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8. Pension Funds Through 1981:

A Summary

This chapter is not a self-contained unit. Those who have read the preceding pages will, we hope, find this a convenient summary, but to those who have not, the definitions and concepts used here may be somewhat puzzling. The wealth of assumptions and detail that went into the projections makes this unavoidable; to correct it would require a chapter of such a size as to defeat the convenient purpose of a summary.

The highlights of the projections are discussed under four headings: number of workers covered, number of beneficiaries, level of pension fund reserves, and annual net change in reserves.

Coverage

Judgments on the course of coverage are incorporated in the ranges of the alternative coverage assumptions used in the projections. For private industrial pensions, four possible coverage assumptions were used; for state and local employee plans, coverage was taken to increase proportionately from 78.3 per cent of total employment in 1962 to 80 per cent by 1982.

The estimates of coverage are tabulated in Table 53. Magnitudes of C_3 , for reasons set out earlier, are considered the most credible. Clearly, under any of the assumptions, there will be an enormous growth in the coverage of the private pension structure. Between 1961 and 1981, a likely figure is an increase of about 27 million, i.e., slightly more than a million a year. By 1981 the number of workers in plans of industry, nonprofit organizations, and state and local governments could well be twice as large as in 1961.

These projections of coverage can usefully be compared with estimates of the "potentially eligible" (in this case, of course, potentially

TABLE 53

*Projected Coverage of Private Pension Plans,**1961-81*

(millions)

| Year ^a | Industrial Plans, Coverage Assumption | | | | State and Local Plans | Total Based on | | | |
|-------------------|--|----------------|----------------|----------------|-----------------------------|----------------|----------------|----------------|----------------|
| | C ₁ | C ₂ | C ₃ | C ₄ | | C ₁ | C ₂ | C ₃ | C ₄ |
| 1961 | 22.6 | 22.6 | 22.6 | 22.6 | 5.0 | 27.6 | 27.6 | 27.6 | 27.6 |
| 1966 | 26.4 | 27.9 | 28.4 | 28.7 | 6.3 | 32.7 | 34.2 | 34.7 | 35.0 |
| 1971 | 30.4 | 32.0 | 33.6 | 34.6 | 8.0 | 38.4 | 40.0 | 41.6 | 42.6 |
| 1976 | 35.3 | 35.5 | 38.1 | 40.3 | 10.1 | 45.4 | 45.6 | 48.2 | 50.4 |
| 1981 | 42.0 | 39.4 | 42.2 | 45.4 | 12.8 | 54.8 | 52.2 | 55.0 | 58.2 |

Source: Tables 16 and 52.

^aPrivate industrial data at end of calendar year; state and local are averages for end of fiscal years t and $t+1$ and, therefore, substantially the same as end of calendar year t .

eligible for both private industrial and state and local government pension plans).¹ The results are summarized in Table 54. They suggest that coverage, already quite high in relation to realistic expectations of what it could be at a maximum (see Tables 11 and 52 above), will become even more intensive. Thus by 1976 well over 80 and perhaps as high as 90 per cent of those workers who might reasonably be considered eligible for private pension plans will be covered.² An increasingly important role in the pension structure and its coverage will be played by state and local plans.

Beneficiaries

There is a solid base for estimating the number of people who will receive benefit payments from private industrial pension plans and from state and local government plans. The number of beneficiaries

¹ For the latter, simply full-time employment.

² This percentage is not as startling as it appears at first glance, since it refers to the potentially eligible and not the broader base—employees on nonagricultural payrolls.

TABLE 54

*Employees Potentially Eligible for Pension Plan Coverage
and Number Covered as Percentage of Potentially Eligible,
1961 - 81*

| Year | Number of Employees Potentially Eligible (millions) | | | Number Covered by All Private Plans as Percentage of Potentially Eligible for Coverage Assumption | | | |
|------|---|-----------------|---------------|---|----------------|----------------|----------------|
| | Private Industrial | State and Local | Total Private | C ₁ | C ₂ | C ₃ | C ₄ |
| 1961 | 32.9 | 5.3 | 38.2 | 72.2 | 72.2 | 72.2 | 72.2 |
| 1966 | 36.4 | 6.7 | 43.1 | 75.9 | 79.4 | 80.5 | 81.2 |
| 1971 | 40.4 | 8.4 | 48.8 | 78.7 | 82.0 | 85.2 | 87.3 |
| 1976 | 44.7 | 10.5 | 55.2 | 82.2 | 82.6 | 87.3 | 91.3 |
| 1981 | 49.6 | 13.3 | 62.9 | 87.1 | 83.0 | 87.4 | 92.5 |

Source: Tables 17, 52, and 53.

and covered workers as of 1961 was known, and over the next generation beneficiaries will be made up of the survivors from the initial group and currently covered workers 45 or older who enter the ranks of the retired. But to determine the latter is not a simple matter of applying the appropriate mortality rates; a strong element of judgment is involved in the adjustment for additional beneficiaries due to the growth in coverage between 1962 and 1981. The relevant data on beneficiaries appear in Table 55 and require little elaboration. They show, of course, great growth over the twenty-year period under review—from about 2.5 million in 1961 to something on the order of 9 to 10.3 million twenty years later. Clearly, in the course of the coming generation, private pensions will become a much more important source of income for the aged.

