she must pay a prescribed benefit--even if the pension fund has not performed as expected. In a defined contribution plan, the employee is at risk. He or she gets less than expected if fund performance is low. In both cases, of course, the converse is true if the fund performs better than expected.

Currently, of the 854 participants in the 1983 Hay/Huggins Benefits Comparison, 86% use a defined benefit plan. Most of these companies are supplementing this plan with an additional defined contribution program.

The current Civil Service Retirement System operates strictly as a defined benefit plan. For instance, the current Civil Service Retirement benefit formula provides 56 1/4% of high-three average pay to employees who have served 30 years. Through the use of the increasing pay base, the benefits are indexed to inflation before retirement, and, through a guarantee of cost-of-living protection, the benefits are indexed after retirement. Among our survey participants, 84% base the retirement benefits on a percentage of final average pay so the indexing before retirement is also covered. But of the 57% of our survey participants that provided any indexing after retirement, 84% provide it on an ad hoc basis and, in virtually all cases, at levels below the full rate of inflation.

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Advantages and Disadvantages of Defined Benefit vs. Defined Contribution Plans

Certain apparent advantages of the defined contribution type of plan have led to proposals to change CSRS to that type of system. First, the defined contribution plan moves the burden of inflation from the employer to the employee. For instance, in the other alternative--defined benefit plan--an employer might be faced with a period of inflation that pushes salaries beyond initial expectations. The contribution of earlier years then provides inadequate funding for the pension payout that is based on inflated salaries. In the defined contribution plan, employers know their cost--a flat percentage of salary--with no penalty if inflation goes higher than expected.

Another advantage of the defined contribution plan is its simplicity. The benefit is merely the percentage of pay that is contributed. Thus the benefit that the employee receives depends on the fund balance, not on some future calculation. Further, because the plan is based simply on a contribution rate, many of the complex provisions of the Employee Retirement Income Security Act and Internal Revenue Service Code are not applicable. This administrative convenience is thus attractive, especially to the small employer.

However, the simplicity of the defined contribution approach imposes a certain rigidity. In a defined contribution plan it is difficult, but not impossible, to fund reasonable benefits for people who do not participate for a full career because they die, become disabled, or otherwise leave employment. In a defined benefit plan any of these contingencies can be met with a specifically defined formula.

The choice between the two systems comes from the confluence of economic, social and administrative considerations. In the past, larger employers have chosen the defined benefit approach

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to provide the security that the employee perceives from its guarantee of a certain benefits level. The defined benefit plan also allows the employer more flexibility in design and funding.

Our 1983 Hay/Huggins survey shows that 86% of employers provide defined benefit plans. In our 1979 survey, a comparable number was 91%. This suggests a trend away from defined benefit plans.

Integration with Social Security

Once the general type of plan is selected, the next question is: To what degree do you integrate it with Social Security benefits? As the first line of retirement protection, Social Security is designed not only to provide retirement income based on salaries earned while working, but also to provide a minimum level of retirement income for all employees. As we have seen, the Social Security benefit provides a much higher percent of pay for low-paid employees than for those who are high-paid. As mentioned above, most Federal employees will retire in the $15,000 to $45,000 final pay range. At the lower end of the range, Social Security will provide 40% of pre-retirement income but at the higher end only 19% of pre-retirement income.

The employer must consider the extent to which the tilt of the Social Security benefit should be offset by the employer's pension plan formula. A straightforward approach would be simply to state that a certain percentage of salary will be provided to the employee with the benefit fully offset if and when Social Security benefits become payable. For instance, the new retirement system for new employees could be constructed to provide the same 56 1/4% income to employees at age 55 with 30 years of service as under CSRS. When Social Security benefits begin at age 62 these Civil Service benefits would be reduced dollar for dollar by Social Security benefits. Thus, the new employees would be covered by a system that was largely identical to the system for current Federal employees.

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The private sector employer who wants to use such a full offset is, however, prevented from doing so by Federal regulations. An underlying philosophy, reflected in rules imposed by the IRS on the private sector, in return for the privilege of insulating pension funds from taxes, is that benefits should not be proportionately greater for higher-paid employees than for lower-paid employees. An exception is allowed to offset some, but not all, of the Social Security offset tilt. The law and regulations in this area are very complex, but the practical limit, used by three-quarters of the employers who have such a system, is to offset half of the Social Security benefit.

