

than those in the private sector. In 1965, contributions were \$4.2 billion (60 percent by employers), benefit payments were \$1.7 billion and estimated investment earnings were about \$1.5 billion. If these plans covered private employees, the same type of calculation that produced Mr. Surrey's \$3 billion assumed tax loss would account for another \$1 billion. This hypothetical figure does not include the operations of plans for Federal civilian employees under which 1965 contributions were \$2.2 billion and benefit payments were \$1.4 billion.

Two conclusions seem inescapable from this survey of the (i) objectives of the 1942 legislation as described by Robbins, (ii) the contrasting analysis of the general principles of tax law of Goetz and Surrey, and (iii) a realistic examination of the practical situation:

(1) The present deferred tax treatment is the natural treatment since, for the vast majority of plans, there is no workable reasonable or acceptable alternative, and

(2) The alleged \$3 billion of "tax cost," developed by the Treasury Department from a fanciful excursion into an unreal world, would not, by eliminating the present tax treatment of qualified plans, be recovered in the form of additional revenues.

ECONOMIC CONSIDERATIONS

In addition to theoretical mathematical considerations and practical and legal considerations, it is appropriate to recognize that, if advance funding of pension plans provides additional capital and, in turn, increased productivity, Federal revenues will be enhanced by taxation of the income associated with this increased productivity. It is then fair and reasonable to recognize, also, that any such additional revenue can be a significant offset to any net loss of revenue resulting directly from advance funding, whether such loss is of a theoretical mathematical character or results from extending the principle of deferred taxation to employee pension plan contributions and to retirement provisions of persons not covered by such plans, as recommended in this paper.

As evidenced by the recently published studies of Cagan and Katona, private pension plan coverage is associated with higher individual discretionary savings. Cagan reached this conclusion:

Our analysis . . . suggests that when households come under a pension plan, offsetting reductions in other saving do not occur. *The net addition to aggregate personal savings apparently equals the full amount of employees' and employers' contributions.* In chapter 6 it was concluded that business and Government saving is probably reduced by 10-20 percent of the growth in pension funds. Though there is no direct evidence for this conclusion, general considerations support it. Hence, *80-90 percent of pension fund growth constitutes a net addition to national saving.* We found no evidence that this addition will be temporary; at least it was not lower for older persons, or for those covered a longer period of time, who would be more aware and more sensitive to provisions for