To place the growth of beneficiaries of private pensions in sharper focus, they can be compared with the population 65 or over in Table 56.³ This is not precise since not all people of this age are retired and not all of the retired are as old as this, but for the requirements of this study it will suffice. So, too, it is enough to use only one estimate

³ The benchmark dates in Table 56, different from those used in the other tables, are the dates for which estimates of the population 65 and over are available.

TABLE 55

Projected Beneficiaries of Private Pension Plans,

1961 - 81

(thousands)

| Year ^a | Industrial Plans | | State and Local Plans (3) | Total Private Plans | |
|-------------------|--------------------|---------------------|------------------------------------|---------------------|-----------|
| | “Low” ^b | “High” ^b | | (1) + (3) | (2) + (3) |
| | (1) | (2) | | (4) | (5) |
| 1961 | 1,900 | 1,900 | 584 | 2,484 | 2,484 |
| 1966 | 2,784 | 2,869 | 751 | 3,535 | 3,620 |
| 1971 | 4,187 | 4,541 | 935 | 5,122 | 5,476 |
| 1976 | 5,917 | 6,693 | 1,142 | 7,059 | 7,835 |
| 1981 | 7,731 | 9,032 | 1,302 | 9,033 | 10,334 |

Source: Tables 19 and 51.

^aPrivate industrial data at end of calendar year; state and local are averages for end of fiscal year t and $t + 1$ and, therefore, substantially the same as the end of calendar year t .

^b“Low” and “high” are simply designations for $A_{.25}C_3$ and $A_{.50}C_3$, respectively, as defined in Chapter 2.

of the future population 65 and older. Table 56 projects a relative growth in the number of people who will receive a pension from a private plan (and additionally in almost all cases from OASDI) from 17 or 18 per cent of the population 65 years of age and older in 1965 to between 35 and 40 per cent of this age class by 1980.⁴ So while the role of private plans will be enhanced, the recipients of such payments will still constitute a minority of those 65 and over.

With benefits per beneficiary rising each year, total benefit payments will, of course, increase even more rapidly than the number of beneficiaries. Some idea of the magnitudes involved is furnished in Table 57. Private industrial, and state and local government employee pension plans combined provided just a little under \$3 billion of income to the retired in 1961. By 1981 they may well be paying

⁴This is an overstatement of the number of persons receiving both a private pension and OASDI benefits to the extent that most beneficiaries of state and local government employee plans are not now recipients of old-age payments under OASDI, but by 1980 the situation will have changed.

TABLE 56

*Projected Beneficiaries of Private Pension Plans
as Percentage of Population 65 and Older,
1965 - 80
(millions)*

| Year ^a | Industrial Plans | | State and Local Plans | Total Private Plans | | Total as Percentage of Population 65 and Older ^c | |
|-------------------|--------------------|---------------------|-----------------------------|------------------------|---------|--|------|
| | "Low" ^b | "High" ^b | | (1)+(3) | (2)+(3) | (4) | (5) |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1965 | 2.4 | 2.5 | 0.7 | 3.1 | 3.2 | 17.1 | 17.7 |
| 1970 | 3.7 | 3.9 | 0.9 | 4.6 | 4.8 | 23.0 | 24.0 |
| 1975 | 5.3 | 5.9 | 1.1 | 6.4 | 7.0 | 29.1 | 31.8 |
| 1980 | 7.1 | 8.2 | 1.2 | 8.3 | 9.4 | 34.6 | 39.2 |

Source: Tables 23 and 51.

^aBeginning of calendar year for private industrial, July 1 for population 65 and over. State and local are averages for end of fiscal year $t - 1$ and t and, therefore, substantially the same as beginning of calendar year t .

^b"Low" and "high" are simply designations for $A_{.25}C_3$ and $A_{.50}C_3$, respectively, as defined in Chapter 2.

^cLow-cost estimate of population 65 and older.

out something between five and six times as much, which means an annual rate of growth of between 8 and 9 per cent.

The high coverage percentages of Table 54 and the much lower beneficiary percentages of Table 56 are explained by two salient features of private pension arrangements.