The next chart shows the various methods of integrating a pension plan with Social Security. The first line differentiation is the benefit from Social Security of 21% of pay across the range of most Federal salaries. The Committee could simply accept this differentiation and provide an add-on plan with employer benefits that are the same percentage for all employees, thus, preserving the full tilt of Social Security benefits. At the other extreme, the Committee could offset all of the Social Security benefit but this would violate Congress' own rules for the private sector. By using the typical factors in the private sector, as required by IRS regulations, the Government could use an offset or step-rate approach to remove half of the tilt, thus, leaving a 10% difference between the high and low-paid employees.

The analysis done by Hay/Huggins and the Congressional Research Service will fully examine the effect of differentiation. While a full offset may be desirable to be consistent with the current plan, and the Congress could except the plan from IRS rules, Congress may believe that such an exception is not politically or morally desirable and may thus want to focus on the partial offset options.

The choice of the degree of differentiation between the benefit for the high and low-paid employees will center primarily

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ILLUSTRATION OF DOLLAR BENEFITS UNDER AVAILABLE RETIREMENT SYSTEMS

	Final Pay $15,000	Final Pay $45,000
Social Security	$ 6,000	$ 8,750
Add-On Formula	$ 4,800	$14,400
Offset Formula		
— Unreduced Benefit	$ 7,200	$21,600
— Offset	$ 3,000	$ 4,375
— Total	$ 4,200	$17,225
Step-Rate Formula		
— For Pay Under $15,000	$ 4,200	$ 4,200
— For Pay Over $15,000	$ 0	$13,200
— Total	$ 4,200	$17,400

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ILLUSTRATION OF REPLACEMENT INCOME UNDER AVAILABLE RETIREMENT SYSTEMS

	Final Pay $15,000	Final Pay $45,000
Current CSRS Plan	61%	61%
Social Security	40%	19%
Add-On Formula	72%	51%
Offset Formula	68%	58%
Step-Rate Formula	68%	58%

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on two facts. First, the existing Civil Service Retirement System provides all employees with the same age and service with the same percentage of pay from the total retirement system. On the other hand, studies have shown that low-paid employees actually need a much higher proportion of retirement income than high-paid employees to maintain their existing standard of living. For instance, the President's Commission on Pension Policy showed that a 15% differentiation between the high and low-paid employee is needed to continue comparable standard-of-living levels after retirement. This is primarily the result of the favorable tax treatment of income to the elderly--particularly on Social Security income.

Plan Details

Settling the questions of what type of plan to use and how to integrate it with Social Security are the first steps in developing a complete retirement system. Each of the following important plan provisions are also critical. These include:

- Definition of full career retirement
- Definition of early retirement
- Benefit for early retirement
- Eligibility for disability benefits
- Amount of disability benefit
- Eligibility for survivor and family benefits
- Amount of survivor and family benefit
- Eligibility for vested benefits
- Amount of vested benefit
- Inflation protection

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Full Career Retirement

As we have noted, a key provision of the current Civil Service Retirement System is full retirement at age 55 with 30 years of service. This has become the focus not only of concerned Federal employees who at mid-career are anticipating retirement at age 55, but also of critics who point to this as an atypically low retirement age. The Committee needs to carefully consider what a career is in the terms of the Federal Government and when full "retirement" should occur. When reviewing this matter with the Committee, we will look not only at the retirement ages in the private sector but at recent analyses such as that of the Quadrennial Review of Military Compensation (QRMC). This review suggests that different career patterns make sense in different environments.

Early Retirement

Although full private sector retirement benefits often are not payable until age 62 or age 65, age 55 is commonly the earliest age at which reduced benefits are available. But age 55 retirement in the private sector virtually always involves a reduced benefit, commonly between 33% and 50%.

The other benefits areas address the fair and equitable treatment of employees who do not complete a full career. If the absence of a full career is due to an unexpected occurrence beyond the control of the employee, primarily death or disability, there is often a need to alter the usual eligibility requirements and adjust the amount of the benefit. The Civil Service Retirement System currently includes a number of provisions that address this social desirability of providing reasonable benefits upon either death or disability. However, because many of these benefits are provided in the Social Security system, the new system may need to provide less.

