

vate pension plans totaled \$93.4 billion—more than four times the reserves of the social security system. The reserves of insured pension plans alone amounted to \$29.4 billion.

By 1965 the number of employees covered by pension plans was $2\frac{1}{2}$ times as large as in 1950, the number of beneficiaries six times the 1950 total, payments to beneficiaries eight times the 1950 total, and reserves seven times the 1950 total.

According to the President's Committee on Corporate Pension Funds, by 1980 an estimated 43 million employees will be covered by private pension plans, the number of beneficiaries of such plans will increase to 6.6 million, and annual benefit payments to about \$9 billion. By 1980 total contributions to private pension plans are expected to rise to \$10.9 billion a year, and total reserves to \$225 billion.²

THE PRIVATE PENSION SYSTEM BENEFITS THE RANK AND FILE OF EMPLOYEES

It is worthy of note that the rapid increase in private pension plans over the past few decades has consisted overwhelmingly of plans which meet Internal Revenue requirements designed to insure that the plans will benefit the rank and file employees and not merely a few highly paid employees. Since 1942, the Internal Revenue Code has contained provisions which prohibit qualified pension plans from discriminating as to coverage or benefits in favor of highly paid employees. The Internal Revenue Code seeks to induce compliance with these nondiscriminatory requirements by a carrot-and-stick approach—by giving better tax treatment where plans comply with these provisions and by withdrawing this treatment where plans do not comply.

More specifically, in order to qualify under the Internal Revenue Code, a pension plan must cover a specified percentage of employees³ or, as an alternative, cover employees under a classification found by the Commissioner of Internal Revenue not to discriminate in favor of employees who are officers, shareholders, supervisory employees, or highly compensated employees. Similarly, the contributions to the plan or benefits paid out by the plan cannot constitute a larger percentage of pay for upper income employees than for lower income employees.

THE BULK OF PENSION PLANS ARE FUNDED

It is also noteworthy that the bulk of the present pension plans are in varying degrees funded; that is, contributions made by the employer and the employees are set aside either in a trust or with an insurance company to pay benefits at a later date. The Internal Revenue Code recognizes the desirability of funding in its provisions dealing with qualification. The Code does not specify minimum funding standards. However, as a matter of administrative practice, the Internal Revenue

² *Public Policy and Private Pension Programs, A Report to the President on Private Employee Retirement Plans by President's Committee on Corporate Pension Funds and other Private Retirement and Welfare Programs*, app. A, table 1.

³ To qualify on this basis, the plan must cover 70 percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit under the plan if 70 percent or more of all the employees are so eligible, excluding in each case employees who have been employed not more than a minimum period prescribed by the plan, not exceeding 5 years, employees whose customary employment is for not more than 20 hours in any 1 week, and employees whose customary employment is for not more than 5 months in any calendar year (sec. 401(a)(3)(A) of the Internal Revenue Code).