PRIVATE PENSION SYSTEMS

JOINT HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON FINANCE UNITED STATES SENATE

AND A

SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

SEVENTY-FOURTH CONGRESS

SECOND SESSION

ON

PRIVATE PENSION SYSTEMS

PART 1

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SUBCOMMITTEE OF THE COMMITTEE ON FINANCE, UNITED STATES SENATE

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PRIVATE PENSION SYSTEMS

MONDAY, MARCH 30, 1936

SUBCOMMITTEE OF THE COMMITTEE ON FINANCE,
UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D. C.

The joint group met pursuant to call, at 7:30 p. m., in the District Committee room of the Capitol Building, Senator William H. King presiding.

Present: Senators King (chairman) and Clark; Representatives Doughton, Hill, Treadway, and Bacharach.

Also present: Thomas H. Eliot and Leonard Calhoun of the Social Security Board; L. H. Parker of the Joint Committee on Internal Revenue Taxation; H. W. Forster, of the firm of Towers, Perrin, Forster and Crosby, Inc., Philadelphia, Pa., W. H. Woodward, attorney at law, St. Louis, Mo., and Murray Latimer, of the Social Security Board and the Railroad Retirement Board.

Senator KING. Shall we proceed? Mr. Doughton, what are your views as to how we shall proceed? Shall we hear from the experts?

Mr. DOUGHTON. I suppose that is proper; I suppose that is the first thing to do.

Senator KING. Mr. Eliot, have you any report to make?

Mr. ELIOT. I would like to make a very short statement. I would like to read it, if I may.

Senator KING. Is that all right, Mr. Doughton, Mr. Hill, Mr. Treadway, and Mr. Bacharach?

Mr. DOUGHTON. That is all right with me.

Mr. HILL. Yes.

STATEMENT OF THOMAS H. ELIOT

Mr. ELIOT. Mr. Chairman and members of the committee, I desire at the outset to state that the remarks I shall make are designed to express the opinion of no one save Mr. Calhoun and myself. It may well be that Mr. Beaman, Mr. Boots, or others may differ with us.

Mr. Calhoun and I agreed last August to assist this committee in the work of exploring the possibilities of encouraging private pension systems. At that time the Social Security Board, with which we are both connected now, did not exist. During the last months, insofar as we could spare the time from our official duties, we have tried to carry out our promise to this committee. We have taken part in the work of seeing whether legislation encouraging private

pension systems can be so framed that adequate protection is given not only to the employees with such systems, but to their employees and the Government as well. As to whether, from a point of view of policy, such legislation is desirable or undesirable, we of course offer no opinion.

There has been prepared, largely by Mr. William Woodward, Mr. Powell Hamilton, and other representatives of private interests, a draft of proposed legislation for encouraging private pension systems. We, Mr. Calhoun and I, have cooperated closely with these gentlemen, and I feel no hesitancy in saying that everyone worked with the common objective of furnishing your committee with the safest and most practical legislation the problem permits. While the draft is subject to further improvement, it is thought to be so nearly in final form as to justify its presentation to the committee tonight.

Effort has been made to overcome, so far as possible, the obstacles noted in the memorandum previously furnished your committee. It is our feeling that the draft Mr. Woodward will present you satisfactorily solves some of the difficulties presented in that memorandum. Some objections to any attempt to correlate Federal annuities and private annuities are, of course, inescapable. I refer particularly to two of these objections: (1) A theoretical risk, borne by employees, of loss of reserves supporting private-plan benefits.

Senator KING. Read that again please.

Mr. ELIOT. A theoretical risk, borne by employees, of loss of reserves supporting private-plan benefits; and (2) administrative expenses in supervising private pension plans and in making actuarial computations.

The first of these, the risk of loss of reserves, has been minimized by limiting the annuity carrier to insurance companies of considerable experience and wide coverage. No possible way has been determined of reducing the administrative expense of supervising and making actuarial calculations with respect to private annuity plans.

I feel it would be but fair at this point to state that letters which have been received from insurance companies and employers have been most discouraging. Mr. Johnston, clerk of the Finance Committee, has sent out copies of Mr. Calhoun's memorandum to insurance companies and large operators of private plants, with the request that they advise the committee as to the best method of encouraging these plans. No solution was received from any company, and replies from several were to the effect that the difficulties presented seem insurmountable.

In view of this, I, of course, feel great hesitancy in stating that the draft which will be presented will accomplish its intended purpose. I do feel, however, that the draft more nearly accomplishes the objectives of the committee than does any legislation previously suggested.

Might I add that the Treasury has not been consulted with respect to the provision as to issuance of credit certificates and that accordingly I am not certain as to their attitude with respect to this part of the draft?

In concluding I feel it proper to mention that my inexpertness in the field of insurance may have resulted in my being unaware of many difficulties inherent in this proposed amendment. I do feel, however, that the draft which will be presented is less objectionable

than any previously considered. I know it is the result of the most painstaking work and careful consideration of types and bases of assistance to private pension systems, and that it is designed, so far as possible, to provide adequate safeguards to the employee, the Government, and the employer.

That is my position, and Mr. Woodward is prepared to present and explain the draft that we present.

Senator KING. If it is agreeable we will hear now from those who are about to present the draft.

Mr. TREADWAY. May I ask one question before Mr. Eliot leaves?

Senator KING. Yes.

Mr. TREADWAY. You said you were not consulted by the Treasury, but you are, as I understand it, directly connected with it. You are the counsel, are you not, of the Social Security Board?

Mr. ELIOT. Yes, sir.

Mr. TREADWAY. Have you consulted with your associates there? I do not know who constitutes the Board. Are you an actual member of the Board or general counsel?

Mr. ELIOT. I am general counsel. I have not consulted over this draft or, to any extent, over the problem with the members of the Board. One of the experts of the Board is head of the old-age benefits, Mr. Latimer, who is here tonight, and he was consulted at one time or another and he knew more about the actual operation of the insurance than either Mr. Calhoun or myself. He was consulted to give us guidance and aid on those points, but in the later stages of the drafting we have not had any extended consultation. We have gone into this to fulfill our agreement of last summer in an unofficial capacity rather than an official capacity.

Mr. DOUGHTON. Mr. Chairman, I understood this proposed draft, that will be read later, was less objectionable than any plan thus far proposed. Do you want us to understand that it is objectionable but not seriously objectionable?

Mr. ELIOT. Well, "objectionable" perhaps is an unfortunate word. To this draft objections would be made. I mentioned two of them. The chief objections that had us worried last summer, that had us worried as late as early this winter, many of them have been eliminated.

Senator CLARK. Mr. Eliot, of course objections would be made to any plan or scheme that would be proposed. In other words, very serious objections can probably be made to the act itself; it goes into effect but is made legal ultimately by the Supreme Court of the United States. Any scheme that anybody may advise, particularly in a new field such as this, may be subject to objections, theoretically.

Mr. ELIOT. I agree with you.

Mr. HILL. Mr. Chairman.

Senator KING. Mr. Hill.

Mr. HILL. Mr. Eliot, you used the expression "theoretical risk of loss of reserves to the employees." What is the significance of that expression, "theoretical risk"?

Mr. ELIOT. I used the term "theoretical risk"—possibly it is a bad term to use—I used it because I felt, after talking with people who knew more about it than I did, after the safeguards in the present draft whereby an annuity carrier has got to be a particular

type, a sound insurance company, the safeguards are so great that it would be very, very unlikely, almost impossible, for the annuity carrier to go completely broke while still maintaining a private plan, and being unable to pay 100 cents on the dollar to the beneficiaries of this plan. There may be companies which are of great size which have, or could, or would go completely broke, but in the absence of that possibility—and I was told it was a very small possibility—I used the term "theoretical risk."

Mr. HILL. Is anyone here tonight to tell us about this draft and point out these different phases?

Mr. ELIOT. Yes, sir.

Mr. HILL. The theoretical risk of loss and administrative difficulty?

Mr. ELIOT. Yes, sir. I think Mr. Woodward can, and if he does not others perhaps can who are present here tonight.

Senator KING. We will receive the draft.

(The draft of the bill referred to is as follows:)

[Committee print—Tentative draft, March 26, 1936]

A BILL To amend the Social Security Act with reference to private annuity plans

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Social Security Act is hereby amended by adding after subsection (a) (2) of section 202, the following new subsection:

"(3) The amount determined under (1) or (2) of this subsection payable to him with respect to any period shall be decreased by the amount of any transfer annuity payable to him with respect to such period."

Section 203 (b) of the Social Security Act is amended to read as follows:

"(b) If the Board finds that the correct amount of the old-age benefit, inclusive of the amount of transfer annuity, payable to a qualified individual during his life under section 202 was less than 3½ per centum of the total wages by which such old-age benefit was measurable, then there shall be paid to his estate a sum equal to the amount, if any, by which such 3½ per centum exceeds the amount (whether more or less than the correct amount) paid to him during his life as old-age benefit, inclusive of any amount of transfer annuity paid or payable to him during his life."

SEC. 2. The Social Security Act is amended by inserting the following new section between sections 206 and 207:

PAYMENT TO EMPLOYERS

"SEC. 206½. (a) Every employer who maintains a private annuity plan, approved by the Board, shall be entitled to receive annually on or before March 1 of each calendar year, beginning with the calendar year commencing January 1, 1938, with respect to each individual (unless precluded by reason of age from becoming a qualified individual) covered by such plan on the preceding December 31, or who died or withdrew from such plan during the preceding year while covered by such plan, the amount (with proper interest adjustments to date of payment) of the annual transfer reserve of such individual with respect to the preceding year: *Provided*, That the Board finds that such employer has previously paid to an approved annuity carrier, with respect to the preceding year, the sum required to purchase from the annuity carrier the transfer annuity for such individual, and that no part of such sum has been deducted or is deductible from the wages of such individual.

