*Pensions in the United States: A Summary**

THERE are now 13 million persons aged 65 or over in the United States; about 4 million are working or are the wives of working men, and about 9 million are without income from current work.[1] In 25 years, those aged 65 or over may total 20 million, and if the proportion not working remains the same, there will then be 14 million aged persons without income from work.

Some retired persons depend for their support on savings or individually bought annuities, some on their relatives or on the community through old-age assistance, and some on veterans' pensions. A growing number rely chiefly on retirement systems. This report is concerned with such systems, public and private.

Retirement systems are distinguishable from other methods of income maintenance for the aged by their requirement that benefits be based on employment; only those who have been in a job covered by the plan have benefit rights. There are three major types of systems: (1) federally administered old-age and survivors insurance (OASI)—the foundation of future retirement security for most Americans; (2) private plans in industrial and nonprofit employment, which build on OASI and provide additional benefits; (3) systems, chiefly governmental, covering jobs not under OASI. The third group includes retirement plans of State and local governments, the Federal civil service, and the Armed Forces, none of which provide for integration with OASI. The railroad retirement system does, however, provide a degree of integration with OASI and perhaps should be considered a fourth class.

These broad classes of retirement systems must be studied together, for it is the protection provided by the combined arrangements and their cumulative effect on the economy that are significant. The report therefore considers the total impact of these systems, pointing out their differences; it also considers the relationships of these systems to job opportunities for the aged and the total income-maintenance problems of retired persons.

A major determinant of the size of the pension problem is the proportion of the aged group productively employed. A large number of persons over 65 are now working. As of March 1952, 42 percent of the men past 65 were in the labor force; of those aged 65–70, nearly 60 percent; and of those 70–75, 40 percent.

Continued employment of a large proportion of persons past 65 is important in holding down the cost of pensions. The average age at which retired persons come on the OASI rolls is now 69. If people generally were to retire and apply for benefits at 65, the long-range cost of OASI would be raised by more than 1 percent of payroll. Moreover, under conditions of relatively full employment, a general policy of retirement at 65 would mean that the volume of goods and services available for the whole community would be lowered by the amount persons past 65 would otherwise produce and there would be a big increase in the number of persons who consume without currently producing.

In general, it is important to the community and to the individual that persons of retirement age who can and want to work have job opportunities. Yet on the most optimistic assumptions the number of nonearners among the aged will grow as the number of the aged grows. Employment is largely out of the question for most of those over, say, 75, the disabled, and many women who spent their younger years as homemakers. Provision of more job opportunities for the aged therefore cannot substitute for pensions, but it can reduce their cost and the economic burden of old age on current producers.

Available data suggest that most persons do save—in varying amounts and for varied reasons—and that more than half the aged have been able to accumulate some savings. Such savings are usually small and seldom provide an adequate source of support. If most workers and their wives or widows are to have sufficient income in old age, the foundation must be a pension arrangement that does not rely on voluntary savings. Pensions do not, of course, remove the need for individual savings but serve as a base on which the individual can build toward greater retirement security.

Current Pension Arrangements

Coverage.—Nine out of 10 civilian workers are earning retirement protection; nearly 8 out of 10 are under OASI. The only major groups not under a retirement plan are the 4 million farm operators, perhaps a million self-employed professional persons, and probably 2 million domestic and agricultural workers without regular employment as defined by the Social Security Act. Career servicemen in the Armed Forces are protected under special plans; most of the others earn protection under the plans covering their regular jobs and get credit under these plans for time spent in the service. In January 1952 about 1 out of 5 workers covered under OASI were also covered by private plans designed to supplement the public system.

Coverage under most plans is mandatory for the worker. Membership in any plan, public or private, is usually an automatic accompaniment of employment in an industry or occupation covered by the plan. Under a few State and local plans, most private contributory plans, and employment for nonprofit organizations under the OASI program, those persons who were in covered employment at the time the plan was initiated may stay out if they wish, but those hired

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[1] Throughout the report the current data relate to the beginning of 1952.

later are generally covered compulsorily. Probably more than three-fourths of the persons under private plans did not elect coverage on an individual basis; with the exceptions mentioned, all public programs are compulsory for the employee.

Scarcely 15 years ago only about 6 million persons (less than 15 percent of those employed) had protection under retirement systems. Coverage was uneven, ranging from 100 percent in the communications industry to virtually nothing in retail trade and agriculture. Employer-sponsored plans (including those of railroads) covered about 3.7 million workers, and the systems for Government employees about 2 million. About 200,000 nonprofit employees also had protection, and a few workers were covered by union-sponsored plans.

Most employees of business and industry were first protected under a retirement program in 1937, under the Social Security Act. At that time about 25 million were covered. Coverage under OASI grew with the labor force, until by 1950, just before coverage was extended, about 35 million were under that program at one time. About 47 million are now covered under OASI at one time and 7.5 million under other public systems.

Most supplementary plans of private industry are newer than the public programs. Almost all collective-bargaining plans were set up after 1940, many in the last 4 or 5 years. Relatively few of the existing employer-sponsored plans were established before 1940. A few private plans are very old; the American Express Company set up the first pension plan in the United States in 1875. Most of the early plans were noncontributory and unfunded and avoided establishing "rights." The pension, usually discretionary, was considered a gratuity and could be terminated or reduced at will. Today most of the pensions are nondiscretionary and are considered the eligible employee's right.

