Report of the President's Commission on Pension Policy: Executive Summary*

The President's Commission on Pension Policy was established in 1979 under an Executive Order by President Carter to conduct a 2-year study of the Nation's pension systems and the future course of national retirement-income policies. Reproduced below is the executive summary of its final report, submitted to President Reagan and the Congress in February. The material in brackets and the accompanying footnotes have been added by the **Bulletin** staff.

Retirement Income Goals

The [President's Commission on Pension Policy] believes that the replacement of preretirement disposable income from all sources is a desirable retirement income goal.

Strengthening Employee Pensions

Minimum Universal Pension System

The Commission recommends that a Minimum Universal Pension System (MUPS) be established for all workers. The system should be funded by employer contributions. The Commission further recommends that a 3 percent of payroll contribution be established as a minimum benefit standard. All employees over the age of 25 with 1 year of service and 1,000 hours of employment with their employer would be participants in the system. Vesting of benefits would be immediate.

Under a MUPS, current pension plans that did not meet the minimum standards would be amended to provide the equivalent of what a MUPS would provide. The MUPS benefit would be a supplement to social security benefits and could not be integrated with social security. The MUPS benefit should be portable. A portability clearinghouse for benefit records should be established in the Social Security Administration.

To help mitigate the costs of MUPS for employers and employees, it is recommended that the program be phased in over 3 years. In addition, a special MUPS tax credit for small business should be available. Employers should be able to take a tax credit of 46 percent of their contribution to a qualified plan, up to a limit of 3 percent of payroll.

Employers should be encouraged to maintain the accumulated funds in pension trusts or in arrangements with insurance companies and other financial institutions. However, those employers who do not wish to administer an employee pension plan could send their contributions to the portability clearinghouse within the Social Security Administration. These funds would be transferred to a central MUPS portability fund which would be established to invest the funds in the economy. The fund should be administered by an independent Board of Trustees appointed by the President.

Vesting and Portability

1. For pension benefits above the MUPS minimum the Commission recommends that ERISA [Employee Retirement Income Security Act[1]] vesting standards should not be changed. However, the Commission urges voluntary changes to shorter vesting schedules, especially for mature plans.

2. The Commission recommends that all cash-outs of pension benefits over $500 be prohibited unless transferred to an IRA [Individual Retirement Account[2]] or the plan of a subsequent employer. The Commission strongly urges Government and the private sector to

* Excerpted from the executive summary to President's Commission on Pension Policy, **Coming of Age: Toward a National Retirement Policy** (final report), February 26, 1971.

[1] This 1974 legislation established Federal standards for the funding and vesting of pensions to increase the likelihood that covered workers would receive a benefit.

[2] Under an IRA, contributions and the interest or dividends earned on them are not subject to Federal income tax until the money is taken from the account, generally beginning between the ages of 59½ and 70½.

take steps to encourage and facilitate the use of the IRA as a portability mechanism.

Integration

1. The Commission recommends that benefits provided under a MUPS should not be integrated with social security. Because the benefits from such a system are intended to provide a minimum supplement to social security, it is inappropriate and inconsistent both with the purpose of integration and of such a pension system.

2. The Commission recommends that changes be made to the current integration rules so that the result is consistent with the fulfillment of retirement income goals.

3. The Commission also recommends that integration rules be made less complex.

Spouse Benefits

Postretirement survivor protection. Postretirement survivor protection under the pension plan should be mandatory unless there are extenuating circumstances for the couple. Couples may waive the joint and survivor option by jointly signing such a waiver under circumstances where each spouse is a willing and knowledgeable signator.

Preretirement survivor protection. The 50-percent joint and survivor option should be provided automatically to the survivors of workers who die in the 10-year period prior to normal retirement age of the plan. Also, the Commission recommends that both the employee and the spouse would have to agree to opt out of this automatic provision. At earlier ages where benefits are vested, survivor protection should be provided either through the pension plan or through life insurance.

Protection upon divorce. In cases of separation or divorce, the pension entitlement earned during the marriage should be divisible. This recommendation should not be construed to weaken present nonalienation of benefits provision under ERISA.

Retirement Ages

1. The Commission recommends that ERISA should be amended to permit private pension plans, on a voluntary basis, to increase their normal retirement age in tandem with social security.

As in the private sector, public employee pension plans should increase their normal retirement age in tandem with social security. A retirement age policy that parallels that of social security is recommended for all Federal retirement programs. Under this recommendation, the current social security normal retirement age of 65 would be phased in for new retirees. This age would increase in tandem with increases in the social security normal retirement age. Early retirement benefits would be actuarially reduced for new retirees.

The Commission expresses concern about the payment at very young ages of old-age pension benefits to public employees in hazardous occupations. In particular, the Commission believes it is inappropriate to use pension plans largely as recruitment, retention, and separation devices. The Commission recommends that other methods be found to carry out these functions and that pension programs be used solely to provide retirement income.

State and Local Government Plans

The Commission recommends that, because State and local government employees deserve the same protection as employees in the private sector, a Public Employee Retirement Income Security Act (PERISA) should be enacted covering the same areas of concern as covered by ERISA.

Ownership and Control

1. The Commission believes that concerns relating to the ownership and control of pension fund assets are among the most important social and economic public policy issues facing the Nation in the upcoming decades. This Commission, while it realizes their importance, does not believe that enough is now known about these complex legal and economic issues to enable it to make conclusive recommendations.

In the interim the Commission recommends that Congress and the President continue research and policy development; and to encourage public debate, the Commission further recommends the establishment of a Presidential Commission.

2. In the interim the Commission recommends that ERISA's prudence standards not be construed so as to narrow normal prudence standards to prevent pension funds from taking into account the broader social interests of the pension plan beneficiaries in making investment decisions.