"(b) The Board shall certify the amount due such employer for payment and it shall be paid in the manner provided by section 207, or, upon demand, the Board shall issue to such employer a certificate showing the amount due and such certificate shall be accepted in payment of any taxes due the United States and to that extent shall be assignable.

"(c) If the Board finds at any time that more or less than the correct amount has theretofore been paid to such employer under this section, then,

under regulations made by the Board, proper adjustments shall be made in connection with subsequent payments under this section to the same employer."

SEC. 3. Section 210 of the Social Security Act is amended by adding at the end thereof the following new subsections:

"(d) The term 'approved annuity carrier', for purposes of this Act, means a life insurance company found by the Board to—

"(1) be authorized to do business in a majority of the States or, in lieu thereof, in a State approved by the Board;

"(2) have admitted assets of not less than $100,000,000; and

"(3) have had not less than five years of practice in life insurance and annuity business.

"The term 'annuity carrier' wherever used in this title shall be construed, wherever applicable, to mean one or more annuity carriers.

"(e) The term 'covered', when used with respect to an employee and his employer's private annuity plan, refers to the period of time which begins from the effective date of the—

"(1) approval of the plan by the Board; or

"(2) initial payment to the annuity carrier with respect to the employee; or

"(3) notice by the employee to the employer, in such form as the employer may require, of the employee's election to come into the plan; or

"(4) accrual of benefits, whichever of such events last occurs, preceded by the other three events; and ends upon the occurrence of the first of the following events;

"(A) voluntary withdrawal of an employee from the private annuity plan or termination of employment as of a date advised to the Board by the employer or receipt of annuity benefits prior to attaining the age of sixty-five;

"(B) attainment of age sixty-five;

"(C) termination of the plan; or

"(D) withdrawal of approval of the plan by the Board.

"(f) Anything in subsection (e) to the contrary notwithstanding, the Board may make such rules and regulations consistent with the intent of subsection (e) as may in its opinion be advisable for determining the exact dates of the beginning and ending such period of coverage.

"(g) The term 'transfer annuity' with respect to an individual means an annunity for life beginning at age sixty-five at a monthly rate of one-ninth of 1 per centum of total wages up to $45,000 and one twenty-fourth of 1 per centum of total wages in excess of $45,000 and not in excess of $129,000.

"The term 'total wages' as used in this subsection—

"(1) for the purpose of determining the monthly rate, shall include wages if any arising out of employment prior to becoming covered by the private annuity plan;

"(2) for the purpose of determining the amount of the transfer annuity, shall include only such wages as arise out of employment while covered by the private annuity plan.

"(h) The term 'annual transfer reserve' with respect to an individual means the amount, actuarially determined by the Board, necessary to support, on a reserve basis, the increase in the transfer annuity during the preceding calendar year. Such determination by the Board shall be based upon—

"(1) standard tables of mortality from time to time adopted by it;

"(2) interest at 3 per centum per annum compounded annually;

"(3) transer annuity without discount for employment after sixty-five; and

"(4) other relevant actuarial factors."

SEC. 4. The Social Security Act is further amended by adding after section 210 the following new sections:

"EMPLOYERS' PRIVATE ANNUITY PLANS

"SEC. 211. (a) An employer may make application to the Board for approval of his private annuity plan. Such application shall be accompanied by a contract (effective on Board approval) made between the employer and an approved annuity carrier.

"(b) Such contract must—

"(1) provide benefits which are equal to or greater than the transfer annuity;

"(2) provide that, when an employee ceases to be covered by the private annuity plan, the annuity carrier shall issue in favor of such employee a certificate providing benefits at least equal to the transfer annuity or, whei the

annuity provided by such certificate is less than $10 per month, the annuity carrier, at its option, may pay a cash withdrawal value to the employer in lieu of issuing such certificate to the employee; and that in the event that an employee attains the age of sixty-five without becoming a qualified individual—

"(A) while covered thereunder, the annuity carrier shall pay a cash withdrawal value to the employer; or

"(B) after the ending of the last period of coverage thereunder, the annuity carrier shall pay to the Secretary of the Treasury in amount equal to the then actuarial value, as determined by the Board, of the transfer annuity. Such determination by the Board shall be based upon the same factors as were used in determining the annual transfer reserve with respect to such individual.

"(3) Provide that if an employee makes contributions under the plan—

"(A) such contributions shall be confined to the purchase of such benefits for each such employee as are in addition to the transfer annuity, and

"(B) with respect to such contributions there shall be available, in accordance with its terms, either a cash withdrawal value or a paid-up deferred annuity to such employee in the event of his withdrawal from such private annuity plan prior to commencement of such benefits.

"(c) When an employee ceases to be covered by the private annuity plan and the annuity carrier, as provided in subsection 211 (b) (2), has elected, in lieu of issuing a paid-up annuity to pay a cash withdrawal value, or when an employee attains the age of sixty-five while covered thereunder without becoming a qualified individual, the employer shall pay to the Secretary of the Treasury an amount equal to the then actuarial value, as determined by the Board, of the transfer annuity with respect to such employee. Such determination by the Board shall be based upon the same factors as were used in determining the annual transfer reserve with respect to such employee.

"(d) The employer shall submit for approval a statement intended to be furnished to each employee, eligible to come under the private annuity plan, clearly setting forth the schedule of benefits and the terms and conditions (considered reasonable by the Board) precedent to the receipt of benefits under, or entrance or reentrance into, such plan.

"(e) The private annuity plan and the accompanying contract and statements having satisfied the requirements of this section, the Board shall forthwith issue its certificate of approval, except that it may refuse to approve any such plan if any director or officer of the employer, other than an approved annuity carrier, is a director or officer of the annuity carrier.

"(f) The employer shall—

"(1) make, keep, and preserve such accounts and other records with respect to such plan, and to the financial transactions in relation thereto, as the Board may require, such accounts and other records being, at all reasonable times, subject to the examination by the Board; and

"(2) if a qualified individual receives wages from the employer with respect to regular employment after he attains the age of sixty-five, pay to the Secretary of the Treasury, on account of each calendar month in any part of which such regular employment occurred, the transfer annuity.

"(g) If the Board, after reasonable notice to the employer and the annuity carrier and opportunity for hearing, finds that in the case of an approved private annuity plan there is failure to comply with any of the requirements of this section, the Board, unless such condition has been corrected within a reasonable time, may withdraw its approval of the plan.

"DUTIES OF THE SECRETARY OF THE TREASURY

"SEC. 212. The Secretary of the Treasury is authorized and directed to pay the annual transfer reserve in accordance with section 206½ to the employer without requiring bond for repayment, to receive on behalf of the United States any payments made under section 211 and to credit them to the old-age reserve account, and to accept certificates in lieu of such payments, as provided in section 206½ (b)."

Mr. HILL. Just let me ask another question, if you do not mind, Senator. Does the Social Security Board approve or disapprove the private annuity plan as now designed?

Mr. ELIOT. The Social Security Board has not studied or passed upon this particular form of draft, but I can say, and I want to in-

dicate first, in making up their minds I was not consulted except to explain a few provisions of the draft we have been working on, and my opinion was not asked as to whether it was desirable or not, but I do know the Board is not favorably inclined towards any legislation at all with respect to private-annuity plans at the present time.

Mr. TREADWAY. In that connection, of course that Board is set up purely from a governmental viewpoint?

Mr. ELIOT. Yes, sir.

Mr. TREADWAY. I do not know the personnel, but the chairman is Governor Winant, is he not?

Mr. ELIOT. Yes.

Mr. TREADWAY. I assume the President who appointed the Board appointed men who were in sympathy with the act as passed, that refuses the opportunity for private annuities to be carried on. Therefore, I do not think the fact that they are not favorable to this private annuity proposition is particularly material to the case, because I should think the Board had the administration viewpoint, and I should not personnally go very far by what you say as to their unfavorable opinion on the possibility of putting into effect a private annuity system.

Senator CLARK. I do not understand the Social Security Board has ever taken any action on this matter, Mr. Treadway, or I do not understand the administration has taken any action on this matter.

Mr. ELIOT. I could not say whether they have taken formal action, I should say I doubt it, but I was informed reliably and directly that they would not incline to be favorable toward the private annuity plan. That is the best way to phrase it, they would not be inclined to be favorable toward any legislation on a private-annuity plan.

Senator CLARK. In other words the act as passed is like the law of the Medes and Persians, it is unchangeable.

Mr. HILL. I had this in mind in asking the question: I do not see what interest the Social Security Board would have in opposing this legislation. I do not see why they are opposing it if it would effectuate the purposes which the Social Security Act has in view, and provided it is not impossible of administration or not inconsistent in such a way as to limit Congress with the plans as now set up. I think I agree with Mr. Treadway that their opinion is not controlling on us, unless they have some good reasons. Of course we haven't heard what those reasons are.

Mr. TREADWAY. We can supplement that, Mr. Hill, by saying that the act was finally passed on a definite agreement that this subject was to be further studied, and therefore their appointment had no bearing directly on the draft as now submitted by the gentlemen that Mr. Eliot is referring to.

Senator CLARK. Mr. Chairman, suppose we get down to the consideration of the proposal that has been worked out in greater or lesser degree in agreement between the various experts who cooperated on this.

Mr. ELIOT. Just for the record I would like to say I may have been misunderstood. I do not know, but I assume that the Board has studied that particular problem of the private-pension plan. I do not think they studied this draft that has recently been brought

up, but I do not believe they reached any opinion on the whole subject.

Senator KING. They would not reach a conclusion, would they, in view of the fact that you have been with this organization from the beginning as their attorney and were selected by this committee to aid us and advise us?

Mr. ELIOT. My relationship with this committee is such that they have felt, aside from getting technical information from me, that they would not want to get my opinion on the matter, because I was in this matter from the standpoint of an expert and they had others that they could call upon themselves.