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Disability

In the event of disability, it is essential not only to look at the disability benefits of the pension plan, but also at sick leave and other disability programs. The current Civil Service Retirement System does provide benefits to some people who would not meet the Social Security definition of disability. However, employers often achieve the same results by offering a separate long-term disability plan; typically the benefits provided are substantially higher than other Civil Service Retirement. The Committee should look at the full range of benefits--from all disability programs as well as from the sick leave program. To provide a continuous and equitable level of income for people who are truly disabled, it is important that all of these programs dovetail. Options also exist to differentiate the benefits for employees who are unable to perform their current job from those who are so severely disabled that they cannot perform any work.

Death

The second major type of unexpected occurrence is death. If an employee dies before a full career, to what extent should the employee's surviving spouse and children be provided additional benefits? As with disability, much of this type of protection is provided through the Social Security system and through programs such as the Federal Employees Group Life Insurance program.

The new system design also needs to respond to changing family characteristics. Both the CSRS and Social Security, as well as most private sector systems, were originally designed to provide benefits to a male employee with a nuclear family. In recent years this pattern has changed dramatically; often both parents work and many people are married more than once during their working career and/or after retirement. The needs of each of the current and former spouses must be considered.

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Vesting and Portability

While the retirement system should provide reasonable income for every career employee, and those who die or become disabled in service, it should also provide reasonable income for a partial career. When a partial-career benefit is combined with benefits from other employment, the total retirement income should meet expectations and needs. This goal is met through appropriate vesting and portability conditions. In examining various service career patterns, we must look at the effect of a common cause for career interruption: pregnancy and subsequent childrearing responsibilities. It is thus particularly important that the total benefit over a lifetime be adequate for employees with shortened or split careers.

Inflation Protection

The final important need is to develop some degree of protection against inflation after retirement. In theory, a level of income that is considered reasonable at retirement should be indexed to guarantee a consistent standard of living after retirement. Private sector employees receive Social Security, which is fully indexed, and, as mentioned above, most of the employers in our survey provide ad hoc inflation protection. A study of the Congressional Budget Office shows that as a result the average private sector retiree receives benefit increases equal to 70% of inflation.

Approach

Hay/Huggins' effort to assist the Committee is consistent with the approach we would use with a large private sector employer. The next chart summarizes that approach. When an employer is installing or redesigning a retirement system, it is important to look at all of the factors that will affect the employer and the employees.

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APPROACH TO THE DESIGN OF RETIREMENT PLAN FOR FEDERAL EMPLOYEES COVERED BY SOCIAL SECURITY

- Survey Plans Provided by Competitor Organizations
- Survey All Compensation Elements Provided by Competitor Organizations
- Analyze the Effect of Each Plan Design
  - Cost to Employer
  - Benefit to Employee
  - Effect on Workforce
  - Ease of Understanding
- Focus All Data and Analysis to Produce Most Desirable Plan
- Implement Plan

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Competitive Analysis

Our starting point for the Committee, as with a private sector employer, will be to look at prevailing practices among various types of employers. It is important to have a total compensation system, including a retirement system, that allows the employer to attract, retain and motivate the type of employee that will best serve the organization. The retirement system should also allow the employer to move employees through the workforce both to maintain continuity and to provide the best employees with opportunities to move ahead.

To address the question of attracting, retaining and motivating good people, it is essential to look at the compensation practices provided by other employers. To gather this broad perspective we will use data from all of the employers in our data base; 854 in the Hay/Huggins Benefits Comparison (HHBC) and 1,249 in the Cash Compensation Comparison. We will examine the total cash compensation of comparable positions within each organization and then convert all of the benefit packages to cash equivalents to arrive at figures that allow us to compare total compensation practices. This unique overall picture allows the employer to see the total compensation package from the point of view of the people that the employer is seeking to attract and retain.

We will augment the total compensation overview with an analysis of each individual compensation element. In particular, we will focus on the value of the retirement system both in the general context of the plan and for each specific provision--such as benefits provided for full career retirement, disability or death.

Cost

After viewing the options available, the Committee will meet to look at the cost of each option. An employer may well wish to

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have a plan that will attract and retain the best employees and ensure that the employees are paid salary and benefits that are comparable with the competition. But this same employer may be unable to afford the package. It is also important to consider allocation of costs between the parts of the total compensation package. For instance, an employer may well wish to encourage career employees to stay for 30 years or more; therefore, emphasize benefits at the expense of cash compensation. Within the benefits package, the employer may wish to emphasize retirement.