During the 1920's, insurance companies began to sell group annuities. With the establishment of OASI more insured plans were set up to supplement the public program. Another major growth in private plans occurred in World War II, when pensions were one of the few ways employers could raise compensation and compete for labor. Since 1949 the growth in coverage under these plans can be traced generally to the drive of the big unions.

Coverage of the present aged.—Coverage against income loss in old age in the United States is nearly 90 percent effective for those now working, but only about two-thirds of the retired workers and their wives are currently drawing benefits; less than 25 percent of the aged widows are getting them. Though about 16 percent of the employed labor force is under some type of pension plan supplementing OASI, relatively few private-plan benefits are being paid as yet. Most of the aged drawing retirement benefits get them from public programs.

Benefit provisions.—From the standpoint of the protection furnished, present arrangements are less satisfactory in the level of benefits than in coverage. Under OASI in September 1952 the average monthly benefit for retired workers without entitled wives was about $47; for married couples it was about $80 and for aged widows, $40. For those coming on the rolls later, benefits will be computed under the new formula and will be higher. Under the new formula, the average worker and his wife (if also aged 65) will get a combined benefit slightly higher than $100; the average single man will get about $65.

OASI beneficiaries who receive supplementary retirement pay from private plans represent about 15 percent of all retired-worker-and-wife beneficiaries. In a survey of aged OASI beneficiaries, about half the men drawing private pensions got more than $60 a month from this source. Three-fourths received less than $100 a month, and about 10 percent got more than $125.

Under present arrangements, combined OASI and private-plan benefits will usually replace, for the $250-a-month man with long service, from 40 to 60 percent of his previous wage and from 55 to 75 percent if he is married and his wife is 65. Generally more than half the combined retirement benefit comes from the public program; the proportion is likely to be higher for those with less than 30 years' service.

Private plans are adjusted to OASI in various ways. Since OASI benefits are related to the first $3,600 of annual earnings, some plans pay a supplementary benefit only on compensation above that amount. Others pay on all earnings, sometimes with a higher percentage on earnings above $3,600.

In many collective-bargaining plans, a given level of combined OASI and supplementary benefit is guaranteed, and the private plan pays what is needed to bring the amount up to the the guaranty. Thus, if OASI is liberalized, the amount the private plan pays is reduced. Many employer-sponsored plans also adjust the private pension by subtracting the OASI benefit or part of it from the amount the company pays. In plans that do not provide for direct adjustment to the OASI benefit, the supplementary benefit can be determined so as to reflect new levels in OASI benefits.

Unlike most private plans the public programs—except for railroad retirement and OASI—have been largely independent of each other. Their benefits are usually intended to be sufficient in themselves. Benefits under the special government programs tend to be higher than under OASI. A retired railroad worker with 30 years' service and average earnings of $250 a month gets a monthly benefit of $144.90; if he is married and his wife is 65, he gets $184.90. A Federal civil servant with similar earnings and service gets $137.50 whether he is married or not. Maximum benefits under OASI are $85 for a single man and $127.50 for a couple. In almost all public programs except OASI and railroad retirement, the benefit amount is the same for the single and married worker.

In the public programs and most private plans, the benefit is related to the level of earning. Exceptions are benefits in the coal-mining industry and the auto industry; the relatively high minimums payable in the steel industry result in identical pension amounts for workers at various wage levels. Plans related to earnings automatically pay somewhat higher benefits as the general wage level rises. Under the OASI formula, however, benefit levels respond slowly to rising wage rates, and adjustment requires legislative action.

In most programs, benefit amounts vary with length of service, but workers in the older ages when the plan goes into effect are usually given full-rate benefits (or nearly full-rate), even though their period of covered employment must be brief. The OASI program does this through eligibility requirements and the benefit formula, the other plans through the device of past service credits.

Service requirements.—Both public and private programs pay benefits only after a period of work under the system. Under OASI, a worker must, in general, have 10 years of covered employment; in the program's early years, to make the program more effective for those already near age 65, a shorter period is required. Since 8 out of 10 workers are in jobs covered by OASI, most of those now working can meet these requirements easily.

Under private plans the employment must all be with the same employer or in the same industry. Collective-bargaining plans often require 15 or 20 years' service, and uninsured noncontributory employer-sponsored plans also have long service requirements. Group-annuity plans generally have no such service requirements but require a waiting period (usually 1–5 years) that serves the same purpose. Some private plans exclude new employees past 55 or 60.

The plans with long-service requirements do not protect the worker who changes jobs after age 45 or 50. American workers change jobs frequently, and many move from industry to industry. Yet a large proportion of workers do stay with the same employer between the ages of 45 and 65, perhaps particularly in firms with pensions. More information is needed on the mobility of older workers before we can know the extent to which long-service requirements limit private-plan protection.

Vested rights.—Many private plans, including most collective-bargaining plans, do not pay any benefit unless the individual is working for the particular employer or industry or is on leave when he retires. Other plans give certain rights to deferred annuities if the worker's employment ends before retirement age. In private contributory plans, such an employee may in any case have his contributions refunded, usually with interest.

Many employer-sponsored plans give an employee meeting certain requirements an equity in the pension rights accumulated for him out of his employer's contributions, usually in the form of a paid-up annuity deferred to retirement age. This "vesting" may be complete, so that the employee is entitled to the annuity's full value, or it may be graded so that partial vesting is established after a number of years of coverage, with the proportion vested increasing gradually to full vesting after a specified number of years.

The Federal programs have liberal vesting provisions—the railroad retirement system after 10 years, civil service after 5 years, OASI after the service requirements described earlier are met.

