

As for the employee's situation, it would be intolerable to ask an employee to include in taxable income the value of accrued benefits at the point of vesting (assuming that such value under collective funding could be precisely determined—a highly invalid assumption) which could amount to as much as 3 or 4 years' annual wage or salary. Under contributory plans where vesting of benefits provided by employer contributions is usually forfeited if a terminating employee cashes out his own contributions (e.g., the civil service retirement plan), how and when would the employee be taxed on the value of vested benefits? There is no unconditional vesting until retirement age when the value, again, could be several years' wage or salary.

Mr. Surrey's case for "special treatment" can be sustained only if there is an equitable and workable alternative. It should be evident from the foregoing picture of the practical situation that there is no such alternative and, consequently, the present tax treatment of employer contributions is the natural method.

As to the taxation of investment earnings, we have noted earlier the great administrative problems as outlined by Robbins. Mr. Goetz has indicated that, under general principles of tax law, when a trust is taxed as a separate entity, trust income is intended to be taxed only once, to either the trust or the beneficiary. Thus benefit distributions would be deducted from trust taxable income. If this were done, what would the figures look like? Using Holland's¹³ "preferred" projection of private pension plan contributions, benefits, and funds it is evident that, in the aggregate, benefit payments will exceed investment income shortly after 1970.

[In billions]

Year	Investment income (1)	Benefit payments (2)	Excess of (1) over (2) (3)
1965.....	\$3.2	\$2.8	\$0.4
1970.....	4.7	4.5	0.2
1975.....	6.2	6.9	-0.7
1980.....	7.8	9.8	-2.0

It is clear that the revenue from this source would be a rapidly disappearing resource. Of course, the Congress, in its wisdom, might legislate a special tax on investment income of qualified pension plan funds simply for the privilege of operating a plan in our society—but such legislation would appear to be contrary to the treatment of a taxable trust in accordance with the general principles of tax law.

The deferred tax treatment of employer contributions (and investment income on both employee and employer contributions) for plans covering Federal, State, and local government employees, a public policy accepted without question, further fortifies the proposition that the same deferred tax treatment for qualified private plans is the natural method of treatment. Funds for State and local government plans are now of significant proportions and are growing more rapidly

¹³ Daniel M. Holland, "Private Pension Funds: Projected Growth," Occasional Paper 97, National Bureau of Economic Research, tables 24 and 28.