Strengthening Social Security

Financing

1. To solve the short-run financing problems the Commission recommends that there should be interfund borrowing and an acceleration of the scheduled payroll tax rate increases.

The Commission recommends that the normal retirement age of 65 for social security should not be raised for working people who are approaching retirement age. However, to help solve the long-run financing

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problem, an increase in the normal retirement age to 68 should be phased in over a 12-year period beginning in the year 1990. The social security early retirement age, now 62, should be raised to 65, in tandem with the normal retirement age. Disability benefits should be available through the normal retirement age.

Universal Social Security

The Commission believes that individuals who are already retired and workers eligible for immediate retirement should not be affected by any modification of a pension system caused by coordination with social security coverage. Social security should not replace an existing pension system for noncovered workers. Rather, an existing system should be modified to take into account benefits available under social security.

The Commission recommends mandatory universal social security coverage. Specifically the Commission recommends extending social security coverage to all new workers who otherwise would not be covered. However, the Commission recommends that members of certain religious groups continue to be exempted from mandatory social security.

The Commission recommends that action be taken immediately to eliminate benefit gaps and unintended subsidies to workers who have not had substantial social security coverage.

The Commission recommends that the current option allowing covered government and nonprofit groups to withdraw from the social security program be terminated immediately and those groups be encouraged to elect coverage prior to the effective date of mandatory coverage.

Tax Treatment and Earnings Test

Contributions to and benefits from social security should receive the same tax treatment as do those of other retirement programs. At the time of filing, the employee would choose the higher of a tax deduction or a tax credit for the social security employee contribution. As this tax treatment is phased in, the social security earnings test should be phased out.

Spouse Benefits

1. The Commission recommends that earnings sharing be used upon divorce and that inheritance of earnings credits be provided to surviving spouses.
2. The Commission recommends that earnings sharing should not be used for the purpose of disability.

Special Minimum Benefit Under Social Security

The Commission recommends that the social security special minimum benefit be available to long-service workers to enable them to meet the Commission's retirement income goals. This special minimum benefit should be calculated to take into account receipt of employee pensions.

Miscellaneous Benefits

The Commission recommends that the student benefit, the young parent benefit, and the parent benefit should be reexamined and put on a more rational basis.

Strengthening Individual Efforts

Individual Savings

Favorable tax treatment should be extended to employee contributions to pension plans. A refundable tax credit for low and moderate income people to encourage voluntary individual retirement savings and employee contributions to plans are recommended. At the time of tax filing, the employee would choose the higher of a tax deduction or a tax credit.

Contributions and benefit limitations for all individuals should be treated more consistently for all types of retirement savings.

The tax treatment of savings specifically for retirement should be the same as the tax treatment of pension plans.

Employment of Older Workers

1. If the Commission recommendation on the tax treatment of social security contributions and benefits is adopted, then the social security earnings test should be removed. The earnings test limits should be phased out as the Commission's proposal concerning the exclusion of social security contributions and inclusion of benefits in taxable income is phased in.

2. Information on alternative work patterns should be encouraged and developed through research and demonstration programs in existing Federal employment programs. Job retraining and job redesign for older workers in private industry also should be encouraged.

3. In conjunction with its recommendation to raise the retirement age, the Commission recognizes the problem of long-term unemployment among older workers and the use of early retirement under social security to solve this problem. Rather than utilize the social security system, consideration should be given to improving unemployment benefits to provide both short-term income maintenance for these workers and to keep them in the labor force.

4. The ADEA [Age Discrimination in Employment Act] has recently been amended to raise the permissible mandatory retirement age from 65 to 70. As yet there is little experience with the impact of this law on specific work forces, management practices, and labor costs, but early indications are that any feared adverse effects on younger workers have been minimal. After sufficient experience has been gained, consideration should be given to eliminating mandatory retirement completely.

Disability

1. Disability benefits under the social security disability insurance (DI) program should be available through the age at which normal retirement benefits are available under social security. Therefore, in conjunction with the recommended changes in social security retirement ages, the age through which DI [benefits are] available would move upward from 65 to 68 over the 12-year period beginning in the year 1990.

2. Further study at the Federal level is needed to adequately address problems with disability programs. The Commission's work on disability should provide the ground work for that study. Specifically, the merits of the following options should be the subject of further exploration and debate before specific recommendations are made to reform disability programs:

(a) a universal disability program;
(b) a ceiling and floor on replacement ratios for all disability benefits;
(c) a more effective use of rehabilitation; and job redesign and so forth, to encourage labor-force participation;
(d) an occupational disability program for older workers.

Strengthening Public Assistance

The Commission recommends that Federal supplemental security income benefits be set at the poverty line level and the assets test be eliminated.

Inflation Protection for Retirement Income

1. The Commission recommends that the Bureau of Labor Statistics develop a separate cost-of-living index for the retired.

2. The greatest emphasis should be placed on expanding pension coverage rather than providing full inflation protection to some at this time. Therefore, automatic inflation adjustments for employee pensions should be encouraged through tax policy but should not be required at this time.

3. Retirement benefits from Federal pension plans should be adjusted for inflation once, rather than twice, a year.

4. Until a new index is developed for the retired, Federal pensions should be adjusted on the basis of average Federal wage increases or the CPI, whichever is lower.

Administration

The Commission recommends consolidation of administration of all Federal retirement systems; consolidation of ERISA administrative functions in one entity; an interdepartmental task force to coordinate executive branch programs dealing with retirement income, including Federal plans; and new committees on Retirement Income Security, one in the House and one in the Senate, which would consolidate jurisdiction over all types of retirement income programs, including Federal programs.