Contributions.—Many plans do not require a direct cash contribution from the employee. The Federal income tax set-up is favorable to full employer financing, since the employer contribution is deductible as business expense and in the absence of the plan would go in large part to the Government in taxes. Employee contributions are not deductible from personal income taxes; moreover, the tax rate for the employee is generally lower than the corporation rate.

The early industrial plans were largely noncontributory, and during World War II such plans were popular again. Plans adopted in 1943–47 were about evenly divided between contributory and noncontributory. Many employer-sponsored but few collective-bargaining plans set up since the end of the war have been contributory. Noncontributory plans have always covered more workers, and less than a fourth of the workers now covered by private plans make contributions.

Contribution formulas under private plans vary greatly. The contribution and retirement credit for the first $3,000 of annual earnings is generally less than for earnings over this amount, because the worker is getting credit for these earnings and paying a contribution on them under OASI. (Many private plans have not changed to take into account the increase to $3,600 in OASI's wage-base and tax-base maximum.) In contributory plans, the employee contribution is generally expressed as a percent of earnings—usually 2–3 percent of the first $3,000 of annual earnings and usually 4–5 percent of the rest. The employer contributes the balance necessary to provide the benefits planned. Employer contributions nearly always at least equal the employee contributions and are often 1½ to 2 times as large. The employer also finances entirely benefits based on service before the pension plan's adoption. In negotiated plans, the agreement may specify the exact amount of the employer contribution.

The cost of OASI is borne equally by employers and employees. The rate, now 1.5 percent for each on the first $3,600 earned in a year, is scheduled to rise to 2 percent in 1954 and then in a series of step-ups to 3.25 percent in 1970. The self-employed pay a rate equal to 1½ times the employee rate.

The Armed Forces plan and a few State and local plans are noncontributory, but the other Government programs require employee contributions (railroad retirement, 6.25 percent; civil service, 6 percent).

Funding.—In all pension plans, benefit expenditures are low at first and rise gradually as the pension rolls grow. Arrangements for currently setting aside amounts to cover part or all of the accruing liabilities before benefits must be paid are called "funding."

What constitutes an "actuarially sound" funding plan is debatable. Strictly, a fully funded plan is one with deposits large enough so that, if at any given cut-off date no further deposits were made, the plan could continue to honor all obligations based on service up to such date. Thus all those who had retired would continue to get their benefits, and many who had not yet retired would get benefits as they became eligible. This definition would require deposits to have been made for all past-service credits and to be made currently for all present service. Relatively few workers today are covered by plans that would meet such a test of liquidation. Many plans do not contemplate ever being in this position, while others that do, by and large, have not yet accumulated the sums needed to fund all past-service credits.

Another test of actuarial soundness is to fund the plan so that enough has accumulated by the time of retirement to provide each participant with the contemplated retirement income. This test can be met even though past-service credits have not been fully funded; under it, the continued operation of the plan may be necessary to meet the obligations to those who have not yet retired, but in the event of liquidation those already on the rolls would continue to get their benefits.

Another test, less stringent and depending even more on continued operation of the plan, is one usually applied to OASI and other Government plans—will the income to the fund over all future years be enough to meet the benefit obligations as they arise? Thus the tax schedule in OASI is designed to make the system entirely self-supporting but does not contemplate full funding. This test can be met even though past-service credits are never funded, if in the future, instead of such funding, amounts are made available equal to the interest that would have been earned by deposits for past-service credits. Liquidation under such financing and the failure to make such payments in lieu of interest could mean the termination or reduction of payments to retired persons as well as the failure to honor obligations to those not yet retired. Although proper for a public program whose continuance may be assumed, this test is not appropriate for any but the largest and most stable private companies.

Most plans have some funding arrangement, although many would not meet any of the tests of actuarial soundness suggested. Those plans that have no funding and meet all benefit payments out of current revenues are often called "pay-as-you-go" plans. Whether a plan is in fact actuarially sound depends also on the assumptions used in the estimates, for wide variations in cost estimates result from different assumptions on turn-over, mortality, retirement rate, interest rate, and other cost factors.

Some reserve funds are large and are continuing to grow. At the end of 1951, there was over $15 billion in the OASI fund, $2.5 billion in the railroad retirement fund, and $5 billion in the civil-service retirement fund. These amounts, however, represented only a fraction of the accumulated liability of the plans. The reserves of all the private plans total about $12 billion.

Taxation of industrial plans.—Since the establishment of pension funds, employer contributions under industrial plans have been considered properly deductible from income for tax purposes. The Internal Revenue Code in section 165(a) makes the income to certain pension trusts tax-exempt; it also provides that employer contributions under a plan meeting requirements of section 165 (a) are deductible as business expense. That section requires that the plan must be for the exclusive benefit of employees and their beneficiaries, and neither its principal nor income can be diverted to other purposes. It must be formal and communicated to the employees, intended as a permanent plan, and bona fide—not a subterfuge for distributing profits to stockholders; it must not discriminate in favor of officers and highly paid or supervisory employees.

Permanent and total disability.—Many workers are retired prematurely because of disability, and some private plans—generally the self-insured plans of large firms—pay permanent and total disability benefits. In most plans, a disabled worker must rely on the early retirement provisions. Where special provision is made for such workers, benefits are usually conditioned on long service (15 years or more), attainment of a specified age (usually 55), or both. Most plans recently negotiated in the mass-production industries have permanent and total disability provisions.