Senator KING. Who will submit the draft?

Senator CLARK. Mr. Chairman, Mr. Woodward.

Senator KING. I wish you would make a full explanation of the draft that has been submitted to us for consideration.

Mr. WOODWARD. Would you suggest that I set the time?

Senator KING. Take such time as you deem necessary to make a full and complete explanation.

STATEMENT OF W. H. WOODWARD

Mr. WOODWARD. As one member of this committee well knows, I have the reputation, I think, as never having consumed all the time allowed me for any presentation of any case before an appellate court, or otherwise. I shall attempt to be very brief.

I might say in the beginning that if I had been considering some of the earlier proposals which were suggested by way of modifications to the original Clark amendment, and if I had been a member of the Social Security Board I would oppose them, so I have no hesitancy in saying that I would agree with the Social Security Board in opposing certain proposals that have been submitted. I have been against many of them myself. I have worked with them, I have worked hard with them, and yet I would be against the proposals. I mean by that, we found that when we got through we ran into the unfortunate situation that we had two titles, II and VIII, tied in together, which was one of the things that many Members of the Congress felt was objectionable. I did not feel that way, but I have worked with that thought in mind. So that time after time, when we adopted a formula and attempted to work it out, at the last minute we would find it to be unfortunately tied in in that way.

Senator CLARK. When you say you were unfortunately tied in in that way, Mr. Woodward, you mean tied into the dilemma which was presented by the presence of titles II and VIII in the bill, being in the bill together?

Mr. WOODWARD. That is correct. By "tied in" I mean just that, the tying in of titles II and VIII, tied in together by some cross-references in title II to title VIII or in title VIII to title II. In other words, we have had a very difficult problem, and I want to present to this committee that problem.

We have been compelled to do, under the rules as we understand it, by indirection what we were not permitted to do by direction. It was a simple matter to exclude certain people from taxes, but that tied in titles II and VIII, and since it has been assumed that titles

II and VIII are not related, therefore we had to work upon that basis, and I have attempted to work upon that basis, and I want to say at this point that never in my life as a lawyer have I had as cooperative a group working with me. I am sorry that I have not contributed more to the solution. Mr. Eliot, Mr. Calhoun, I think, perhaps contributed more to the solution of this problem than any two men that I know. I have merely been more or less a patient listener. However, I do want to present the final solution which is contained in the tentative draft now before you and explain just what it is.

We now have nothing to do with title VIII. We are not exempting anybody from taxes. The employer and employees pay their taxes, just as every other employer and employee. But we do say that if an employer presents an approved plan (1) to be approved by the Social Security Board, and (2) that if the annuity carrier, that is the insurance company where he puts his funds—he cannot keep them himself, he must put them with somebody else, the insurance company—if that annuity carrier, the insurance company, in other words, is approved by the Board, then we say, if you have done another thing in the past year, if you have paid to that annuity carrier the amount of money to support the same benefits by way of annuities—because we are dealing with annuities only under this situation—if you have paid to that annuity carrier an amount sufficient to support the Government benefits, then we say to you, "Mr. Employer, you have done this in the past year, and if you have satisfied the Board that you have done that in the past year, you have already paid your money out, your money is gone, you have paid it for benefits equal to the Social Security Act, then on March 1 of the following year we, the Government, will be kind enough to give you back the amount necessary to support those benefits on an actuarial basis." Now, that does not mean an actuarial basis as determined by the employer or the insurance company, but an actuarial basis as determined by the Social Security Board.

So that the net result is this: The employer sets up his plan, he pays his premiums to the insurance company in the year 1937——

Mr. HILL (interrupting). And pays his taxes?

Mr. WOODWARD. And pays his taxes too. Oh, yes; he has got to pay his taxes, both for himself and employee, he pays his taxes regularly, Mr. Hill. At the end of the year 1937, if he has paid these premiums also, then on March 1 the Government will pay him back, will pay the employer back the necessary reserve to support the very thing that that employer has relieved the Government from, that is, this particular annuity.

Now, let me put it in another way, if I may. This is simply a farming out of the obligations of the Government. The Government says, upon one side, "All right, I have assumed a certain obligation, that is, to pay a man so much per month by way of an annuity." The Government, saying that, then says to private industry, "All right, if you will take over that obligation which we owe and which we have recognized in the social security bill, if you Mr. Employer, will take over that obligation we will pay you the amount necessary to support that obligation and no more." Just that.

On the other hand, if the employee leaves your employment, or dies, or what not——

Mr. HILL (interrupting). Mr. Chairman, are we to ask questions as he goes along or are we to let him make the statement first?

Mr. WOODWARD. It is entirely agreeable to me, Mr. Chairman, if the gentlemen will ask questions.

Senator KING. Would you prefer to finish your statement?

Mr. WOODWARD. I have no preferment one way or the other. I should be glad to answer questions as I go along, or otherwise, as the gentlemen may prefer.

Senator KING. I have no objection.

Mr. HILL. Then I would like to ask a question at this point. I do not want to interrupt the orderly procedure.

Mr. WOODWARD. That is all right, sir.

Mr. HILL. The Government, you say, under those conditions, will pay to the company, the corporation, the amount of money necessary to carry out the obligations that the Government has toward the men in the corporation's employ; is that right?

Senator KING. Provided, it was only that which the employer had made to the Government.

Mr. HILL. We are assuming that.

Mr. WOODWARD. Perhaps I should add at this point, Mr. Hill, which I have not as yet brought out, that is the repayment to the employer.

Mr. HILL. Maybe you will answer some of my questions later. I will let you go ahead and make your statement without breaking it up.

Mr. WOODWARD. That repayment to the employer is conditional upon one thing, as this bill is now drawn, that the employer himself, out of his own pocket now, not out of any contributions from the employee but out of his own pocket, has reached down and paid in cash to the insurance company enough money to support the same annuity that you are giving that employee by the social security bill. Then, and then only, can that employer get back this transfer of reserves, as we call it, in this bill.

Senator CLARK. That is a minimum condition, isn't it? If the employer chose to do more he gets back the amount necessary to support the annuity?

Mr. WOODWARD. He can never get back more under this bill than the actual reserve necessary to support the amount of benefits under the Social Security bill which is 1⅓ percent annually.

Senator CLARK. I think Mr. Hill's suggestion is very good to let you finish your statement, but what I was getting at, if an employer chooses to set up a private plan by which he does more for the employee than the Government plan does, he pays his tax just as any other employer does and he gets back the amount necessary to support the Government grant, and anything else he pleases to do is a matter of private arrangement between him and the insurance company.

Mr. WOODWARD. That is correct. Under this bill he only gets back the exact mathematical equivalent of what it takes to support what the Government itself says that that man is entitled to, and he himself, out of his own pocket—out of his own pocket, now remember

that—must furnish that first before he can get that back. Now, he can furnish actually a lot more than that, and that is the only reason we are here. No insurance company, as I well know, will ever write or underwrite a plan that only provides for the Government benefits. It would be silly to even think of it. The cost would be too great. So that we are dealing with here, and we are appealing for a plan which provides a greater benefit for the employee, and we are merely saying this, if I may put the Government in the position of an individual, we are saying, "Mr. Government, you have undertaken certain obligations, you have agreed to do so much, you have agreed to pay a pension, an annuity of so much. We will take that off your hands. You have also said you think it is a desirable thing to take care of people in their old age. All right, we think so too. We thought so for 25 years, 25 years before Congress ever passed such a law, and some of these plans have been in effect that long. We will take that off your hands, we will take your obligation off your hands, and we will pay some more, and all we are asking from you is that you pay us the reserve necessary to support what we take off your hands, nothing more and nothing less. Not the reserve to support our plan, no, we will do that ourselves, but merely the reserve to support the plan as outlined in the Social Security bill.

"Give us that reserve and we relieve you of that obligation, and if the man should leave our employ, or cease to be covered by the plan, we will pay you back by the same rule. In other words, you give us so much money and we will pay you back by the same rule, which is the same yardstick both ways."

All we are saying is that we are prepared in industry, certainly in some industries, and, frankly, I should state that it is the opinion of those who have learned, through a long experience, that social security is a desirable thing. Those industries started that long before any bills were introduced in Congress, long before the President's Committee had been appointed. It has been going on for 25 years. We think it is a fine thing, we do not want to lose it, we would like to continue on.

Now, the Government plan figures out, roughly speaking, from an actuarial standpoint, up to $45,000 of wages it figures out as 1⅓ percent. That is the best that it is. The average private plan is all the way from 1½ to 2 percent, many of them 2 percent. So that the advantages from a private plan should be obvious.

This provides that the employer himself, out of his own pocket now, not out of any contribution from the employee, but out of his own pocket, must pay a premium to an approved annuity carrier sufficient to support a benefit equal to that provided by the Government.

Mr. TREADWAY. May I ask a question right there?

Mr. WOODWARD. Yes.

Mr. TREADWAY. You have referred several times to payments coming out of the pocket of the employer. Is this going to so far duplicate the expense of the employer, who pays the tax to support the social-security plan as well, that employers will be very diffident about going in under this proposition, if enacted?

Mr. WOODWARD. We have discussed that with many employers, Mr. Treadway, and I should say that there will be no major objec-

tion on that ground, because, after all, all the employer loses by this device is 1 year's interest on his money. He pays it out first, the employer pays his money out, then he gets it back from the Government on the 1st of March next. He has lost a year's interest, but from the conversations I have had with employers I should say that most of them are perfectly willing to take that loss of interest. It is not a full year's interest, it is a fractional loss.

Mr. TREADWAY. That would be only 1 year, it would not be a cumulative number of years?

