

AN ANALYSIS OF PROPOSALS FOR IMPROVING THE FUNDING AND FINANCIAL MANAGEMENT OF PRIVATE PENSION FUNDS

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The recent report, "Old Age Income Assurance: An Outline of Issues and Alternatives," prepared for the Joint Economic Committee puts forth several suggestions which, if adopted, would greatly influence the funding and investment management of private pension funds. These suggestions would affect the size and certainty of retirement incomes for a large proportion of the population and the employment costs of most corporations. The particular suggestions we have reference to are those regarding removal of public incentives for funding of private plans,¹ revision of funding requirements,² government-sponsored reinsurance of plans,³ and regulation of fund managers and their investment decisions.⁴ The purpose of this paper is to summarize our reactions to these proposals recognizing that they will undoubtedly be covered individually at some length in other papers prepared for the committee. In concluding, we present what we judge to be reasonable proposals for altering the present arrangements for funding and fund management.

The report suggests that private pension plans be discouraged through the elimination of tax deductibility for contributions and tax exemption for fund income. This would certainly reduce the incentive for establishing new private plans and expanding present ones. The outcome would ultimately be to generate additional pressure for expanded benefits and coverage under OASDI. Eventually we could envision the withering away of the private pension system if tax incentives were eliminated and the social security system enlarged.

The question of whether the Nation would be served best by a predominantly public retirement system or a mixed, public-private system, as we have at present, is one too complex to be argued in depth here. Our own preference is for the present system with some modifications. This preference is influenced by (1) the high value we place on the freedom to choose various levels and combinations of benefits under private plans, (2) the belief that pension fund savings add to total saving and thus enlarge the fund of capital necessary for economic and social advancement, and (3) the conviction that primary reliance on decentralized investment decisions will lead to more effective use of such capital. Assuming this preference for a vigorous

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¹ U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Old Age Income Assurance: An Outline of Issues and Alternatives*, U.S.G.P.O., 1966, pp. 5-7, 31.

² *Ibid.*, pp. 17-18.

³ *Ibid.*, pp. 29-30.

⁴ *Ibid.*, pp. 22, 30.