To sum up, a private pension plan is a compensation tool oriented toward the specific retirement needs of the employee. A key aspect in its growth and development is plan flexibility to meet changing employee needs and the employer's ability to pay. Finally, the design of these plans significantly turns on a number of differing considerations including reasonable costs, length of service, and level of pay.

THE "ISSUES" AND THE GOAL

The "integration" rule has its genesis in the Internal Revenue Code which bans a tax-qualified plan from discriminating in favor of higher-paid employees. This ban, however, gives way in logic and equity to an exception so that employers will not be considered to discriminate if they "properly" take into account the pension provided under the Social Security system. At this point the integration rule becomes the vehicle for equating the values under different types of benefit systems for the purpose of establishing factors for comparison. Two questions are raised. What is the nature of the Social Security system which is to be compared to private pension plans? What is the nature of the discrimination being banned?

A LOOK AT SOCIAL SECURITY

To examine these issues in order, it is apparent at once that the Social Security system is quite unlike the private pension system in many of its particulars. Importantly, for example, it has certain aspects of a public assistance project financed by means of a payroll tax. While the right to benefits is tied to a work history, the benefits received by those over 65 are financed almost exclusively from taxes on the currently employed and their employers. One interesting analysis of the system along these lines is as follows:

"That the Old-Age and Survivors Insurance scheme is a current transfer is apparent also. Annual benefits are financed from annual receipts of OASI taxes and interest earnings on the trust fund. Interest on the Federal securities held by the fund is paid out of general revenues. Thus, annual benefits of OASI recipients, whether financed from OASI taxes or interest earnings on the trust fund, are transfers of income from the currently active.

"A number of rationalizations have been invented for the purpose of obscuring the implication of a current transfer. One is the social compact. It is argued that right to benefits is earned by making contributions. However useful this argument may be in political debate it does not alter the simple economic fact of a current transfer. The suggestion that participation in OASI is analogous to the purchase of an annuity is very doubtful. Pension benefits are too loosely related to contributions for the annuity analogy to hold in any meaningful sense. Nor is the program properly insurance. As a consequence of the earned means test, OASI promotes the occurrence of that event against which it "insures," the loss of earned income due to retirement. Should we not recognize OASI for what it is: an acceptance of collective responsibility for the aged"? [2]

Expressed differently but in effect arriving at a similar conclusion is the following colloquy on the proposal leading to Medicare from the House Ways and Means Committee Executive Hearings on Medical Care for the Aged, 1st sess., 89th Cong. (1965), part 1, p. 20:

Mr. Byrnes. So that fundamentally what we are doing here is not prepaying, but what we are doing here is having the people who are currently working finance the benefits of those currently over 65?

Mr. Myers. I think it can be viewed that way, just as the old-age and survivors insurance trust fund can, or else you can also view that it is prepayment in advance on a collective group basis, so that the younger contributors are making their contributions with the expectation that they will receive the benefits in the future—and not necessarily with the thought that their money is being put aside and earmarked for them, but rather that later there will be current income to the system for their benefits.

Viewed in this light, a number of factors in terms of the "integration" rule can be deduced. First, the actual contribution that a given employee makes *in his own behalf* is zero. Second, the "value" of the system which becomes most readily equated to private plans is the work relationship promise of future benefits—

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[2] "Old Age Income Assurance: An Outline of Issues and Alternatives," Subcommittee on Fiscal Policy of the Joint Economic Committee, 2d sess., 89th Cong. (1966), pp. 7–8.