Mr. WOODWARD. No; they are just 1 year behind. They have paid it out to the insurance company. They pay the Government the taxes, they do not get it back until the next year, so they are always 1 year behind but not more. It is not cumulative at all.

Mr. TREADWAY. And this in no way gives them any latitude, then, over any other employer in regard to paying the taxes to the Government in support of the Social Security Act as such?

Mr. WOODWARD. They must pay the taxes on the barrel head, as we say in our country, on the barrel head like everyone else. Then they must satisfy the Social Security Board that they have paid out this other money in the year past before they get their refund.

Senator CLARK. As a matter of fact, Mr. Woodward, no employer would voluntarily put in a private pension scheme unless he was willing to make some temporary financial sacrifice, either from altruism or on the theory that he would ultimately get it back in better satisfaction and better labor conditions that he would have in his plant?

Mr. WOODWARD. That is correct.

Senator CLARK. That same theory would naturally apply to the sacrifice of the proportion of the year's interest under this plan?

Mr. WOODWARD. That is correct; and they are willing to take that loss. May I say, from my contact with men who had been foremost in putting these plans into effect—the so-called capitalists, who are not particularly popular at this moment—I want to say the proudest moment that most men that I have come in contact with have had is over the fact that they put in private pension plans for their own employees, to take care of their old age, to give them pensions. They think that that is the crowning achievement of their business career, independent of any money they have earned or anything else. They are so proud of it in most cases that they frequently forget that they have made other achievements. That seems to be a peculiar thing in psychology. I merely present it for what it is worth.

Mr. HILL. Suppose an employer runs along for a number of years maintaining his payments on this annuity insurance and then, because of some unfortunate turn of events, he is unable to keep it up; the Government has paid back to the corporation a certain amount of money on the basis of each year's payment of premium by the employer to the insurance company; what, then, would be the situation of the Government in carrying on these employee-annuity schemes?

Mr. WOODWARD. As you properly point out, Mr. Hill, it is provided in here that the employer never gets his money until he has prepaid it to the insurance company, so the insurance company holds the money. This bill provides that upon termination of the employ-

ment, the insurance company shall do one of two things, either issue a deferred paid-up annuity beginning at age 65, in accordance with the Social Security Act, of so much money per month, or pay the cash surrender value to the employer who must pay the reserve to the Treasury. They must do one or the other; they must either pay a deferred annuity beginning at age 65 or pay the cash surrender value.

Mr. HILL. With interest?

Mr. WOODWARD. What we call the transfer reserve, with interest adjustments, and so forth.

Mr. HILL. It is not contemplated then, that in the event the employer is no longer able to keep up his premiums, or for any reasons he does not keep up his premiums to the insurance company, that the insurance company itself shall occupy the same relationship to the Government—the Government will take over the whole matter and the insurance company will pay over the money it has received into the Treasury?

Mr. WOODWARD. One of two things. If it is a temporary employee who has only been there for a short time it will pay the money over. If it has been an employee who has been there 20 or 30 years the insurance company will issue to him a paid-up deferred annuity due at age 65, which, together with his Government benefits, thereafter will equal the Government scheme.

Senator KING. Is the employee at any disadvantage if the employer fails after being in business for a number of years and the employee has been in his employ for, say, 10, 15, or 20 years?

Mr. WOODWARD. As I read this, there is absolutely no chance of that. This money must go to an insurance company. Now, originally we had trustees in this proposition, and that is one thing that caused trouble among the gentlemen that worked on this, Mr. Eliot, Mr. Calhoun, and the rest of us. We could not work it out.

Senator KING. Have most of the employers who have installed the insurance policy in their business used insurance companies to take care of the payments?

Mr. WOODWARD. I do not know whether most of them have, Mr Chairman. The only ones I am interested in are those who have. I am not interested in those who made voluntary statements to their employees that they would give them so much at 65 and did not fund it. It must be funded with some company; an insurance company, in other words, outside of their own business. That is the thing I am interested in. It must be disassociated from their business and not subject to the hazards of their business.

Senator CLARK. In other words, there must be some reserve set up back of each employee's interest which is approved by public authorities, in the case of an insurance company.

Mr. WOODWARD. That is correct.

Senator CLARK. It is impossible for any public authority to go around and approve the reserves which may be set up by an individual company behind a voluntary plan, but when they have placed their insurance in the hands of an insurance company, or surety company regulated by the public, or the States, then there is the definite reserve back of each employee's interest which is protected by a public inspection.

Mr. WOODWARD. And this also provide's that upon his severance of employment—say he quits—he is entitled, not from the employer,

but from the insurance company where the money is—that is, where the money is—he is entitled to a paid-up annuity policy right at that moment.

Mr. DOUGHTON. You start out here with the statement that so far the Social Security Board seems to be opopsed to this private annuity plan.

Mr. WOODWARD. I did not start out with that statement, Mr. Doughton. Mr. Eliot stated that.

Mr. DOUGHTON. Then you come along and you state that this plan provides that before it is effective or anything can be done it must be aproved by this very Board that is supposed to plan it.

Mr. WOODWARD. That is correct.

Mr. DOUGHTON. You would have to reorganize your Board before this would ever work.

Mr. WOODWARD. I do not think so, sir. I have every confidence in the fairness of the Social Security Board.

Mr. DOUGHTON. Do you think they are going to approve the plan that they do not believe will work? That is the only reason they have for opposing it.

Mr. WOODWARD. They have opposed it, I think, Mr. Doughton, through lack of information.

Mr. DOUGHTON. That is a pretty grave charge.

Mr. WOODWARD. No; I do not mean that as a grave charge. This thing has been changed time after time. The formula has been changed four or five times, Mr. Doughton.

Mr. DOUGHTON. You have kept adverting to what has been going on.

Mr. WOODWARD. Sir?

Mr. DOUGHTON. You have kept adverting to the changes.

Mr. WOODWARD. They have not had this until a comparatively short time ago.

Mr. DOUGHTON. Do you understand now that they do not know of the changes and haven't had time to study them?

Mr. WOODWARD. I do not know; I am not able to answer that. I cannot answer for the gentleman. I doubt if they had sufficient time to digest it.

Mr. DOUGHTON. You, at least, ought to do them the courtesy before presenting it here to submit it to them, to see if they wanted to make any statement at all.

Mr. WOODWARD. It has been submitted to them, but I doubt if they have had the time to thoroughly digest it.

Mr. DOUGHTON. Isn't it a reflection on them, then, to say that they are opposing it if they haven't considered it?

Mr. WOODWARD. They considered it in part.

Senator CLARK. Mr. Woodward never made the statement that they were opposed to it.

Mr. DOUGHTON. I know he did not; but it was made by the attorneys for the Board, that they opposed every plan of that kind. I think I can recollect their language.

Mr. WOODWARD. That statement was made, but I did not make it.

Mr. DOUGHTON. It was made, was it not?

Mr. WOODWARD. Yes; that is correct.

Senator CLARK. It certainly is not a reflection on the Social Security Board for this committee to proceed with the consideration

of this matter, which was the consideration for the passage of the bill.

Mr. DOUGHTON. Absolutely; but it is a reflection on them to say they would oppose anything that they did not know anything about.

Senator CLARK. All I understood was that Mr. Eliot stated awhile ago that he believed he had been informed that the Social Security Board was, in general, opposed to any legislation of this kind. It so happens that the Congress is the master of the Social Security Board, if it comes down to it. The last session of Congress created this joint committee for the purpose of considering further amendments to the Social Security Act. Now, this proposed bill, as I understand it, sets up very definite standards in the amendment itself by which the Social Security Board would be governed in making any exceptions to the act as provided in the bill drafted. I cannot see any reflection either on the Congress or on the Social Security Board in this proceeding to consider the matter by the committee.

Mr. DOUGHTON. I never said there was a reflection if this committee proceeded to consider it. I say it is a reflection on the Social Security Board to say they would oppose a plan that they never studied.

Senator CLARK. You are connecting a statement made by Mr. Eliot with Mr. Woodward's argument. I do not see where there is any connection between them, because Mr. Woodward hasn't intended to in any way reflect on the Social Security Board.

Mr. DOUGHTON. You cannot put the two together without it. Of course, he does not intend to reflect on them, but to say that they would oppose a plan that they had not considered—now, I cannot conceive of that.

Senator CLARK. Mr. Eliot is still present. Let us hear his explanation.

Mr. ELIOT. I think the Board has considered from the first, knowing that this was an important problem, the whole question of whether legislation should be recommended by them with respect to encouraging private pension plans. For reasons that I suppose are economic, financial reasons, about which I was not consulted, because they were not legal reasons, they were inclined to oppose, or not to recommend, legislation of this kind.

Mr. DOUGHTON. Let us get that straight. There is a big difference in opposing and in not recommending. I understood your first statement—if I am wrong I want to be corrected, and I will apologize—that they were opposed, generally speaking, to this private plan. Now, you say they are not opposed to it?

Mr. ELIOT. I think my language was they were not in favor, in general, of legislation at this time with respect to private plans. I think that was my language.

Mr. DOUGHTON. I would like to get their position straight, anyhow.

Mr. ELIOT. Of course their position, as far as I am concerned, I am only getting what has been told to me, I am trying to remember exactly the language used. I think my first statement was, and I think it was correct, that I could say if I was asked, in case it did turn up that somebody wanted to know where they stood, that they were not inclined to favor legislation of this general nature.

were not specifically opposing this particular draft, because it has only been in print 4 days, that it has been submitted to them and they have not studied it adequately to criticize it.

Mr. DOUGHTON. That is exactly according to my first statement.

Mr. BACHARACH. As a matter of fact, when we were first considering it the subcommittee had been considering this matter in an entirely different form than what has been presented here tonight.

Mr. ELIOT. Yes.

Mr. BACHARACH. There is as much difference as between day and night.