Benefits to Employees

The final step in the background analysis will be to look at the range of benefits provided to different categories of employees. The employer may well set a benefit package that has the desired overall cost and level of competitiveness. But this may result in paying certain employees too much and others too little. It is important to look at employees in different salary levels, examine short and long service careers, and compare disability and death benefits to those offered at retirement. Although there may be justifiable differences in benefits among employee groups, these differences should be fully understood by the employer.

Effect on Workforce

It is important to design a plan that will attract, retain and motivate those employees necessary to perform the tasks of government employment. For example, a different plan would be installed if it was desirable to attract short versus long service employees.

Simplicity of Formula

Finally, it is important to keep the benefit formulae as simple as possible to promote employee understanding and minimize administrative costs.

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Plan Design

After the information is gathered and presented to the Committee by Hay/Huggins and the Congressional Research Service, we will help the Committee use this information to develop a retirement system. A wealth of this data will be gathered both on pension practices in the United States and the application of these practices to the Federal Government. However, this data must be distilled and put in the perspective of the Federal Government. We envision a series of discussions and hearings to develop the most viable system for new Federal employees.

As with a private sector employer, the first question will be the appropriate type and mix of pension plan or plans and Social Security. Any retirement system must build on the base of the Social Security system and integrate with that system to the extent desired by the Government and needed by the employees. The retirement dollars might best be shared between a defined benefit and defined contribution plan. This would result in shifting some of the risk of inflation to the employee, without putting the total risk on him or her. It also would encourage the third leg of retirement income--the employee's own savings.

In designing this new system, Hay/Huggins will help the Committee to bring together three distinct analytic processes. First is the comparison of the program to the programs available among competitors in the private and public sectors. Second is the overall analysis of cost to the Government; and third is a valuation of the replacement income that will be available to various individuals. A less data intense, but vitally important, analysis will subjectively consider the effect of a new system on the attraction and retention of the Federal workforce.

Comparison to Private Sector

The next chart illustrates the result of the decisions made by the 854 firms in our survey. When all sources are considered,

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COMPARISON OF RETIREMENT BENEFITS: CIVIL SERVICE AND PRIVATE SECTOR

	CSRS	Private Sector
35 Year Benefit as Percent of Pay	60% to 63%	80% to 66%
Earliest Unreduced Retirement Age and Service	55 and 30; 60 and 20; 62 and 5	62 or 65 and 10
Earliest Reduced Retirement	Only for Involuntary Retirement	50% to 70% of Full Benefit at Age 55
Disability Benefits	Minimum of 40% of Pay from Pension	60% to 75% of Pay from Pension, Insurance, and Social Security
Cost-of-Living Protection	Full	Full for Social Security; Partial for Half of Pension Plans
Supplementary Capital Accumulation Plans	None	Half have Plans
Contribution	7% to CSRS	7% to Social Security Plan; 3% to Capital Accumulation

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private sector firms typically provide a full career benefit of 66% to 80% of final pay--this by combining the private sector pension and capital accumulation plans with Social Security.

Retirement Age

The private sector plans are split evenly between those that permit the earliest full retirement age at 65 and those that use age 62. However, 89% of the employers allow retirement at age 55 usually with a requirement of 10 years of service. Thus, the general practices are not much different than the Civil Service Retirement System. However, in the private sector the early retirement benefit at age 55 is usually reduced from one-third to fifty percent of the full benefit.

COLA

Cost-of-living increases are granted in full under the Social Security system. In the private sector, over half of the larger employers provide ad hoc cost-of-living increases which typically are 3% per year of retirement. The combination of these increases protect employees against approximately 70% of inflation.

Disability

In the area of disability benefits an employer will typically rely on a range of plans. The employer will use a sick leave or short-term plan to take care of the short-term disabilities and a long-term disability plan and/or the pension plan to provide long-term income. Of course, they all have an underlying Social Security program that provides 40% to 19% of pay for those who are disabled.

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Post-Retirement Survivor Benefits

In the area of survivor benefits, the private sector firms do provide insurance to employees; often this continues into retirement,as it also does in Federal Employees Group Life Insurance. However, private sector employers generally leave the basic survivor and family benefits to the Social Security program. Although annuitants are free to select a survivor benefit in the pension plan, usually they have to pay the full cost of this benefit through reductions in their retirement annuities.

