

changes here would be costly, time consuming, and burdensome. Finally, and perhaps most importantly, the confusion that would exist would be equally staggering, not only on the part of individual employers, but also among employees who would find that their benefit expectations are being or could be adversely affected.

The changes which would be required as a result of a 24-percent test itself would also be extensive. At this time, most employers who would be affected are not sure which course of action they would take. Their alternatives appear to be to (1) increase benefits at an added cost or (2) decrease benefits to maintain present costs with a consequent loss of pension benefits to current employees or (3) strip away some of the fringe benefits or plan "extras" such as death or widow's benefits. While it is still too early for the results of our poll to provide much in the way of cost figures, we think it is a very conservative estimate to state that the cost potential of the proposal is many millions of dollars.

Obviously, a more modest downward revision—say to 30 percent—would bring about a less severe impact but one inevitable result of such a revision, even if a "grandfather's clause" were maintained, would be great uncertainty on the part of employers and their pension experts as to the future and a new-born reluctance to initiate changes, such as new employee benefits, for fear of future downward revisions. It takes little imagination, we think, to see that this could really hurt the growth and development of private plans and work to the long-range detriment to the nation as a whole. Even those integrated plans which would not be greatly affected by this particular proposal might suffer from this hangover impact insofar as the employer believes his future flexibility is threatened as, for example, would certainly seem to be the case if the precedent of a "transition" rule were established.

To sum up the results of this poll of our member companies, we think the proposal as put forth would have a clear and far-reaching impact on integrated plans. Further, this impact would be costly both in terms of current expenditures necessary to change plans to meet the new rule and also with regard to the future of private pension plans in general. Finally, we would like to stress again that this impact does not even deal with the basic question—namely, whether or not the change is necessary to prevent discrimination. We, therefore, reach the conclusion that unless a case can be made that a change is necessary in terms of the purpose of the rule any adverse impact is sufficient reason to withdraw the proposal.

MAPI'S SUGGESTIONS

One of the difficulties in looking at a formula approach as we have indicated above is the fact that there is a degree of unreality attached to it because of the variable assumptions from which one might logically proceed. Indeed, the principal difficulty in providing a simple answer to Announcement 66-58 is that much of the analysis is like chasing a ghost or some equally nonexistent quarry.

However the current rule in broad perspective has some attributes on which all can probably agree. First, it is very complicated and, from the businessman's or anyone's standpoint, unduly so. Second, a pension plan is a very significant feature of a company's long-range planning and thus there is a recognizable need for a reasonable degree of certainty. Third, the potential stability of the rule is quite limited if every time Congress amends the Social Security program it becomes incumbent upon IRS to review its rules for integration. Fourth, the significance of the rule is the result it accomplishes, not the "nicety" of its underlying assumptions nor its mathematical precision.

While we might expand on these points, our judgment sense has already led us to some general conclusions. First, we think the "formula" can only be justified on the pragmatic basis of its actual impact. We do not feel it is necessary to change it because mathematically it may appear to be called for. By the same token we would not preserve the status quo if a results-oriented examination indicated it should be so changed. To expand on this point, if the regulations simply incorporated the 37½-percent basic rule absent its involved justification, its permanence or lack of it would obviously be related to its purpose, i.e., whether it prevents "discrimination," and not turn on the elusive issues of ancillary benefit and employee contribution adjustments.

Second, we would tend to keep the status quo unless it was clearly inappropriate because certainty and stability are vitally important to potential beneficiaries whose financial planning is based on current expectations. Moreover, any downward revision of the rule is certain to be costly both in terms of dollars