

If I do a piece of work for you and my payment for the job is a paid-up insurance policy that will provide a life annuity beginning when I am 65 years old, I have clearly gotten something of value for this work. Under general principles of tax law, I am required to include in my income the value of the insurance policy that I have received. The special benefit provided for employees under qualified pension plans is that when they receive something of value in the form of a vested benefit to a pension the tax on this amount is deferred until they get cash.

Finally, it is clear that the investment income of a pension trust would be taxable under general principles of tax law except for the benefits extended to qualified plans.

If the total amount contributed by employers to qualified pension plans and the investment income of the funds were taxable, at individual rates, the revenues would rise by about rent levels by about \$3.8 billion per year. If the amounts were taxable at individual rates, the revenues would rise by about \$1.4 billion a year. The appropriate rate, as I have indicated, depends on whether or not the benefits were vested. Therefore, the cost in revenue of the Federal Government because of the existing pension plan provisions falls somewhere between the two limits of \$3.8 billion and \$1.4 billion. (These estimates take into account the current tax being paid on benefits.) Since there is some degree of vesting, we may put this cost very roundly at about \$3 billion.¹²

If Mr. Goetz is right as to the operation of the general principles of tax law, the tax treatment of employer contributions would remain essentially the same and Federal revenues would not be materially altered, much less increased by Mr. Surrey's theoretical alleged "tax loss" of \$3 billion.

If Mr. Surrey's interpretation of the general principles of tax law is correct, what would be the effect of the repeal of the "special legislation for pension plans?" Would Federal revenues, in fact, be increased by \$3 billion? As a practical matter, could funded pension plans function satisfactorily?

If the \$6.2 billion employer contributions made in 1965 on a collective basis for qualified plans were not currently deductible by employers, an intolerable situation would exist that would give rise to widespread vigorous protest and stimulate many employers to shift to pay-as-you-go financing. Although current revenues in this event would be temporarily increased, deductions corresponding to advance funding contributions and investment income thereon would eventually be taken that could range from amounts of significantly greater value to significantly lesser value than contributions and investment income. (See app. III.) Such abandonment of advance funding would weaken employee pension security and diminish an important source of savings and capital supply. The decline in advance funding would be in conflict with the current objective of the President's Committee on Corporate Pension Funds to improve pension funding.

¹² Ibid., pp. 414-415.