OASI does not provide for permanent and total disability and has no early retirement provisions. All other Federal and most State and local retirement plans make special provision for such disability.

Deferred profit-sharing plans.—Profit-sharing plans under which benefits are deferred until retirement or attainment of a given age are a form of pension. No particular benefit amount is guaranteed; the payment is based on the company's profit experience and the worker's length of service and earning level. Since past service is not recognized, they do little for those in the older ages when the plan is begun. Such a plan is unsatisfactory as a complete substitute for a regular pension plan. This particular approach does have advantages for the employer—commitments are tailored to what the company can afford. A combined pension and profit-sharing plan has attractions; a pension can be guaranteed and past-service credits granted through the regular retirement system, while more liberal benefits for current service depend on the success of the individual enterprise. In 1951 over 3,000 deferred profit-sharing plans and 14,000 retirement plans were in operation.

Other Income-Maintenance Methods

Public assistance.—Public assistance is designed to provide income to needy persons to help them obtain the essentials of living. Old-age assistance is the chief type of aid for aged needy persons, but some older persons get aid to the permanently and totally disabled, aid to the blind, or general assistance. Federal grants to the States help them finance the categorical assistance programs, but general assistance is solely the responsibility of the States and localities.

In determining eligibility and amount of assistance, the State sets a standard for determining need that includes such basic requirements as food, shelter, clothing, utilities, and household operating expenses and special requirements for nursing, home care, or medical services. The difference between the individual's income and the total cost of the essential items is commonly taken to represent the amount of need. In some States the payment may equal the amount needed; others limit the maximum monthly amount a recipient may get. When appropriations are insufficient for payments to all eligible persons, States usually make percentage cuts in the amounts.

Except in aid to the blind, Federal law requires States to consider all income and resources of the recipient. State provisions vary on the amount and kinds of property a recipient may have, as well as on policies evaluating his resources.

Since October 1952, the Federal share of old-age assistance costs has been four-fifths of the first $25 of the average payment and half the balance up to a maximum of $55 monthly for an individual; the total must include payments for medical care made to or for the recipient.

About 2.7 million persons were receiving old-age assistance at the end of 1951; the average payment in December 1951 was $44.54 for the Nation and ranged from $70.91 to $18.68 among the States.

Veterans' programs.—Only about 300,000 persons over 65 now get payments under the veterans' programs; these payments may become a significant source of income for the aged, as most surviving World War I veterans will be 65 within the next few years. At age 65, almost any veteran can meet the disability test for a nonservice-connected pension—10-percent disability; he then gets $75 a month for any year in which his income is $1,400 or less, or $2,700 or less if he is married.

Areas of Agreement

A constructive pattern of meeting income-maintenance needs for the aged is beginning to emerge—one that has the support of responsible spokesmen for industry, labor, and Government and of professional and expert opinion, though the broad area of agreement may be obscured by differences on special aspects of the pension problem.

I. *The first principle of a constructive approach to the income maintenance needs of the aged is that there should be opportunity for productive employment for those who are able to and want to work.*

Much of business and labor agree that employment of those of retirement age who can and want to work will reduce pension costs and in full-employment periods will increase the total national product. Some disagree, however, on the application of this principle—chiefly on whether the employing organizations should follow a policy of compulsory retirement at a fixed age.

To increase job opportunities for those past 65 the fixed retirement age need not be dropped entirely. The compulsory age can be raised somewhat above 65, and the voluntary age at which one can retire and receive full pension kept at 65. Moreover, retirement at a fixed age need not bar all employment. Experimentation and research are needed on reassigning workers to lighter jobs and part-time work. In our aging population the economy must be able to take advantage of the contributions of those unable to continue in their regular jobs but still ready and able to do other tasks.

The desirable goal of providing job opportunities for older workers must not be confused with the undesirable goal of forcing continued employment, in jobs beyond the worker's capacity, because of economic necessity. The economy loses when a worker hangs onto a job he cannot do adequately, and, more important, it is bad for the worker. The alternative to work should be retirement at a level of living acceptable to the individual so that freedom to choose work or retirement is meaningful.

II. *There is widespread agreement that underlying anything the individual may do for himself or any arrangements made through collective bargaining or by an employer there should be a universally available public program directed to income maintenance for the aged.*

This proposition is supported by both critics and defenders of the present public programs—those who want a program making a flat payment to all aged persons, a means-test program, the present type of program, or a modification of the present program. Recognition that society must take the fundamental responsibility is nearly universal, and the impracticality of relying solely on private pension plans or individual savings is generally conceded.

The drive to make universal the protection furnished through Government is strong. Industry, labor, and experts probably agree more on the desirability of extending OASI coverage than on any other issue connected with the system. The hearings on the 1950 amendments showed significantly congressional interest in extending OASI to groups showing a wish to be included.

III. *There is widespread agreement that the means-test method is a less satisfactory way of providing income for retired persons than a non-means-test program and that the basic public program should, therefore, not include a test of need. There is also recognition, however, that assistance to the aged will continue to be required to meet needs not otherwise met.*

A means-test program to replace OASI has had some support, though most informed opinion favors a non-means-test program with public assistance as a supplement.

Most persons prefer retirement pay because the assistance payment brings the individual only up to the minimum level of living defined in the program and is different from other income paid as a right in that it is not a reward for services, and also because the means test divides the community into the "haves" and the "have nots."

Yet it is generally conceded that any program not based on need will not be enough in some cases and will require supplementation through assistance. Even those who do not favor continuing Federal-State old-age assistance indefinitely recognize that assistance would have to be continued as a supplementary program on a State or local level.

