

AN ACTUARIAL ANALYSIS OF THE LOSS OF PENSION BENEFITS THROUGH THE TERMINATION OF PRIVATE PENSION PLANS

BY JOHN M. GROGAN

To assist Congress and other interested parties in the evaluation of various proposals for changes in Federal laws governing private pension plans, we have made an actuarial analysis of a recent Government study of pension plan terminations in order to determine the approximate rate of benefit loss in the system as a whole.

The study, covering 4,259 plans which terminated during the years 1955 through 1965, was made jointly by the Bureau of Labor Statistics, U.S. Department of Labor,* and the Internal Revenue Service, U.S. Department of the Treasury. The results were reported in the Monthly Labor Review, June 1967, in an article "Terminations of Pension Plans: 11 Years Experience," by Emerson H. Beier of the Division of Industrial and Labor Relations, Bureau of Labor Statistics.

Before undertaking the development of new pension laws the quality of performance under existing laws should be well understood. Thus we hope that the findings reported here will have the careful consideration of every Member of Congress and all in the executive departments who are concerned with the regulation of private pension plans.

It is the responsibility of the Congress and executive department staffs to draw conclusions from this paper and similar studies. This paper attempts to analyze one of the key issues in the many pension topics now being scrutinized, that is, whether a substantial percentage of employees now covered by pension plans are likely to lose a substantial portion of their accrued benefits through plan terminations.

Although the extent of future terminations cannot be forecast, the incidence thus far has been very slight and on any funding basis total accrued benefits will become more fully protected as plans mature.

Our study demonstrates that by using any of the common cost methods with a 20-year funding program a representative plan after only 15 years will have sufficient assets to provide from 80 percent to over 100 percent of the total accrued benefits. Even with a minimum funding policy, a plan after 15 years could be expected to be able to provide over 40 percent of the total accrued benefits for all active employees after providing full benefits for retirees. We submit that this demonstrates a high level of stability and protection inherent in the present pension system due to funding and cost methods established by present law and regulations.

*Arthur Stedry Hansen Consulting Actuaries, Lake Bluff, Ill.