Uniqueness of Federal Government Situation

While the private sector perspective is important, it should not mask the unique aspects of the Federal environment. Primary among these is the fact that the Federal Government is selecting a design to fit around Social Security for the first time. Employers in the private sector have not been faced with the need to design a new system to fit around Social Security for over forty years.

A second unique aspect is the place of the retirement accounts in the Federal budget. In the private sector the employer allocates money each year during the employee's working career to pay for the retirement benefit. This is the bottomline cost of the employer's budget. Within the Unified Budget of the Federal Government, however, money cannot be isolated effectively from the budget before the employee retires and receives the benefit. The effect on the budget in each year is the income received from employees less the retirement income and refunds paid. Thus, the typical private sector approach is important as a relative cost but is not the key budget item.

Finally, the employees hired before January 1, 1984 and annuitants are understandably concerned about the financing of

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the current system. The current CSRS financing was constructed in 1969 to provide enough income on a going concern basis. As long as new employees enter the system, the payments will be sufficient to cover future benefits. However, if the current system is closed, this flow of fresh money will cease and the fund will disappear before all of the promised benefits are paid.

Fortunately, there are solutions to the funding problem that will not have important budgetary consequences. First of all the new law could simply be set up as a separate plan within the current law. The current law already covers five different subsystems and there are annuitants who retired under many different prior subsystems. Therefore, there are already a number of different benefit categories within the CSRS system. Similarly, the new benefits could be covered in the current CSRS financing system through a simple change in the current law.

A second approach to stabilizing the funding that would not have any effect on the budget would be to simply amortize the current unfunded liability in time to avoid depletion of the fund. Because under the Unified Budget payments from general revenues to the trust funds are intragovernmental transactions that do not affect the deficit, this could be done without affecting the deficit or surplus.

I appreciate your attention and look forward to working very closely with the Committee in the future.

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Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

T-27

Statement of

Dallas L. Salisbury*
President
Employee Benefit Research Institute

Before the

United States House of Representatives
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

March 13, 1984

* 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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Contents

RETIREMENT BENEFITS AS A HUMAN RESOURCES TOOL 1

COMPARABILITY ANALYSIS 2

GENERAL DESIGN 3
- Plan Design 7
- Plan Type 7
- Plan Characteristics 9
- Comparing Defined Benefit and Defined Contribution Plans 12
- Multiple Plan Sponsorship 16
- Conclusion 17

ELIGIBILITY AND INFLATION PROTECTION 18

FINANCING 19

COVERAGE 20

TABLES

- Table 1 Summary of Qualifications and Terminations 1939-1983 23
- Table 2 Pension Plan Growth 24
- Table 3 Pension Plan Creation and Growth by Type of Plan for Years 1955 to 1983 25
- Table 4 Pension Plan Growth by Type of Plan 1956-1983 26
- Table 5 Corporate and Self-Employed Pension Plan Qualifications Terminations and Net Plans Created 1956-1983 27

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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

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both employers and employees value them. Employers have found that retirement programs meet moral and social needs as well as corporate business needs.

- 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.
- 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.
- 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.
- 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.

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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.

- o 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:
  - o more than one employer is required to contribute;
  - o is maintained under one or more collective bargaining agreements;

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Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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

- 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.
- 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.

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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.

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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

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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

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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.

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- 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).

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- 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

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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?*

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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.

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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

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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.

03/07/84

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110006-4

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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13 MAR 1984

MEMORANDUM FOR: Director of Personnel

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FROM:

Liaison Division
Office of Legislative Liaison

SUBJECT: Fourth House Committee on Post Office and Civil Service Hearing on Supplemental Retirement; 13 March 1984

SUMMARY: The fourth of five scheduled House Committee on Post Office and Civil Service hearings on supplemental retirement was held today. Five additional federal employee unions and one employee benefits consultant testified. The most noteworthy event was the Chairman taking the unions to task for being too passive and submissive on the entire supplemental retirement issue. He implored them to be creative and imaginative and forceful in leading their federal employees on this issue, rather than just rolling under the Administration and its protestations about the need to cut the deficit, at whatever cost to federal employees.