Mr. TREADWAY. That is a very important feature, Mr. Chairman, that Mr. Bacharach is just bringing out. Of course, as far as our committee is concerned I do not think any of the House Members ever had any information of what this measure contained until tonight. Now, if it has not been actually agreed upon by Mr. Woodward and those associated with him until within the very last few days, why, of course it has not been given study by any board. I think that is perfectly plain.

Senator KING. Mr. Treadway, it seems to me we should approach this important question without reference to the views of the Social Security Board. That is to say, here is a proposition which is submitted, if it is meritorious and will accomplish the result, if it meets the wishes of employees and employers and gives us great or greater security to the employees as is given by the social-security plan, I would not be bound in any way by the views of the Social Security Board, I would rely upon my own judgment, if I was convinced that the plan suggested was better, or just as good, and meets the desires of the employees and employers. So it seems to me that we are going far afield in trying to find out what the Social Security Board wants. The question is: Is this plan before us one that has merit and warrants consideration and would justify it being attached as an amendment to the existing law.

Mr. DOUGHTON. In view of that statement, would it not be then necessary or helpful to change that part of it which provides that it cannot go into effect until it is approved by this Board? I do not see how it would ever start. If they are opposed to such legislation, I do not see how you would ever start it.

Senator CLARK. Mr. Doughton, this proposed draft here sets up the standards by which the Social Security Board shall be governed, as I understand it.

May I say this, Mr. Chairman—I do not wish to interrupt this statement any more than is necessary—but may I say this: I am probably responsible for calling this meeting tonight without the plan being submitted to the Social Security Board. I have been very anxious to get this matter under way. We have anticipated that by the time the social-security bill was passed that we would be able to proceed with it, at the very beginning of this session. A great deal of sessions have elapsed, and when I was informed that the gentlemen who have been working on this matter, while they had not reached an absolute agreement they had reached so nearly an agreement that it seemed to be a tentative basis for discussion by this committee, and I asked the chairman of the Senate subcommittee to call this meeting for the purpose of submitting it to this

committee the idea that the matter should first be submitted here, not with any idea of taking snap judgment, and without any desire to keep the Social Security Board from having the fullest opportunity, if they so desired, in coming before the joint committee and expressing any views they might have. But it does seem to me it is our responsibility and that the matter should properly first be submitted here and then if the Social Security Board, or anybody else who has an interest in the matter, has any views that they desire to express in approbation or disapproval of the suggestion, that they should have a fair opportunity to do it. It does not seem to me to be a reflection on the Social Security Board or anybody else for us to proceed to carry out our own responsibility.

Mr. DOUGHTON. Nobody suggested that, Senator, that it was a reflection for us to consider it. The only thing I said was that it was a reflection on them to say they opposed a thing that they had not studied.

Mr. WOODWARD. May I suggest at that point, Mr. Doughton, if I may, that there is not an arbitrary power granted to the Social Security Board to reject any plan.

Mr. DOUGHTON. Mr. Eliot read there that it must be approved by them before it ever started. Go back and read it. I just cannot understand language if that is not what he said. I just cannot understand language if you did not state that you cannot ever start without their approval.

Mr. WOODWARD. I did not read it.

Mr. DOUGHTON. Please go back and read it again. I want to see if I am mistaken about it.

Senator KING. Let us concede that that is the case, that they cannot reject arbitrarily the standards that are drawn up as a basis for them to predicate their judgment upon. If they should arbitrarily reject the plan, that, it seems to me, would not stop the consideration of it, or its final adoption. It seems to me the question presented to us is whether you have presented a plan that has merit and that can be properly coordinated with the other Social Security Act and that the two can work together harmoniously. If we are convinced of that fact then it seems to me that the controversy is narrowed.

Mr. WOODWARD. I can say this with all frankness, Mr. Chairman, that I have worked with this, as you all know, for something over a year now. This is the only situation that I have ever been satisfied with as a lawyer that I think is workable, practical, and legal. I may say this, I worked so hard to avoid the objection that was made to the original Clark amendment, which tied the taxes and benefits together, in other words titles II and VIII, I have worked with them to the point that I can safely state to this committee that while I still believe titles II and VIII unconstitutional, I haven't changed my opinion, as the chairman well knows, that they are unconstitutional, but I have worked sincerely to avoid the difficulty that some of the gentlemen raised as to the original Clark amendment, and I can say this to you, in all frankness, if I were arguing the constitutionality of titles II and VIII before the Supreme Court tomorrow the one thing I would raise would be this amendment, because it destroys the deadly parallel between titles II and VIII, the parallel of employment, running the same in II and VIII, in the deadly parallel created by the exemption in the Railroad Retirement Act

which exempted railroad employees from both titles II and VIII. So that the two run right down together, and it is a murderous argument, if I may call it that, to call attention to that deadly parallel.

This amendment is the only thing that can take it out of that deadly parallel. This is something that has nothing to do with taxes. It simply appropriates money in aid of private pension plans for what they have relieved the Government of and it is the only thing that in my judgment can be done which can save titles II and VIII, if even that can be done.

Mr. HILL. Do you think that destroys the deadly parallel?

Mr. WOODWARD. It does on a large part of it.

Senator CLARK. It at least mitigates the force of it.

Mr. WOODWARD. How is that?

Senator CLARK. It at least mitigates the force of that argument.

Mr. WOODWARD. Yes; it certainly relieves the force of that argument.

Mr. HILL. The employer is paying money to the Treasury and is also maintaining this private pension plan; now, then, upon condition that he keep up this private plan by payment of premiums and so forth, to an approved surety company, he gets money back from the Government.

Mr. WOODWARD. But not measured by his taxes?

Mr. HILL. No; not measured by his taxes, but measured by the benefits that the Government would pay the same people if they were under the Government plan.

Mr. WOODWARD. That is correct.

Mr. HILL. So I do not see the force of your argument as to the destruction of the deadly parallel. The deadly parallel is still there.

Mr. WOODWARD. If it is measured by taxes the deadly parallel is still there, but it has no relation to taxes. In the case of a man 25 years of age it will be a certain percentage of the taxes and in the case of a man 60 years of age it would be another percentage of the taxes. It varies all down the line. In other words, this reserve is being paid back to the employer, not the tax. In other words, we are keeping separate and apart the taxes and benefits.

Mr. HILL. You are paying the reserve back to the employer instead of keeping it in the fund for the employee, that is all you are doing.

Mr. WOODWARD. It is paid to the employer provided he has prepaid an equal amount to an insurance company.

Mr. HILL. Yes, and provides another benefit fund for the employee in an insurance company?

Mr. WOODWARD. No, he must have paid an equal amount to an insurance company out of his own pocket for the employee's benefit. Now, if the employee contributes some more beyond that, or the employer contributes some more, that is another story, that has nothing to do with it. The Government only pays what it is being relieved of.

Mr. HILL. Yes, I understand that, I get that point, and I got it in your first statement. If you do not mind I would just like to ask you a few questions here as to the practicability of this, unless I am interrupting your statement.

Mr. WOODWARD. No, sir; I am through with my statement.

Mr. HILL. Now, let us take Tom Smith; he is an employee, he is working for one of the corporations that has the private pension plan, and he is being provided for by the employer through the payment of premiums, I suppose you would call it, to the insurance company, and that is being piled up for him as the basis for an annuity; now, Tom severs his employment with this concern and he goes out here to another concern; we might assume that that second corporation, the employer, also has a private pension plan, and he is paying into a different insurance company for the benefit of this employee, Tom Smith, while he is in the employ of the second corporation; then Tom Smith loses his job there, and he goes out and gets employment with some employer who has no insurance, no private insurance plan, for his employees but who pays his money into the Government, and the Government carries the account for the employee; how would you, as a practical matter, work out Tom's final benefits at the age of 60 or 65 years?

Mr. WOODWARD. Well, if Tom has worked, we will assume, I think you said 10 years——

Mr. HILL (interrupting). Any period of time, an interrupted employment, so far as employment is concerned.

Mr. WOODWARD. He has worked 10 years. At the end of 10 years he quits. Under this bill immediately he either gets a paid-up deferred annuity beginning at age 65, based upon his work of 10 years, or the employer must pay back to the Treasury of the United States all the money that has been transferred on account of that employee.

Mr. HILL. Is that determined by the provisions of the proposed act here, as to how that shall be done?

Mr. WOODWARD. No, sir. It is assumed in this bill as to all short-time employees the insurance companies shall turn back the money into the Treasury. As to those who work for 10, 20, or 30 years it is assumed they will give them deferred annuities. It is easier and we have worked it out by way of relieving the Treasury and all other people of the unnecessary clerical labor. Now, in this case he would get a deferred annuity. He goes to work for another man covered by a private annuity plan. If he works for him 5 years and quits then that money either goes back, if it goes back then the Government owes it, because the Government has got its money all back, in any event if the money goes back the Government owes it, because the Government has got back everything it was entitled to, but it gets back merely the money to support this annuity.

Senator CLARK. In either event the employee would not lose?

Mr. WOODWARD. In either event the employee would not lose. He is either under the Government annuity plan or private plan, or both. He might work 10 years under the Government plan and then could work 30 years under the private plan, in which event he would have a pension coming from two sources. That is the only out there.

Mr. HILL. However, it complicates the matter, from a legal standpoint, for the Government to farm out, we will say, this obligation that it owes to an employee, farm it out to the employer of that employee.

Mr. WOODWARD. You are not farming it out to the employer of that employee, you are really farming it out to an insurance com-

pany that has been approved by the Board as meeting certain requirements, having $100,000,000 of admitted assets, being qualified in over half the States of the United States, or meeting the standards with certain limitations of any State selected by the Social Security Board. That annuity carrier has been approved, it is not a fly-by-night insurance company, it has got to meet certain definite standards as provided by this act. They are the ones that have to pay the money back.

