

it is clear that there is a public need served in the encouragement of the development and growth of the private pension plan system.

A second significant premise from which we proceed is that a private pension plan is but one of many forms of compensation. To grasp the philosophy behind the installation of a particular plan, it is important to recognize that its primary purpose is as a reward and/or an incentive to employees for a contribution to the success of the firm. Because it is compensatory in nature, it follows that the absolute amounts in terms of levels of benefit will vary according to an individual's input or contribution. In fact, of course, the absolute amounts under a pension plan do vary, the levels usually being related to such factors as earnings and length of service. We raise these points because the integration rule has the understandable goal of preventing "discrimination"; yet compensation in any customary form is inherently discriminatory and rightly so under a free enterprise system.

Related to the points noted above, there is a third obvious conclusion; namely, that a private pension plan should and will vary according to (1) the needs or wants of the employees and (2) the cost or ability of the employer to pay for a particular benefit. When plans are first installed, it is normal to find an emphasis on providing benefits for those approaching retirement age and those with long service who will soon be eligible. As a given plan matures, however, history shows that along with increases in basic retirement pension payment new features are added. For example, we have seen in recent years such new benefits as early retirement, widow's benefits, etc. If history is a guide, such features will multiply and new ones will be introduced.

In terms of impact this means private plans today contain almost a myriad of differing provisions which reflect widely varying purposes. All of these provisions may fit into a pattern for a given employer but only in the light of his entire compensation scheme and the needs of his various groups of employees. An example of this latter point is the development of what amounts to a supplementary pension plan for selected groups of employees. In the context of the "integration" rule, these plans are often considered appropriate because Social Security old-age benefits comprise a larger fraction of the retirement income of lower-paid than of higher-paid employees and this "imbalance" can be corrected only by making additional pension benefits available to these higher-paid workers. The "goal" of both the supplementary plan and the basic plan is twofold: (1) to meet the needs of employees both collectively and in terms of groups and (2) to serve as a recognized reward and/or incentive. From this, we draw at least one obvious conclusion in terms of pensions in general; namely, that it is vital to the employer that there be flexibility in the design of any given plan.

#### TYPES OF PENSION PLANS

As a final general observation to complete this brief discussion of private plans, in perspective, it seems clear to us that the existing variety in plans employed to achieve a few basic goals makes exact comparisons between types of plans somewhat like comparing apples and pears and plums. To generalize, there are at least three basic formulas—with numerous variations—for determining the amount of pension to which an employee will be entitled. First, there is the unit-benefit method which provides a definite amount of pension per year of credited service. This type of plan obviously provides differing amounts of final pension depending on length of service.

Second, there is the flat-percentage method which provides a percentage of average compensation over a specified period of time. Here it is common to set a minimum qualification for service such as 15 years and to emphasize salary or wage levels by taking a percentage of final years of pay. The aim of this design is to tie pension levels to income achieved just before retirement, presumably the high point for most employees.

A third approach is the money-purchase method in which costs determine the level of benefit rather than the other way around. With this as their primary emphasis, such plans then utilize the concepts of length of service and level of pay to varying degrees.

Since an "integration" rule must fit the variety of plans used, it seems clear that any "certainty" in insuring a goal of reasonable relationship between Social Security benefits and those paid under a private pension plan is made more difficult and perhaps to some extent impossible.