1. Attached for your information and use is a complete set of documentation freulting from the subject hearing today. The attachments include the witness list and the prepared statements of all participants. Also included is a summary attempt at recreating the questions and answers that were posed and offered at varying times during the hearing.

2. The fourth of five scheduled House Committee on Post Office and Civil Service hearings on supplemental retirement was held today. With Mr. Ford (D,MI) in the chair and Ms. Oakar (D,OH) and Mr. Wolf (R,VA) in attendance, the following union viewpoints were recorded:

National Association of Retired Federal Employees;
Federal Managers' Association;
Senior Executives Association;
Professional Managers Association; and
Federally Employed Women.

In addition, the President, Employee Benefit Research Institute (EBRI), testified. EBRI describes itself as a Washington, D.C.-based, nonprofit, nonpartisan public policy research organization dedicated to increasing knowledge of employee benefits through research and education. As an aside, it presented an equally professional, but more detailed paper during the second Senate Governmental Affairs Committee retirement forum, held on 16 February 1984 and reported to you on 22 February 1984.

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3. The most noteworthy event of the day was the Chairman taking the presidents of the Professional Managers Association and Federally Employed Women unions to task for being too passive in their testimony and in their philosphical approaches to supplemental retirement legislation. He made the point, quite strongly, that the Congress, and therefore all interested parties, had a unique opportunity to recreate federal retirement system law, at least prospectively, and that all involved should look at this as a positive opportunity to start all over and to be as creative as their imaginations would allow them to be. He opined that the only time the Congress ever did anything with federal employee retirement laws was when they were under attack. He further opined that such was not the case now, that everyone now had the opportunity to craft the best federal retirement system imaginable, and that not to do so would be tragic. He stated his view that the current federal retirement systems are not the overly generous creatures that they are made out by the Administration to be, but rather are really rather pedistrian when compared to the systems available in the private sector. He chastised all federal employee unions for being too passive and submissive on this issue and implored them to rise to the opportunity to do something positive rather than just roll over and accept the Administration's rhetoric as trusims. He completed this lengthy statement by describing the process the House Committee on Education and Labor (of which he is an active member) went through in developing and untimately enacting the ERISA statute in 1974. He likened that effort, which took years and millions of dollars in consultant support to research, debate, craft, and pass, to this supplemental retirement situation. Coupled with his second reference to the fact that the interim Stevens bill, that expires 31 December 1984, may well have to be extended, Mr. Ford is perhaps suggesting that the Congress should take as much time as necessary to enact the proper supplemental retirement bill and not worry about how long it takes it to do so. I will follow up on this next week with appropriate Committee staff personnel.

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Attachments:
As stated

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The following summarizes the questions asked and answers provided during the course of the House committee on Post Office and Civil Service hearing on supplemental retirement on 13 March 1984. It is not a complete summary, but rather is intended only to provide a floavor of the exchanges that took place.

Ms. Oakar (D,OH): With respect to the public sector/ private sector pay and benefits comparability issue, if the comparability analysis was done between the federal government and a comparably-sized private sector firm, would the issue go away to everyone's satisfaction?

National Association of Retired Federal Employees (NARFE): There is no comparably sized private sector firm with which to compare pay and benefits of the federal government. It seems to me that so long as you do the comparison of the federal government with an aggregrate of very large private sector firms, that the results will be the best possible.

Mr. Ford (D,MI: Chairman) We need to remenber that large employers have retirement needs for their work forces that are very different from small employers. One of the results of these differences is that the benefit and pay levels are correspondingly different. Just as you cannot equitably compare the benefit levels of large and small firms and expect to get a meaningful result, neither can you compare the federal government retirement needs with small private sector firms and expect to get a meaningful result, because they are just too different.

Mr. Wolf (R,VA): Would you comment further on the need to retain the CSRS Trust Fund for use with both the current CSRS and whatever new supplemental retirement system we enact?

NARFE: It is very important, principally because it ensures a steady inflow of funds, and thus ensures the financial integrity of the existing fund.

Mr. Wolf: Should new federal employees who come back to the government with some prior federal service be allowed to join either the old (CSRS) or the new retirement systems?

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NARFE: We have a thorough study underway on that very issue, but the study is not yet complete and so I am not able to answer you now. We will provide the results of our study when it is completed if you want. (Yes).