Mr. HILL. I am assuming, of course, that the insurance company is a solid, substantial, reliable concern.

Mr. WOODWARD. If that is the case, then no one can possibly lose.

Mr. HILL. I am just wondering whether it raises any legal difficulties if the Government transfers its obligations to someone else to carry out its obligation or responsibility?

Mr. WOODWARD. You do not transfer the obligation, you simply say you will pay that, as Mr. Calhoun suggested the phrase, it is another grant-in-aid proposition. In other words, you have said in the social security bill that you are in favor of pension plans for employees in industry. All right, if that be true and you are willing to grant up to $85 a month as a maximum, why not allow private industry to grant more than $85 a month as a maximum and pay them the price that you would pay the $85. That is all we are asking. I know a scrub woman that is getting $87.50 a month pension, and yet that is an impossible pension under the Government plan.

Mr. HILL. I am not arguing the proposition that the employee might not be better off under a private-pension plan. It is just a question whether you can coordinate the private-pension plan with the Government plan without getting into legal complications.

Mr. WOODWARD. We haven't confused the two, I do not think, Mr. Hill. This is a pure statement that we are going to pay, that you are going to pay pensioners what we say in this bill, that is all you pay private employers, or that you pay to approved annuity carriers, or you will pay them in the same way that you pay pensioners out of the same fund which is the old-age security fund.

Senator KING. It has occurred to me, Mr. Woodward, that you have been presenting a plan that the employers would rather hesitate to accept, because it involves, first, payment to the Government for the protection as indicated by you, then the payment to the insurance company, then the assumption of the liability such as is provided by the social security bill, then the additional liability which may result from their what shall I say, their supergenerosity, at least, their willingness to do more than the Government itself requires. They say, after all it is too much bother, and that the feasibility of it will be challenged because of the difficulties, not insurmountable by any means, that would arise in the path of the employer.

Mr. WOODWARD. We have considered that very carefully, Mr. Chairman. The employer has already paid his money to the insurance company. They are the ones that then become liable to the employee for his annuity. There is only one thing that the employer loses. He loses interest, and it is a not progressive factor. It is interest on money for one year. That is the only thing you can see that he loses.

Now, we have found that most employers are very, very willing to do that in order to have a simple, flexible, comprehensive plan of their own, they are willing to even forego that interest. At an earlier date, if you will recall, Mr. Chairman, they were willing to forego the taxes alone, although the taxes concededly were not sufficient to support this plan. They begin at a low rate and gradually build up. They were willing to put in their own plans originally if they were just exempted from taxes.

That is not an insurmountable difficulty, Mr. Chairman, particularly those who are proud of their pension plans, which are most liberal, much more liberal than the Government plan can ever hope to be, they are so proud of it that they are willing to lose the interest on the money.

Senator KING. It seems to me if I were an employee I would be pleased, if this plan should go through, because I would get more, assuming the employer is going to be a little more generous than the Government, and your plan would contemplate that, and I would be better off than I would be under the Government plan.

I have received many letters from employees expressing the hope that the Congress would see its way clear to incorporate into this Social Security Act the private pension plan, but it seems to me that the objection would come more from the employer than from the employee. "Why should I handle it?" The employee would be the one who would urge it more than the employer, as I see the situation.

Mr. WOODWARD. The only possible objection to this feature would be that from the employer. I am sure there will be no objection from the employee.

Senator KING. Can you indicate to this committee how many employers, especially those employing large numbers of men, are in favor of this?

Mr. WOODWARD. We have an estimate of about 160 employers who are very much interested in this general idea. Now they have not been kept advised of the various changes through which this proposed amendment has gone. Many of them objected violently to the earlier phases of it, but they are interested in the idea.

Mr. TREADWAY. How many employees would that mean?

Mr. WOODWARD. I am talking about insured plans, not the voluntary plans, which represent over a million employees.

Mr. TREADWAY. Of about 4,000,000 that were protected under the private insurance plans of the companies?

Senator KING. It was more than that. How many was it, Mr. Forster?

Mr. H. W. FORSTER. About 3,000,000 in private plans and about a million that had reserves behind them, insured or otherwise.

Senator KING. That would be four or five million employees.

Mr. H. W. FORSTER. I think 3,000,000 altogether. One million in reserves. Do you think, Mr. Latimer, that would be a fair summary?

Mr. LATIMER. You include railroads?

Mr. H. W. FORSTER. Yes.

Mr. LATIMER. That is about right now. It has been higher.

Senator KING. It has been higher.

Mr. WOODWARD. When I said a million I was using the term "million" under insured plans, not all these other plans.

Senator KING. Where are those funds kept?

Mr. WOODWARD. In insurance companies.

Senator KING. And do the insurance companies indicate a willingness to be the repository of those funds?

Mr. WOODWARD. I can only say this, Mr. Chairman: Insurance companies are reluctant to take any position upon any subject that is not submitted to them in concrete form as the final proposition.

Senator KING. Have they been reluctant in the past to take these reserves?

Mr. WOODWARD. Not until the investment market got bad, following the crash in 1929. I can say, however, in that connection, that for the first time the insurance companies are interested in this proposal. They have never been interested in anything else that was offered—not to your committee, because your committee, as I understand it, has never seen them, but I mean the various drafts we have worked out as tentative things, Mr. Eliot, Mr. Calhoun, and myself, and others, they have never been interested in those. They are interested in this.

Mr. DOUGHTON. They have never approved it?

Mr. WOODWARD. They will not approve anything until you submit them a formal draft.

Mr. DOUGHTON. You would not blame them for that, would you? If they had any responsibility I do not think they would be that foolish.

Now let me ask, Mr. Chairman, this question: It seems to be the main argument for this plan that you proposed in that the benefits to the employees would be greater.

Mr. WOODWARD. Yes, sir.

Mr. DOUGHTON. It is in behalf of greater benefits for the employees. Now suppose you adopt this plan and they do get greater benefits than those who are outside of it, then will not the agitation be at once that the Government would be behind private industry, that the Government is in business? As soon as it was demonstrated that they can get more under the private plan than the Government plan, then of course the agitation would start right away to bring them on a level.

Mr. WOODWARD. I can say this in answer to that, Mr. Doughton, that is a very pointed criticism, and I should say that the two answers to it would be these: First, a demonstration that private industry, the American people, take care of their own better than the Government can take care of them. That would be the first answer. The second answer would be that that same thing is going to occur if history repeats itself, if the history of Germany, if the history of England, if the history of every other country that has put in the pension plan repeats itself, I do not care what sort of Government plan you have, whether it is a private plan or not, you are going to have people down here at Washington by the thousands, and you will have their committees here; you cannot stop them with your registration as lobbyists with the Secretary of the House. They are going to be down here demanding more and more money in this as well as in every other country in the world.

Senator CLARK. Isn't this also true, Mr. Woodward, that the existing law, as supported by Chairman Doughton's committee and

which has finally become a law, provided for supplemental plans for additional benefits to employees, and the only objection that was raised was that many employees had been put in the supplemental plan?

Mr. WOODWARD. That is true.

Senator CLARK. The same objection as suggested by Mr. Doughton to this plan would exist as to any supplemental plan under the existing law which is before the committee.

Mr. DOUGHTON. The statement was made, as I understand it, that the reason for this is, these two plans, the private-pension plan and the other plan, that the private-pension plan can do a better job. Now why have the Government in it at all if the private-pension plan is better than the Government plan? Why not give them the whole thing?

Senator CLARK. Because very many of them do not have private-pension plans. Why penalize the private employer who is willing to put in a private-pension plan?

Mr. DOUGHTON. That is not penalizing him.

Senator KING. The small employer of 3 or 4 or 5 or 10 or 25 men would not have the plan.

Mr. DOUGHTON. Do you think the Government would support a plan, would undertake to support a plan with all the strong companies out and the weak companies in?

Mr. TREADWAY. May I ask Mr. Woodward one question? I would like to ask this: You stated several times that you, as a lawyer, felt that titles 2 and 8 were unconstitutional. Now, my question is this: Assuming that the Social Security Act will eventually reach the Supreme Court, and assuming, of course, that your opinion as to its constitutionality is upheld by the Court, would the adoption of the proposed private pension system that you are suggesting in this amendment tide over those that have already gone into the private system and give them annuities after the Government was out of the picture?

Mr. WOODWARD. Unquestionably. That is one of the things I think Senator George expressed more clearly in the debate in the Senate than any man that I have heard.

Mr. TREADWAY. It is one of the things that Senator Clark has brought up at our meetings. That was really one of the main views, as expressed then, how important it was to care for these three or four million employees that might be thrown out entirely if the Social Security Act was declared unconstitutional.

Senator CLARK. May I ask one supplementary question there? Mr. Woodward, in your observation, is it true that since the passage of the Social Security Act many of the employers who had private pension plans have abandoned them?

Mr. WOODWARD. There are several who have already abandoned or changed their plans so as to fit in with the social security proposition. In other words, they have cut it off as of a certain date and thereafter to begin under the Social Security Act. We have been very fortunate in convincing about five or six very large employers to at least continue their plans in the name of decency and social security, which we preached for some 25 years, we have been able to convince them to continue their plans temporarily

until there is a court test of titles 2 and 8. Does that answer your question, Senator?

Senator CLARK. That answers the first part of it. If the act should be declared unconstitutional as to titles 2 and 8, without Congress having taken any action in the meantime, 4,000,000 employees in the United States would suffer irreparable damage, is that not correct?

Mr. WOODWARD. Substantially. I would not subscribe to the figures of 4,000,000, but your general statement is correct.

Mr. HILL. Let me ask a few questions here. I wish you would tell us again just what moneys the Government would refund to the employer who has complied with the conditions that he maintained this insurance for his employees?

