

THE EXTENT AND CONSEQUENCES OF PENSION PLAN TERMINATIONS

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INTRODUCTION

Some loss of benefits is likely when a pension plan is terminated because few plans are fully funded; i.e., have sufficient funds to meet all obligations. The likelihood that members will lose benefits when a plan is terminated has resulted in proposals to prevent or insure the loss. Senator Hartke, for example, has authored a bill to establish a Federal reinsurance program for private pension plans. It was apparent throughout the hearing on Senator Hartke's bill¹ that there was little data available on the extent and consequences of pension plan terminations. This paper summarizes and analyzes the available information. It focuses on two questions: (1) Will many persons be deprived of their expected retirement benefits as a result of pension plan terminations? and (2) What proportion of their expected benefits will terminated plan members actually lose?

EXTENT

It is surprising how few plans have actually been terminated. Murray Latimer's pension plan study in the 1930's includes data on plan terminations during our country's severest depression. Of the 419 pension plans known to have been in existence before 1929, only 27 (6.4 percent) were known to have been discontinued by July 1929. The companies that terminated plans were small, and Latimer concluded that "it is probable that less than 1 percent of the employees enjoying the protection of a pension plan at one time or another were in companies whose schemes were discontinued." A followup inquiry, covering the period July 1929 through April 1932, indicated that an additional 10 percent of the plans were "discontinued, closed to new employees, or suspended; these plans covered, however, less than 3 percent of employees." The benefits of plans covering an additional 30 percent of the employees were "scaled down in one way or another."² No inquiries were reported by Latimer after 1932. Additional plans were undoubtedly discontinued or suspended during the remaining depression years.

The Internal Revenue Service (IRS) releases data on a quarterly basis showing the number of pension and deferred profit-sharing plans qualifying for tax deductions as well as the number that are

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¹ 89th Congress, U.S. Senate, Committee on Finance, *Hearings, Federal Reinsurance of Private Pension Plans*, 1966, pp. 19-20 and 54.

² Murray Webb Latimer, *Industrial Pension Systems*, 1932, pp. 634, 639, 846, and 940.