Mr. Albosta (D,MI) comment: If the new retirement system is not combined with the old one (CSRS), then there will be two trust fund administrators and invariably a competition will develop between the two, probably to the detrement of both systems. I suspect that the benefits of the CSRS participants may well be jeprodized.

Mr. Ford: The Office of Personnel Management, in a written publication, says that the CSRS Trust Fund in the year 2000 will have an asset balance of some $350 billion. Mr. Devine, on the other hand, goes around saying that the CSRS has an unfunded liability of some $515 billion. This latter statement is, of course, ludicrous. Is your membership concerned by these statements of Mr. Devine's?

NARFE: Mr. Devine has succeeded in convincing a majority of NARFE members that at least some of their retirement benefits are at risk because of this problem.

Mr. Ford comment: The Grace Commission and Mr. Grace are still, at every occassion, saying that federal employees retire at age 55, whereas employees in the private sector don't retire until age 65, and thus if federal employees were forced to work until they were 65, such tremendous savings would be realized and the federal workers wouldn't be the privledged class that they are now. In fact, as I stated during our last hearing, the actual retirement ages for the private and public sectors are nearly identical:

private sector - 61.8 years of age
public sector - 61.3 years of age

As a matter of interest, what is the average age of the NARFE membership?

NARFE: The average age of our membership is somewhere around age 71.

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Mr. Ford comment, upon completion of the Professional Managers and Federally Employed Women testimony:

I'm having trouble understanding your two sets of testimony, because if I am hearing you right, you are telling this Committee that you are willing to accept a new retirement system that is less advantageous to your members than the current federal retirement systems. If this is the case, your shortsightedness is tragic. Neither you nor most of the rest of the union representatives that this Committee has heard from so far seem to realize that the Social Security Act amendments made by the Congress last year presented us with the first real opportunity to recast federal retirement law in scores of years. Usually when we are tinkering with the federal retirement laws we are reacting to some allegation and are forced to limit our focus to the specific issues involved.

Here, though, we are presented with the opportunity to reshape, in very large measure, the entirety of federal retirement law. You know, there is not just one federal retirement law and system, there are something on the order of 38 or more, even though we usually talk about the Civil Service Retirement System (CSRS) as though it is the only federal system. And all I hear you people talking about is ducking, keeping your heads down, trying to ensure that, in a supplemental retirement environment, that your members don't get too much less than they are now getting in the current system. I deplore such representation on your parts. You are doing your members a severe disservice.

I sit on the Committee on Education and Labor, and was totally involved in that committee's creation and passage of the ERISA statute. It took us years of exhausting and deliberate work, all very detailed and time consuming. In the process, we spent well over a million dollars just in consulting fees, all to ensure that the law we ended up with was the right one. I think that experiences since it was enacted suggest that the law was a necessary one, a good one, and very beneficial to private sector employees whose pension rights before ERISA were ever at risk. Such is absolutely not the case now. I draw a parallel between the ERISA efforts and the current supplemental retirement issues. We cannot

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rush into some half-baked bill just to meet some arbitrarily-imposed completion date (31 December 1985). I would much sooner extend that date for a year or more than try to rush this issue. It is nearly as complex and perhaps more contentious. My point is that we can't rush this subject. We have got to do it in a detailed and orderly fashion.

For all of the above reasons, don't you rush your consideration of this issue. Don't agree or let your membership agree so early in the process that you can't get as much out of the Congress as you and they might want. Don't assume that the very best that you can do is to obtain parity with the current system (CSRS). None of us knows that yet. I start this endeavor on the assumption that the current system isn't nearly as good or as generous as the Administration would have us and you believe. It may have been so 15 years ago, but it has been picked away at too much in the intervening years, and the private sector has been very creative and imaginative during this same time. The result is that the current federal retirement laws aren't nearly as good as everyone thinks they are. Therefore, my goal is to obtain for federal employees the very best retirement system that I can, because it would be money very well spent. There are many of us here in the Congress, my good friend in the Senate Mr. Ted Stevens included, who think that the quality of the federal workforce is every bit as important to this country's national security as rebuilding the DOD's infastructure. Since a competitive retirement system is an attractive magnet to quality employees, what better way to protect our national security.

Get some fire in your proposals. We in the Congress can't do our jobs here if you all are asking for less than we are inclined to try to get for you.

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