IV. *There is considerable agreement in this country on the desirability of relating retirement pay to previous earnings and on the desirability of having the fundamental public program contributory.*

More agreement exists on the desirability of relating benefits to earnings in the basic public program than in certain private plans, since OASI covers persons of widely differing incomes. Opinions vary on the desirability of an employee contribution in private plans, but such a contribution in OASI has both management and labor support.

A flat-benefit program can be on a contributory basis, but this approach has had little support in this country. The flat benefit is apt to be higher than the usual earnings of many persons in poorer communities or so low as to be relatively meaningless for middle-income and skilled workers. Old-age pension movements, such as Townsendism, support a system of flat payments unrelated to previous earnings and varying from year to year according to tax yields or the decision of Congress.

The noncontributory program gives less security than earned retirement pay; the amount of the payment would be dependent on current economic and political considerations. The lack of a proprietary right to a retirement benefit based on earnings and contributions makes the introduction of a means test possible in times of financial distress. In the public program the contribution strengthens the concept of earned right, and it makes it clear to the worker, and to others, that he has a say in the program's planning and in protecting it from undue liberalization or restriction.

V. *There is widespread acceptance of the idea that private pension plans are desirable as supplements to the public program.*

Regardless of the benefit level in the public program, it will be desirable in some occupations and industries to encourage people to stop work or shift to another occupation before age 65. Many companies will want to promote retirement of executive and supervisory personnel, or their shift to other jobs, by paying higher benefits than those under the general system.

Even with substantial liberalizations, OASI could probably not pay benefits high enough to satisfy the goals of the more successful companies or to make unions willing to drop pensions from collective bargaining.

Management set up its pension plans to attract and hold good employees and to make it easier to retire those likely to be unproductive. Some unions feel that the negotiated pension helps to keep members.

Labor, management, and experts agree that private pension plans have limitations. Each plan covers only a specific employer, industry, or group of employers within a locality. Because the employer may end the private plan or go out of business, such a plan does not offer the security of the public program. Funding in a way that permits increases in benefits as productivity rises is difficult. In some industries, adequate benefits clearly cannot be provided by private planning alone. Some companies fear the necessary long-range commitments. Certain types of plans can rob the worker of his independence by binding him to one company.

There are difficulties and dangers in both private and public plans, but they solve more problems than they create. A broad public retirement system, supplemented by private plans, will continue to get wide support. The question will be not so much whether we are for pensions or against them, but how we can plan for the security of aged persons in ways that minimize the disadvantages and promote freedom of action.

Economics of Pensions

Economic security for the retired aged, as well as for all of us, depends on industry's success in producing an increasing flow of goods and services. But besides a high production level, some institutional arrangements for income maintenance such as pensions are needed to ensure that all have the continuing right to share in consumption after retirement. These basic factors are interacting—the production potential establishes the outside limit in providing goods and services to consumers, but the nature of the income-maintenance arrangements can affect the level of production. In designing pension arrangements, then, their effect on total production should be weighed. Pensions may be justified as security measures even if they tend to depress the volume of production, but factors inhibiting production should be kept to a minimum and those favoring a large volume of goods and services promoted.

Standard of living and number of retired aged.—Perhaps the most fundamental economic question concerning the growth of the aged population is whether the future flow of goods and services going to the retired aged will be so great that the gainfully employed will find it hard to produce enough both for this group and for themselves and their families.

The growing proportion of aged in the population will mean an increasing number of retired aged in relation to the number of gainfully employed. But persons over age 65 who are not now gainfully employed make up little more than 10 percent of the entire group not currently working. Although the percentage of retired older people among those not working will surely grow in the next 25 years, the ratio of all persons not gainfully employed to those gainfully employed in 1975 will be about the same as it is today. Moreover, each worker will be able to produce more.

If our economic progress continues, our standard of living is not threatened by the growing number of retired aged.

Size of pension commitments.—Estimates were made not only of the number of aged persons in 1975 but of the national income in that year. It is estimated that the kind of retirement systems that are now developing—both public and private—will pay benefits in 1975 amounting to about 1.6 percent of the national income in terms of constant purchasing power, or about 3.7 percent of the national income if pensions are increased to take into account rises in living standards.

Effect of pension arrangements on volume of production.—Though no quantitative measurement is possible, it is a fact that certain plans may affect adversely the employment of older workers and the mobility of labor. If pension arrangements discourage the employment of older workers and so reduce the total number of workers, there can be a decrease in production attributable to pensions.

The extent to which private pension plans discourage hiring of older workers may depend on whether the workers bring retirement rights with them to new jobs. Since all industrial workers now have substantial retirement rights under OASI, the lack of early vesting in many private plans probably has less effect than it otherwise would have. It would be useful to study private-plan operations to find out how to eliminate factors affecting adversely the employment of these workers.

It would also be desirable to know the extent to which private-pension plans cause employers to retire those who are able to work and workers to choose to retire though employers are willing to keep them on.

Public-plan experience so far shows that workers generally prefer to continue to work, even with retirement benefits available. The retirement test has not, apparently, made any significant number of people forego employment to secure benefits.

Pension arrangements also affect production adversely if they inhibit a desirable degree of mobility in the labor force. New industries are developed only with the help of workers from older industries. Workers should be encouraged to try better jobs at which they may be more productive.