Mr. WOODWARD. I was trying to state it in the language of the act, because that is a simpler way. The plan has been approved, the annuity carrier has been approved, the employer has paid to the annuity carrier a certain sum of money, enough money to support out of his own pocket the benefits provided by the Government act itself, which is 1⅓ percent per annum up to the first $45,000—we will not go beyond that because it works out the same way beyond $45,000—they have paid to the employer, by way of repayment, the reserves which he has already put up with this insurance company; now there might be a question, if the Government were going to pay him what he and his insurance company contracted to put up and he had put up, there might be a question as to unfairness, but we have taken care of that.

We have said in this act that the Board only pays him the reserve which the Board, the Government, in other words, determines is necessary to support this annuity. We did not allow the employer or the insurance company a single word to say about it. We say that the Board shall determine what reserve is necessary to support that annuity, and then if he has already paid it to an insurance company then they will reimburse him to that extent.

Mr. HILL. Under the Social Security Act you will recall that in certain annuities there will be what we term an unearned annuity. For instance, a very elderly man, over 55 years of age, suppose he continues to pay until he is 65, or maybe commencing at 59 or 60, he will pay for 5 or 6 years, and he gets back more than he is entitled to on a strict annuity on the basis of the amount paid in.

Mr. WOODWARD. Yes, sir.

Mr. HILL. The Government proposes to pay him something additional to the annuity that he has earned by the payments on his behalf?

Mr. WOODWARD. We call that the unearned annuity.

Mr. HILL. How would that be taken care of under this proposal here?

Mr. WOODWARD. That is taken care of in this way, Mr. Hill: The employer takes care of that annuity to the extent of 1⅓ percent per annum. That is what we call the 1⅓-percent plan. They get the reserve to support the 1⅓, not a 6-percent plan. Up to the first $3,000 it is 6 percent under the Government plan. The employer does not get enough to support the 6-percent plan, he gets enough to support the 1⅓-percent plan, and he must furnish the benefits for the 1⅓-percent plan. He must furnish that for which he is paid.

Now as to the other the Government pays it upon the theory, if you will recall the charts that were used before the various committees when the original bill was up, the Government chart starts on a great big curve. Here is a level line [indicating]; way up here they are paying much more than they can ever hope to get in. Then it crosses this line and goes way below. On the average it works out on the level. All right. We are merely saying, "Give us that level, let us insure that level. Pay us what it cost to insure that level. We will pay that level. You take care of your loss here and take care of your profit down here." That is what is going to happen. In other words, you get losses in the early stages and a profit in the latter stages.

Mr. HILL. Now, if I get your answer correctly, the Government would have to supplement what some of these elderly employees would get in the way of annuities over and above what they would get from the insurance company through the private pension plan?

Mr. WOODWARD. Yes, sir; that is correct. We are insuring, and we are merely guaranteeing what we call the 1⅓-percent plan, which is the Government plan up to $45,000. It is 6 percent on the first $3,000, 1 percent on the next $42,000, making 20 percent divided by 15 units, or a 1⅓-percent plan.

Senator CLARK. May I interrupt there just a minute?

Mr. HILL. Yes.

Senator CLARK. A man might be 55 years old and he has the option of going on the Government plan.

Mr. WOODWARD. Oh, yes.

Senator CLARK. If he thinks that is better for him he can go on the Government plan, and if he stays on the private plan it seems to be an inescapable fact, because he has some accretions under the private plan that might make it desirable for him to stay on the private plan.

Mr. HILL. Would not that be an inducement to put all the elderly men under the Government plan and the other men under the private plan?

Mr. WOODWARD. That argument was used before. I do not think it ever had any validity. I am sure Mr. Calhoun and Mr. Eliot will bear me out in this. It has lost any possible validity by reason of this amendment for this reason: The Government pays by the same yardstick the old men and the young men. We get more on old men, that is true, but we have to pay back. We pay back on the same yardstick.

Mr. HILL. You say you get more on old men. You mean you pay more on old men than you pay on young men?

Mr. WOODWARD. We get more reserve. It costs more to support on a pension a man 60 years of age than a man 35 years of age.

Mr. HILL. Under your private pension plan?

Mr. WOODWARD. Under the Government plan.

Mr. HILL. Of course, if that is just a straight-out bonus for the old man——

Mr. WOODWARD (interrupting). All the testimony before the committee has indicated not that it is a bonus but that this will level out eventually, and that the young men of today will be paying the old men of today.

Mr. HILL. Certainly, but the old man now does not pay enough to justify the annuity he gets. That is why I say it is a bonus to him. It is an unearned annuity.

Mr. WOODWARD. It is an unearned annuity.

Mr. HILL. What I want to find out is will the Government pay back to the employers, as to these old men, for instance, an amount that will return to them from the insurance company this $10 a month, we will say, even though it is unearned, that they would get under the Government's plan?

Mr. WOODWARD. They do not pay that to the employer, Mr. Hill. They pay the employer simply enough to support the 1⅓ percent plan.

Mr. HILL. The average rate you are talking about?

Mr. WOODWARD. Yes, sir.

Mr. HILL. That is the leveled-off rate?

Mr. WOODWARD. They pay that level.

Mr. HILL. Then when the old man retires, of course, if he stays in there 30 or 40 years he will have reserves built up, but when he retires the insurance company will pay whatever the reserves back of his account will justify, and the Government makes up the balance of, say, $10 a month?

Mr. WOODWARD. Yes.

Mr. HILL. Paid to the employer?

Mr. WOODWARD. The insurance company pays just what they have been paid for.

Mr. HILL. They will pay that to the employee—the beneficiary?

Mr. WOODWARD. Yes, sir.

Mr. HILL. The Government will pay in addition to that whatever is necessary to make up the difference between that amount and $10 a month?

Mr. WOODWARD. They will pick that up later on when the younger man comes in and when the curve goes down below the line.

Senator KING. Are there any other questions?

Mr. HILL. That is all.

Senator KING. Senator Clark?

Senator CLARK. No.

Senator KING. Thank you very much. Is there anybody else? Is there anybody else present who favors the measure?

Mr. H. W. FORSTER. I desire to speak very briefly, Mr. Chairman.

Senator KING. All right, Mr. Forster.

Mr. H. W. FORSTER. Thank you, Senator King. Mr. Woodward has presented the case very ably. Some of the questions are very searching basically. I think the plan is practical and relatively simple. I think a fair number of employees will want to take advantage of it. I am hoping the leading insurance companies will cooperate. It is necessary to find a way out in this proposition. We want to present this particular plan to them.

Senator KING. Before we adjourn, I desire to have placed in the record the memorandum regarding legislation to encourage private plans which was prepared by the experts.

(The memorandum referred to is as follows:)

LEGISLATION TO ENCOURAGE PRIVATE PENSION PLANS

Before legislation encouraging private pension systems can be drafted certain fundamental matters of policy with respect to such systems must be determined by your subcommittee. These are:

I. Standards as to type, amount, and certainty of benefit payments;
II. Methods and extent of Federal encouragement;
III. Providing for shifting employees; and
IV. Nature and extent of supervision.

Incident to any policy reached, various phases of annuity insurance and certain problems are involved in coordinating Federal benefits and private pension systems so as to do the least violence to either, and to best safeguard the beneficiary who may shift from one to the other. The purpose of this memorandum is to present some important effects of various standards, kinds of Federal encouragement and supervision.

The memorandum has as subtitles, "Benefits", "Federal Encouragement", "Shifts of Beneficiaries", and "Supervision", in the order named.

I. Under "Benefits" is discussed:

RESERVES

1. Why the problem of reserves is important.
2. Why many private systems have reserves.
3. Policy respecting reserves in Clark amendment.
4. Calculating reserve requirements.
5. Safe reserves if employee is to look only to his private system for benefits earned under it.
6. Safe reserves if employee receives Federal benefits on shift of coverage.

EQUIVALENT TO FEDERAL BENEFITS

1. Whether sickness insurance, hospital benefits, earlier retirement, etc., should be considered in determining whether private plan benefits equal Federal benefits.
2. Difficulties in comparing Federal and private system benefits.
3. Should private annuity benefit schedules be less for those who have earned Federal benefits—desirable effects—undesirable effects.

II. Under Federal Encouragement of Private Systems is discussed:

1. Comparison of tax exemption and grant-in-aid.
2. Advantages and disadvantages of grants-in-aid.
3. Should grants-in-aid be the full present value of earned benefits or a less amount—advantages and disadvantages.

Under Shifts of Employees is discussed:

1. Clark amendment provisions as to when there shall be a shift of coverage—disadvantages and advantages or provisions.
2. Ambiguous terms in Clark amendment respecting shifts of coverage.
3. General considerations as to when there should be a shift of coverage (solvency of carrier, age of beneficiary, whether benefits have been paid in part or entirely).

Under Supervision and Administration is discussed:

1. Approval of private annuity systems: (*a*) The carrier, (*b*) the benefits, (*c*) the soundness of the system, (*d*) investment of reserves.
2. Contribution of employees and employers.
3. Administration: (*a*) Computing grants to private systems, (*b*) computing actuarial disadvantage to Federal old-age reserve account, (*c*) computation on transfer of coverage.

Summary and conclusion.

PART I. BENEFITS

WHY THE PROBLEM OF RESERVES IS IMPORTANT

For several reasons private pension systems should be required to be sound financially.

1. Whether encouragement be by grant-in-aid or exemption against tax, moneys otherwise in the old-age reserve account will be entrusted to private systems. Their insolvency would result in Federal loss, or loss to beneficiaries.

2. The private system is offered employees in lieu of Federal benefits and as being approved by the Federal Government.

3. The employee is in no position to determine the question of financial soundness but will rely on Federal approval as a guaranty of soundness.