1. In the dynamics of pension plans, beneficiaries and benefits, perforce, lag behind covered workers and contributions. So, although by 1981 most workers will be covered, it is only those who were at least 45 in 1961 and are still alive (and also have met vesting requirements) who will be receiving benefits in 1981.

2. Beneficiaries would never be expected to be as proportionately important as coverage because, given the prevailing age and years-of-

TABLE 57

*Projected Retirement Benefit Payments of Private Pension Plans,
1961-81*
(billion dollars)

| Year | Industrial Plans | | State and Local Plans ^b | Total Private Plans | |
|------|---------------------------|----------------------------|--|---------------------|----------------|
| | "Low" ^a (1) | "High" ^a (2) | | (1)+(3) (4) | (2)+(3) (5) |
| 1961 | 1.9 | 1.9 | 0.9 | 2.8 | 2.8 |
| 1966 | 3.0 | 3.1 | 1.4 | 4.4 | 4.5 |
| 1971 | 4.9 | 5.3 | 2.0 | 6.9 | 7.3 |
| 1976 | 7.4 | 8.4 | 2.7 | 10.1 | 11.1 |
| 1981 | 10.4 | 12.1 | 3.4 | 13.8 | 15.5 |

^a "Low" and "high" are simply designations for $A_{.25}C_3$ and $A_{.50}C_3$, respectively, as defined in Chapter 2. The $A_{.25}C_3$ figures for 1966-81 are from Table 24; the $A_{.50}C_3$ figures are NBER projections not shown elsewhere. The 1961 figures are from Alfred M. Skolnik, "Growth of Employee-Pension Plans, 1954-61," *Social Security Bulletin*, April 1963, Table 4, p. 9.

^b Data for state and local plans are computed from Table 51 (absolute increase projections).

service requirements, many covered workers will not be employed long enough to earn a pension benefit.⁵ This is particularly true of many women workers who, although covered, will not put in the generally rather long stretch of continuous employment necessary to earn the right to a benefit from a private plan.

Reserves

Reserves are the main interest of this study. It remains now to put together the estimates for private industrial pension plans and those for state and local government plans. For this purpose the "most likely" group of the basic set of projections for private industrial funds is used, as is the one projection set preferred for state and local gov-

⁵ For a recent and very thorough discussion of this matter, see Merton C. Bernstein, *The Future of Private Pensions*, New York, 1964.

TABLE 58

*Projected Levels of Private Industrial and State and Local
Government Pension Plan Funds, 1961 - 81*
(billion dollars)

| Year | Industrial Funds | | State and Local Funds ^a | Total Private Funds | |
|-------------------|------------------|---------------|---------------------------------------|---------------------|---------------|
| | Average | Range | | Average | Range |
| 1961 ^b | 55.3 | 55.3 | 22.1 | 77.4 | 77.4 |
| 1966 | 87.5 | 86.1 - 88.7 | 35.7 | 123.2 | 121.8 - 124.4 |
| 1971 | 124.5 | 119.9 - 128.5 | 55.2 | 179.7 | 175.1 - 183.7 |
| 1976 | 162.9 | 154.0 - 171.3 | 83.4 | 246.3 | 237.4 - 254.7 |
| 1981 | 200.5 | 187.8 - 214.2 | 124.6 | 325.1 | 312.4 - 338.8 |

Source: Tables 27, 28, and 50.

Note: For industrial plans, reserves are at end of calendar year; for state and local plans, reserves are averages at end of fiscal years t and $t + 1$ and, therefore, substantially the same as end of calendar year t .

^a Absolute amount of growth projection values.

^b Published data, hence no range.

ernment plans—the absolute amount of growth projection. The results appear in Table 58. The pattern of reserves over time and alternative projections of fund levels have been extensively discussed earlier. Here the emphasis is on the height of projected reserves. Private pension plans will be a large accumulator of financial assets over the next twenty years. At the end of this period they will probably hold four to five times as much in the way of assets as they did at the start; i.e., reserves are expected to increase from \$77 billion to close to \$325 billion.⁶

Their importance, of course, depends in large part on the aggregate of assets available for holding, in this case, financial assets. What they will be over the next twenty years is a study in itself; it has not been investigated here.

⁶ State and local funds are projected to increase from 29 to 38 per cent of total funds, between 1961 and 1981, with a sizable portion of the increase occurring between 1976 and 1981. In the preceding chapter it was pointed out that this portion of the projections is the most uncertain.