Those private plans without vesting privileges penalize the worker who leaves his job. The degree to which such plans inhibit mobility of workers is affected by the adequacy of the public plan and the amount of protection the supplementary program gives. Under present circumstances, since the public pension will supply half to three-fourths of the retirement income for hourly workers in mass-production industries, the effect of nonvesting on workers' mobility is weakened. Pensions plus other factors may, however, affect the willingness of older workers to change jobs. Research is needed to discover the extent to which this is true in private and public plans.

In some respects, pension plans have a favorable effect on production. Insofar as they result in a net increase in savings they may increase productive capacity. They may also improve industrial leadership by making it possible to promote young executives. Properly designed plans encourage risk-taking by the self-employed and by workers that may result in the development of new enterprises and better placement of workers. Insofar as pensions give a large part of the consuming public a regular income, they have a steadying effect on demand.

On balance, pensions are likely to have a favorable rather than adverse effect on production.

Effect on the community's burden in caring for the aged.—Even without organized pension plans, most workers retiring in the future would obtain at least a minimum level of living—to a considerable extent from relatives or the community through public assistance. More of the future retirants, however, will have a better-than-minimum level of living because of pension plans. The increased flow of goods and services to the retired aged, attributable to pensions, would not add to the community burden unless others would, for that reason, have to limit their consumption. To the extent that (1) the greater flow of goods and services comes from increased production brought about by the pension arrangements, and (2) the pensions have been paid for by direct or indirect contributions of the pensioners, there is no added community burden.

Problems of fund accumulation.—In private pension plans, for the next few decades, payments to pensioners will be a small proportion of what is set aside to cover future payments. Ultimately, payments to those retired will exceed the amount set aside for current workers (the difference being made up by earnings on the accumulated fund). Reasonable estimates of the rate of private-fund accumulation are hard to make because of the many uncertain factors. On the basis of 1951 prices, the average yearly increase in private-pension funds in the next 10 years may be about $2 billion. With interest, this increase would mean aggregate reserves of $33-39 billion a decade in the future (present reserves are about $12 billion).

Under the present tax schedule, excess of income over outgo in OASI will average an additional $2 billion a year for the next 10 years; other Government programs will average about $1 billion a year.

During inflation this fund accumulation has been convenient; it would not be so in deflationary periods. The impact of these funds in a deflationary situation merits study. The effect of $5 billion in new funds on the capital market should also be explored; we are now lacking much of the basic information needed for analysis. The following questions in this area need study:

1. Will pension funds continue to be invested in Government and industrial bonds to the same extent as at present, or will a larger proportion be invested in equities?

2. What will be the effect of fund accumulation on the interest rate?

3. Will the investment policies of the trusteed plans have a stabilizing effect on the stock market?

4. What will be the effect of a rising level of living, and possibly rising prices as well, on the contribution which the present type of funding can make to the financing of future benefits?

Major Policy Questions

Several major questions of public policy need more research and consideration before intelligent action can be taken. Policy formation cannot, however, always await the completion of research, and some solutions hinge largely on value judgments that can be made now. In some areas action should be taken immediately.

Veterans' program and social security.—A major question of public policy is the extent to which the 19 million veterans are to be granted special benefits in addition to the protection they share with others under social security. The issue is primarily whether aged veterans will be granted a general pension regardless of other income or service-connected disabilities.

The program for service-connected disabilities is widely accepted. Even the present type of program for non-service-connected cases may not be too costly if the availability of other types of protection is considered in future modifications. If the present income tests and benefit levels are kept in the veterans' program and OASI is liberalized as community living standards rise, many veterans would have from other sources the minimum level of living now guaranteed and so would not be eligible for the special veterans' benefits. If, however, in planning the non-service-connected pensions, it is not recognized that most of the same people will be entitled to OASI benefits and that many will be working after age 65, high costs will result.

OASI and the other Government programs.—The various public programs for special groups are designed not as supplements to OASI but as if the benefit paid by the special system were the only one the individual receives. Because many workers move from one job to another, some may not qualify under any system and others will receive benefits from more than one system. This type of duplication of benefits is inequitable and results in higher than necessary costs.

Various groups are studying the relationship of OASI to the other public programs. During 1952 a special joint congressional committee was concerned with the relationship of the railroad retirement program to OASI, where some coordination has already been achieved; Public Law 555 provided, in part, for a Government study of the interrelationship of Federal employee pension programs and OASI; the Senate Finance Committee has indicated that it will hold hearings early in 1953 on the relationship of State and local government systems to OASI.

Private plans and the basic public program.—Since pension plans in private industry and the nonprofit area are designed to supplement OASI, their character is greatly influenced by the nature of that system.

OASI is geared not to a budget concept of minimum subsistence, as is the British system, but rather to individual circumstances. It pays to many of those under the system only part time less than public assistance would pay; to the earner of minimum or near-minimum wages who is under the system full time, it aims to pay amounts that make assistance unnecessary except in special need; to the worker with higher wages, it will pay benefits somewhat above the assistance level in most States.

How reasonable is it to pay benefits below subsistence to many who spend only part of their working lives under the program? People spend less than full time under OASI for varied reasons. It seems reasonable that women who leave covered employment because they do not work after marriage and workers who shift to noncovered employment should get lower retirement benefits than full-time workers in covered employment who contribute most of their working lives. A worker whose benefit is reduced because of his disability is in a different category; Congress has indicated its intention of considering this question in 1953. The present formula is also harsh on the worker with involuntary unemployment; a solution would be to pay full-rate benefits to those in the system 30 out of the possible 45 working years between age 20 and 65, with reductions only for those with less than 30 years. A worker might then be able to get maximum benefits even if he were out of the system for part of his working life.

