tirement income values in order to enjoy the capital gains tax treatment; second, it fails to provide assurance that pension contributions, or a major part thereof, are irrevocably dedicated to providing old-age life income. In order to improve this situation, serious consideration should be given to adopting a tax treatment and limitations similar to those in Canada and the United Kingdom where no more than 25 percent of pension values may be taken as a lump sum. Although such lump sum is tax free in these countries, it would be fair to apply the tax treatment that now is in effect in the United States for SEITRA plans.

III. The Naturalness of the Federal Income Tax Treatment of Employer-Instituted Pension Plans

PRELIMINARY OBSERVATIONS

In 1965, $14.26[5] billion was contributed to employer-instituted pension plans, $7.82 billion under private qualified plans and $6.44 billion under plans covering Federal, State, and local government employees. As estimated by the writer, the part of those contributions made on a collective basis; i.e., contributed with respect to the entire group of employees and not with respect to the individual in the form of employee contributions or by the purchase of annuities, was $6.2 billion for private qualified plans and $3.6 billion for Federal, State, and local government plans. Thus, nearly 70 percent of total contributions for employer-instituted plans were on a collective basis. The deferred tax treatment (i.e., only taxing benefits as received) of employer contributions and investment earnings with respect to both employer and employee contributions applies to all these plans. The collective nature of nearly $10 billion of contributions for employer-instituted plans is an important fact to recognize in appraising the Federal income tax treatment of these plans. (Under the railroad retirement plan, not included above, there is a completely free Federal income tax ride, except for nondeductible employee contributions, since employer contributions and investment earnings produce no taxable income for the employee and benefits are exempt by law from Federal income tax. Total contributions in 1965 amounted to $0.63 billion, one-half paid by the railroads on a collective basis.)

Contributions made on a collective basis are commonly determined by actuarial assumptions that can include rates of mortality, disability, withdrawal, salary progression and retirement. It is evident that under such an "averaging" process, there is no precisely determinable part of the contributions that can be said to have been made, in fact, for or on behalf of a particular individual. Similarly, it would be impossible to allocate to an individual employee, on a fair and accurate basis, a part of current investment earnings of a pension fund. The difficulty of allocating employer contributions and investment income to specific employees was recognized by the 1967 Royal Commission on Taxation of Canada in these words: " * * * such an allocation (of

[5] "Private and Public Pension Plans in the United States," 2d edition, March 1967, Institute of Life Insurance.