

*individual acquires a vested right to a benefit.* When the individual subsequently applies for social security benefits, he would then be given a list of the private plans under which he has accrued vested benefits.

There have also been proposals that a central fund be established into which moneys would be transferred on account of vested liabilities or that such transfers be made between plans when an individual changes employment. I do not believe such transfer arrangements to be very desirable, mainly because most plans are continuously less than fully funded; a transfer of funds equal to the value of a terminating employee's benefits would weaken the funded status with respect to other employees covered by the plan. Certainly, in the absence of a satisfactory reinsurance program, such a reduction in the security afforded nonterminated employees would be inequitable.

(B) DETERMINATION OF GROUND RULES CONCERNING THE DESIGN OF PRIVATE PLANS IN ORDER TO ASSURE EQUITY TO INDIVIDUAL PARTICIPANTS

My recommendations cover two items: better assurance that tax concessions will not be granted to programs which discriminate against the lower paid employees, and minimum vesting requirements.

(1) NONDISCRIMINATION REQUIREMENTS

While it is quite clear under the present tax laws that pension benefits may not be discriminatory in favor of higher paid employees as compared with lower paid employees covered by the same plan, it is still common for separate programs to be established covering different classes of employees and for the program covering lower paid employees to be less favorable than the one covering higher paid employees. Similarly, plans covering hourly paid employees frequently are less favorable than plans covering salaried employees with comparable earnings levels.

There are also many instances in which employees working at different facilities of a corporation will have widely differing pension benefits. This may be based upon the internal structure of the corporation (e.g., separate plans for one or more divisions or subsidiaries), upon differences in the kind of work (e.g., employees involved in the manufacture of one product may have different benefits than those involved in manufacturing other products), or simply upon the fact that the employees are at different physical locations. As far as the executives or stockholders are concerned, all income and profits are combined to determine their compensation; other employees, however, are subject to differential benefits based upon some accounting concept of allocating costs.

There are circumstances when a variation in pension benefits would be justified. Some such circumstances are: (1) Where the employees involved have basically different compensation arrangements, thus it may be reasonable to provide different benefits for commission salesmen than for salaried office employees; (2) where the particular work involved places significantly different demands upon the employees, thus it may be reasonable to make retirement available earlier to employees doing strenuous or hazardous work; or (3) where employees covered by a collective bargaining agreement negotiate a