There is little quarrel with the idea of paying the minimum wage worker an amount at least equal to a low subsistence level if he is under the program full time. Labor, management, and experts also agree that benefits should vary with wages and that those who earn more than minimum wages should receive more. But how much more? Should the second step in the benefit formula remain at 15 percent or be raised to 20 or 25 percent? Should only the first $3,600 of annual earnings be counted as at present, or should the maximum amount be raised? Should the weighted part of the formula be applied to more of the average monthly wage? It is unlikely that benefits for workers with above-minimum wages would be made high enough to be considered sufficient retirement income for themselves. The issue that concerns the relationship of OASI and the private supplementary plans is therefore one of degree.

Decisions on such points regarding OASI will affect substantially the character of the job the private-pension movement is to do. If OASI is improved for workers with above-minimum wages, the standards for total retirement income will be raised and the goals of joint OASI and private supplementary plans enlarged. Eventually, too, private-plan sponsors may want to put less money into pensions and more into disability benefits or health protection if the public pension program is improved and arrangements for health and disability are inadequate.

Pensions provided may be too high, of course, when considered in the light of other things people want to do with their money. Coverage is usually mandatory. The necessity of setting aside funds for pensions limits the amount the individual has to spend as he wishes. In a free economy such limitations should be approached with caution. The task is to leave as high a proportion of income as is compatible with adequate social protection to the individual's free choice.

The dynamic character of the pension problem resulting from price, wage, and standard-of-living changes is also an important factor in determining the relationship between OASI and the other programs. If OASI benefits are raised as wages rise, then the need to adjust for economic change is much reduced for private plans.

Only a little more than 5 percent of the 9 million aged not now working are getting private pensions or are the wives of persons getting such pensions. Thus a public program planned on the assumption that most people will also have protection under supplementary plans has not been possible, nor is it likely to be. In 10 years, the 5-percent figure might reach 10 or 15 percent; in 25 years, perhaps 20-25 percent. Translation of pension coverage into pension payments takes time, and even in the future coverage under private plans will continue to be limited.

Private-plan protection should be extended and improved; nevertheless, the OASI benefit must be set in recognition of the fact that in the foreseeable future it will be the only form of regular retirement pay for most retired workers, their wives, and aged widows.

Public assistance.—Public assistance is the residual method of meeting income needs of the aged. To the extent that retirement systems, veterans' programs, individual savings, and help from relatives do not meet need, public assistance must pay enough to bring the individual up to the minimum level of living considered acceptable by the community. The future of public assistance depends, then, on how far other arrangements (chiefly OASI) meet total need.

Among the important factors would be extension of OASI coverage to persons who have no organized retirement protection, adjustment of benefits to price levels (though not necessarily automatically), coordination of OASI and other public systems, and adjustment of the benefit formula to allow for periods of disability and unemployment. The political power of the aged may also be a factor; in some States the amount of assistance may remain high even though other arrangements are reasonably satisfactory. Unless there is a basic change in OASI, the immaturity of the various retirement systems will cause assistance to remain large for some time to come.

Problem of immaturity.—Substantial coverage under private plans is new. The fact that only about 5 percent of the retired group over 65 are drawing pensions is a problem of this immaturity—resulting from the inability of private plans to do anything for those already retired when the plan started.

The public programs are more mature and consequently are paying pensions to about half of those over 65 not getting income currently from work. Under present arrangements, the percentage of aged persons eligible for pensions from the public programs will continue to grow. It would be made larger by universal coverage under OASI, by coordination between OASI and the other systems, and by the exclusion of periods of disability from eligibility determinations in OASI. However, those who have stopped work and are not now eligible will not ever qualify so long as eligibility is based on work in covered employment; as a result, they must continue to be cared for in part through public assistance or by friends or relatives, since few of them can support themselves for their life expectancy.

Some persons advocate maturing the OASI program immediately. They argue that it is inequitable to exclude any aged person from OASI because his participation, or that of the one on whose earnings a widow was dependent, took place before the program began or because his occupation was excluded at the time he worked. They favor establishing universal coverage for current workers and at the same time paying all the retired aged a minimum OASI benefit, whether or not the wage earner had a current attachment to the labor force.

Those who argue for maturing OASI immediately hold that the liberal treatment of some of the present aged, under the recent amendments, makes the exclusion of those who do not qualify all the more inequitable; they favor, in effect, granting past service credits to all the present aged. There is, however, no general agreement on this point. It would be the first time eligibility for benefits was not related to wages and contributions and might have a serious impact on the public concept of the program.

The principles of the system could, of course, be the same for those reaching 65 a generation from now regardless of what is done about the present aged. The question raised by proposals for covering all the aged now, however, is whether a wage-related contributory system could be preserved for the long run if large numbers of persons in the early years of the program were paid flat-rate benefits without establishing eligibility on the basis of a contribution or a work record.

Under most plans for paying benefits to all the present aged, the Federal Government would withdraw entirely from old-age assistance. In some proposals the Federal Government would pay from general taxation the cost of the OASI benefits going to noncontributors. State reaction to the situation that would result, if OASI were immediately matured and Federal support for old-age assistance withdrawn, would depend on the amount of the minimum Federal benefit. The amount must be high enough to reduce substantially the need for assistance, yet must not be too high or it would threaten the existence of the contributory program. The basic OASI payment would probably not be enough to meet need, and without the inducement of Federal matching some States undoubtedly would reduce what they now put into old-age assistance. Some States, moreover, in the absence of Federal standards, might turn in the direction of the practices of the old poor law; others might remove the test of need, transforming their old-age assistance programs into universal flat pension plans and adding greatly to the cost of caring for the retired aged.

