

ANNOUNCEMENT 66-58: INTEGRATION OF PENSION PLANS WITH SOCIAL SECURITY *

In accordance with Announcement 66-58 appearing in the Internal Revenue Bulletin of September 19, we are pleased to offer our views and comments as "background information" in developing proposed rules for integrating pension, annuity, profit-sharing, and stock-bonus plans with Social Security. The Institute is especially pleased that the Service is taking this careful approach to the difficult issue of the appropriate rule for integration, and we commend you for it.

Before proceeding to an examination of the issues spelled out in Announcement 66-58, we would like to indicate briefly our approach in analyzing the problem. We turn first to a quick look at the private pension plan system and its needs; second to a review of what the Social Security system is today and may become in the future; and third, to an examination of the goal or purpose of the integration rule being reviewed. Following this background discussion, we turn to an analysis of the specific issues involved and offer some suggestions for additional areas of inquiry in the form of possible alternatives. Throughout our review, we refer to pension plans, but we would like to make it clear that the use of this term is intended to cover annuity, profit-sharing, and stock-bonus plans insofar as they are comparable and affected by the integration rules.

One further general comment before proceeding. As representatives of the capital goods and allied products industries, we have always taken what we feel has been understandable pride in the leadership role played by the manufacturing sector of the economy in the establishment and development of the private pension plan system. In this light, we welcome an opportunity to provide our thinking "toward developing constructive ideas and furnishing helpful data." We certainly agree with what we assume to motivate this approach of seeking background information before issuing a proposed rule. Only an open-minded approach will help achieve the mutual goal of industry and government—the growth and development of these private plans which are so important to the general welfare of the nation.

PRIVATE PENSIONS IN BROAD OUTLINE

Key to the narrow discussion of a tax regulation governing permissible Social Security integration with private pension plans for tax qualification purposes is the bigger picture—namely, the *raison d'être* of the private pension plan system. In broad outline, the reasoning behind the establishment of a retirement income or pension program starts with the employer's concern for his employee's welfare. More specifically, it is the employer's intention to provide monetary security for the employee's future and, in a sense, provide a retirement-oriented long-range savings program. From the employee's point of view, the plan provides him with income replacement in future years and thus is a major building block in his personal financial plans.

FUNDAMENTAL PREMISES

This brings us to the first major premise in our look at the integration rule. A private pension plan provides neither the minimum nor the maximum of an individual's financial security after retirement. The floor is the Social Security system. The ceiling lies with individual thrift and what people put aside for tomorrow's wants, e.g., home ownership, bank savings, investments, life insurance, etc.¹

It is the *total* financial support which is all important. Since in most cases Social Security and private savings are not likely to be adequate in themselves,

*Contents of letter sent to Commissioner of Internal Revenue, by Charles Stewart, president, Machinery and Allied Products Institute, Nov. 30, 1966.

¹ A 4th aspect logically would be of a charitable nature—gifts, public old-age assistance, etc. These are, however, in the nature of safeguards as contrasted with earned rewards.