Kavesh and Mackey have projected corporate bonds outstanding as of 1975 at about \$215 billion. If state and local funds, insured funds, and noninsured funds all hold the same proportion of corporate bonds to total assets in 1975 as they did in 1960, then all private pension plans will hold about \$95 billion of corporate bonds, or some 44 per cent of the total of corporate bonds outstanding, as compared with the 35 per cent they held in 1960.⁷

Annual Net Change in Reserves

Finally, how important will private pension funds be in the capital markets; i.e., how much net new finance will they provide? ⁸ The relevant statistic is their annual rate of asset accumulation, summarized in Table 59. Private pension funds are expected to purchase more assets, on net balance, each year over the next twenty years, and their annual net purchases to increase from \$8 billion in 1961 to about \$17 billion by 1981. As in Table 58, the data are restricted to the "most likely" group of the basic set for private industrial plans and the absolute amount of growth projection for state and local funds. The range within which the projections fall is quite narrow. The pattern just noted indicates that private pension funds will continue to be powerful accumulators. It is interesting to note in this connection the role of state and local plans in providing a continual upward thrust that counteracts the tendency of private industrial plans' accumulations to reach a peak and turn down slowly. Indeed, state and local funds are projected to be such powerful accumulators that by 1981 they will be buying more assets each year than industrial plans. But for reasons already developed, which apply particularly to first differences, this result is uncertain, for the projections of this sector over the later years are subject to a wide margin of error. Not open to

⁷ The estimate is from Robert A. Kavesh and Judith Mackey, "Financial Aspects of the Disarmament Process," *Journal of Finance*, May 1963, p. 147. (Their "combination" estimate was chosen.) The 1960 proportions are from Table 3, above, and corporate debt outstanding is from the Federal Reserve Board *Flow of Funds* study's estimate of total bonds of corporate business (nonfinancial corporations and finance companies), *Federal Reserve Bulletin*, October 1964, pp. 1344 and 1347.

⁸ This phrasing does not presume that the annual additions to their reserves represent, in toto, net new saving. This is left an open question, although Cagan's report, *The Effect of Pension Plans on Aggregate Saving*, New York, NBER, 1965, suggests that it is primarily net additional saving.

TABLE 59

*Projected Net Annual Purchases of Private Industrial and
State and Local Government Pension Plans, 1961 - 81*
(billion dollars)

| Year | Industrial Funds | | State and Local Funds ^a | Total Private Funds | |
|-------------------|------------------|-----------|---------------------------------------|---------------------|-------------|
| | Average | Range | | Average | Range |
| 1961 ^b | 5.3 | 5.3 | 2.4 | 7.7 | 7.7 |
| 1966 | 7.0 | 6.5 - 7.3 | 3.1 | 10.1 | 9.6 - 10.4 |
| 1971 | 7.6 | 6.9 - 8.3 | 4.4 | 12.0 | 11.3 - 12.7 |
| 1976 | 7.7 | 6.8 - 8.8 | 6.4 | 14.1 | 13.2 - 15.2 |
| 1981 | 7.4 | 5.7 - 8.8 | 9.6 | 17.0 | 15.3 - 17.4 |

Source: Tables 27, 28, and 50.

Note: Private industrial data over calendar year; state and local are averages over fiscal years t and $t+1$ and, therefore, substantially the same as over the calendar year t .

^a Absolute amount of growth projection values.

^b Published data, hence no range.

real doubt, however, is the likelihood that state and local funds and their net purchases will continue to grow in relative importance. It goes without saying that these two patterns and their net resultant are more conjectural than the prediction that private pension plans will continue to buy considerably more assets than they sell, over the period of this study.

Assumptions Implicit in These Projections

As an aid in interpreting this summary of our findings, the reader should recall that in this study's projections explicit assumptions were made only about the monetary flows of private pension plans. However, a vast variety of assumptions about related variables are implicit in the projection methods, which call on the history of the past and push it into the future. It would be pointless, of course, to discuss these implicit assumptions at length. But there are several features that deserve particular notice.

Specifically, except in Chapter 6, no assumptions were made explicitly about the role of OASDI vis à vis private plans. Implicitly, however, it is clear that in making the projections OASDI was not frozen at its present level. For the trends upon which the projections are based incorporate the data of a period over which the scope and level of OASDI as well as private pension plans grew. So in some loose and quite unspecified fashion our projections allow for growth and liberalization in both public and private arrangements.

Another implicit assumption in this study's projections is that the same funding practices that ruled in the past (1950-61) will continue into the future. To the extent that the degree of funding changes, the projections will be in error. While some companies may very well fund to a lesser degree over time once a sizable fund has been accumulated, there are strong pressures that could be expected on the opposite side, pressures that might be summarized under the heading of government and union concern for the "adequacy" of private pensions. For this reason, it is my judgment that there will not be a sharp change in the degree of funding for private plans over the next twenty years. However, as noted in Chapter 7, this may not be the case for state and local employee plans which tend to be underfunded anyway and which the projections suggest could accumulate at a very heavy rate. Here the degree of funding may drift downward.