The Federal matching offer in old-age assistance is now a maximum of $35 a month. If all the retired aged over 65 were guaranteed this amount, it would cost an additional $1.4 billion in 1953. This figure takes into account the cost of raising to $35 those OASI and old-age assistance payments now less than $35 and paying $35 to all those receiving neither OASI nor old-age assistance.

Universal pay-as-you-go system.—If the present aged were blanketed into OASI, financing methods should be reexamined. Pay-as-you-go financing would then be a realistic alternative to the present approach.

Whether desirable or not, pay-as-you-go financing is hardly possible if the program is not substantially mature. This system of financing applied to the present immature program would require present contribution rates to be cut one-third; later the rates might have to be three times those now being charged, since benefit costs will rise at least until the end of the century.

Pay-as-you-go financing would operate in general in this way—a given percent of covered earnings is collected now from current earners and their employers, and possibly from the Government, and apportioned among the present retired group. The current earners, in turn, can expect a given percent of future earnings when they retire. In a successful economy, the pensioners share in the gain; in the event of a general decline in the level of living, pensions drop as well as the income going to other groups. A contingency fund could be used, however, to prevent the need for benefit reductions in periods of unemployment; the financing might well be designed to balance over the business cycle. The aging of the population presents a special problem for pay-as-you-go financing. Because in the future, there will be more aged persons, relative to workers, than there are now (assuming other factors stay the same), it will take a larger percentage of payroll to supply the same level of benefits. Moreover, under pay-as-you-go financing contributors lose the advantage of interest, so that it is usually considered desirable to have a Government contribution make up for this factor. On the other hand, it is possible that future benefit liberalizations based on increasing productivity would more than make up for the interest factor.

Though there are enough apparent advantages in this approach to merit careful study, it could result in less security to the potential beneficiary.

Protection for the permanently and totally disabled.—Retirement pay is important not only for those 65 and over but for all persons who are more or less permanently out of the labor market. The most serious gap in this respect is the failure of present arrangements to give adequate protection to workers who are out of the labor market because of permanent and total disability.

Of all risks to economic security, total disability is perhaps the most devastating. Disability is more of an economic burden than old age, for it may come when children are not yet grown and the responsibility for their support is greatest. It adds a dependent who may need special care and incur extra expenses.

Adequate protection for permanent and total disability is not now available. Costs of individual insurance against this risk are too high for many. The protection offered under private-pension plans is often just the actuarially discounted retirement benefit. Workmen's compensation applies only to work-connected disability and seldom assures an income for the entire disability period.

Rehabilitation, where it is possible, is the least costly method of providing for disabled persons and the most satisfactory for the individual. It is clear also that the disabled must have financial support during rehabilitation—or for the rest of their lives if rehabilitation is not feasible.

The issue now is clearly one of method. Should the means test be retained for the disabled, or should their support be put on an insurance basis? One compromise approach to an insurance program is to design a plan with strict eligibility and benefit provisions to ensure that only persons with long records of employment become eligible for benefits, that the benefits are low in comparison with the accustomed standard of living of the individual, and that they are paid only after a long waiting period and after every effort at rehabilitation has been exhausted. Another possibility is to pay benefits only after attainment of a given age—50 or 55.

Private plans and Government regulation.— The growth of private pension plans has led to concern about their security. Can they continue in less favorable conditions? If not, will Government be under pressure to assume the obligations of some of them to protect the workers' expectations?

The private plan's continued existence does depend on its sponsor's financial position. Plans adopted in prosperity and under favorable tax conditions may be discontinued under less favorable circumstances. Even in good times, some plans are dropped. Individual businesses are continually being replaced, and whole industries become outmoded.

It is likely that the inability of any big collective-bargaining plan to continue would result in pressure for Government to assume the plan's liabilities. Some argue, therefore, that it would be desirable to require strict funding of private plans as a Federal tax-offset condition. Others hold that Government should offer to operate supplementary plans by allowing employers and employees to buy additional protection under the Government system on an actuarial basis and with all rights vested in the individual so that he would get some protection despite the failure of an individual business or the discontinuance of a plan.

Both suggestions require thorough study and discussion. Additional regulation of funding by Government would be complicated administratively. Criteria are hard to establish, and real control would involve the Government in a determination of the most likely assumptions for cost estimating. Protection supplementary to OASI, if sold by the Government, would follow the worker from job to job. Employers can, however, now buy such protection for their employees from insurance companies if they wish. The cost is high, but it would also be high if operated by the Government. No clear need for Government operation in this area has been shown.

Because of the interest in vesting provisions, it has sometimes been proposed that certain minimum vesting be required as a condition of plan approval for tax offset. This type of regulation should be approached with caution. In general, private-plan provisions should be left to individual decision and collective bargaining. Only by leaving individuals and groups free to experiment and to deviate from what is now considered desirable can the private plans pioneer in new fields and solve some of the problems raised in this report.

Recommendations

To advance our factual knowledge in the area of pensions and to promote a satisfactory solution of the policy questions, three steps are recommended.

1. The establishment of a professional committee on research.

2. The establishment of an advisory commission that would make policy recommendations regarding the interrelationship of the various provisions for the income maintenance of the aged.

3. Provision for the collection of more complete and more representative data in the field of private pensions.