Financial soundness of private pension systems and sound reserve requirements are inseparable. Liability for earned benefits must be balanced by accumulated reserves to pay these benefits when due. A system which sets aside contributions or "premiums" on a sound reserve basis might safely carry out the trust of paying benefits in the future. Whether a system without such sound reserves will pay such benefits depends on whether sufficient future contributions will be received. There is no guaranty that such future payments will be made. Such contributions depend both upon the obligation and ability of those from whom future contributions are expected. If contributions become onerous, employees may elect Federal benefits and pay no further contributions to the private system. The employer may be financially unable to do so or may be unwilling to do so.

WHY MANY PRIVATE SYSTEMS HAVE RESERVES

In industry there are both reserve-type and nonreserve-type pension systems. In the latter type, the company, from year to year, provides funds to be paid out currently as pensions. Nonreserve pension systems have disadvantages which have caused many industrialists to adopt reserve-type plans. Among these disadvantages:

(1) A period of unprofitable operation may result, and, in fact, has resulted, in inability to pay pensions.

(2) Change in management, bankruptcy, or retirement of the employer from business may result in the termination of pensions.

(3) An increasing number of persons eligible for pensions may make payment impossible.

(4) Employees cannot be reasonably requested to make contributions toward their prospective pensions since contributions are not set up as reserves to insure payment of benefits.

POLICY RESPECTING RESERVES IN THE CLARK AMENDMENT

It was apparently not the intent of the Senate in passing the Clark amendment that these nonreserve-type pension systems should be encouraged. The amendment provides that contributions be placed with a trustee or insurance carrier approved by the Social Security Board. In discussion of this Senator Clark states (Congressional Record, 9522):

"The reserves will be largely invested under the supervision of the Board and under such regulations as the Board may make."

CALCULATING RESERVE REQUIREMENTS

In deciding what basis for reserves should be required of a private system, one important question is what benefits the private system must pay in case contributions cease before the beneficiary reaches 65. This must be anticipated where a beneficiary leaves the employer's service or withdraws from the system, also where the employer ceases business or abandons his plan. The policy might be to require immediate payment of a sum to the old-age reserve account instead of paying the benefits to the individual. The beneficiary would then receive Federal benefits instead of those of his private plan. If this policy is decided upon, the reserves may be of a lesser amount than if such benefits are to be paid at all hazards on the employee qualifying for benefits. Insofar as insurance companies are concerned, however, they would not likely write policies if such transfers are required. If transfer of money may be made in lieu of payment of benefits, reserve requiements may be reduced to the amount to be transferred. The matters of reserve and transfer of reserves and protection are interrelated.

SAFE RESERVES IF EMPLOYEE IS TO LOOK ONLY TO PRIVATE SYSTEMS FOR BENEFITS EARNED UNDER IT

If the policy is adopted of requiring employees to look only to their private system for benefits earned under it, the question is: What safeguards shall be

required to insure that earned benefits will be paid? Shall reserves be so set aside that though the plan terminates, benefits then earned will be paid when due? If this rule is adopted, several incidents should be considered.

Take the following example (which ignores unqualified beneficiaries and death or lump-sum benefits for simplicity of presentation):

A's private plan, established January 1, 1937, provides exactly Federal benefits. It has in it 1,000 employees, each earning $1,000 per year, and whose age is 44. Earned benefits payable in 1958 will be:

Date benefits earned and benefits payable in 1958	*Per month*
Earned in 1937, 1938, 1939	$15,000
Earned in 1940, 1941, 1942	2,500
Earned in 1943, 1944, 1945	2,500
Earned in 1946, 1947, 1948	2,500
Earned in 1949, 1950, 1951	2,500
Earned in 1952, 1953, 1954	2,500
Earned in 1955, 1956, 1957	2,500
Total	30,000

The foregoing indicated several important disadvantages:

(1) Reserve requirements are enormous with respect to the earlier few years of the private system compared with subsequent years.

(2) If reserves are built from employer-employee contributions, the rate the first years is far higher than later years.

(3) Contribution requirements on a 50–50 basis would be so high as to practically force employees to choose the Federal system.

An attractive alternative to setting up sufficient reserves each year to pay benefits earned that year would be to level out payments into reserves so as to reach the total demands on reserves at maturity. Referring to the above schedules, reserves are accumulated during 21 years sufficient to pay at the end annuities of $30,000 per month. Suppose instead of setting up reserves for $15,000 benefits the first 3 years, reserves for one-seventh of the total are set up, or for some $4,285. If this is done every 3 years, reserves for the $30,000 per month annuities will be achieved at the end of the period. In 1957 the plan would have "safe" reserves.

But consider the situation if contributions were stopped before the end of the period; the effect would be:

	Benefits earned	Reserves set up to pay benefits in 1958
	Per month	*Per month*
1937, 1938, 1939	$15,000	$4,285.71
1940, 1941, 1942	17,500	8,571.42
1943, 1944, 1945	20,000	12,857.13
1946, 1947, 1948	22,500	17,142.84
1949, 1950, 1951	25,000	21,428.55
1952, 1953, 1954	27,500	25,714.26
1955, 1956, 1957	30,000	30,000.00

Thus in the earlier years reserves would be totally inadequate to pay benefits then earned. If the plan ceased in 1939 it could pay only 35 percent of earned benefits.

Thus, if the private system is to provide benefits equal to the Federal schedule and the employee is to look only to the private system, choice has to be made either—

(1) To require exceedingly high reserves, and accordingly contributions, in the earlier years, or

(2) To leave the employee unprotected as to benefits if the plan terminates.

SAFE RESERVES IF EMPLOYEE RECEIVES FEDERAL BENEFITS ON SHIFT OF COVERAGE

As has been illustrated, safe reserves for a private system and contributions to it must be high in the earlier period if the system is to stand alone. But the old-age reserve account does not require such high reserves.

It is safe to make assumptions in setting up the reserves for Federal benefits as to continuance of reserve accretions and level out reserve requirements. It would also be safe to allow a private system to shift risks and transfer reserves calculated on this assumption. While the private plans cannot safely assume it will last indefinitely, the Federal system may do so. If the private system has the privilege of making such transfer, reserve requirements may be reduced accordingly so long as the standard insurance companies are not involved. The example last given, while dangerous for a private system without right to shift coverage when contributions cease, would not be dangerous as a basis of shift of coverage and transfer of reserves.

EQUIVALENT TO FEDERAL BENEFITS—WHETHER SICKNESS AND SIMILAR BENEFITS SHOULD BE CONSIDERED IN DETERMINING WHETHER PRIVATE-PLAN BENEFITS EQUAL FEDERAL BENEFITS

The Clark amendment provides that "The benefits payable at retirement and the conditions as to retirement shall be not less favorable, based on accepted actuarial principles, than those provided for under section 202", also that the plan shall provide death benefits equal to those in 203. The Clark amendment does not mention benefits under 204. Whether the benefits provided in sections 202 and 203 only or whether also the benefits provided in section 204 shall be the basis of measuring private plans is a matter of policy. That all three types of benefits should be included is indicated by Senator Clark's explanation of the amendment (Cong. Rec., June 18, 1935, p. 9513): "* * * the Board shall find * * * that the benefits to the employees under the private pension plan are not less favorable based on accepted actuarial principles, * * * than those provided under the Government pension plan."

An additional matter of policy is what kinds of private-plan benefits may be considered in determining whether its benefits are not less favorable than the Federal benefits. Should the actuarial value of disability annuities, for instance, or hospital and medical benefits be considered?

In determining this question, consideration must be given to the decision as to whether employees may transfer to Federal coverage, and as to reserves. Reserves sound to pay somewhat lower than Federal anuities and to pay sickness benefits, for instance, may be partly exhausted in paying these sickness benefits, leaving an insufficient amount for transfer to support the larger Federal annuity beneficiaries may obtain if they leave the employer. (The matter of transfer of reserves is discussed under the subtitle "Transfer of employees.")

The same situation may arise with respect to annuities beginning prior to 65. For example, an annuity starting at 60 of $30 per month may have about the actuarial value of a $50 annuity, payable at 65. But termination of a private system providing this type of annuity may produce an awkward situation. Where beneficiaries have retired at 60, reserves may be proper to pay these persons $30 per month but wholly insufficient to pay them the $50 they would be entitled to under the Federal system. Thus policies with respect to transfer and reserves have great importance in determining the policy of what private benefits should be considered in passing on the adequacy of a private plan.

Another question is whether benefits must be measured for various periods of service. Is the private schedule below as favorable as the Federal schedule?

Salary per month	Period of service, in years	Benefits, private schedule	Benefits, Federal schedule
$100	5	Return of employee's contribution.	$17.50 monthly annuity.
	10	do	$22.50 monthly annuity.
	20	$65 monthly annuity.	$32.50 monthly annuity.

Here, for comparison purposes, a salary is used and this reduced to total wages in arriving at Federal benefits. The comparison shows greater benefits

for the person who has been 20 years under the private system than if he had been under the Federal system. But for a lesser period of service Federal benefits greatly exceed private benefits.

OTHER DIFFICULTIES IN COMPARING BENEFITS

There are other difficulties. For example, consider a private-annuity system which provides that an annuity shall be 50 percent of an employee's average salary for the last 5 years before his retirement. How shall this be compared with the schedule of Federal benefits, based on "wages" since 1936, wherever earned, and providing a monthly pension of one-half of 1 percent for the first $3,000, then one-twelfth of 1 percent from $3,000 through $45,000, and one twenty-fourth of 1 percent for additional wages?

Another benefit schedule in industrial-pension systems is based on a percentage of earnings. But these are for earnings with the particular company, and the long service with the company, and this would preclude such schedules as now written from applying to new employees so as to give them the equivalent of Federal benefits for short periods of service.

In any case where there is a variance in eligibility requirements or rate at which benefits accrue, the problem is extremely difficult, and sometimes impossible. When a person has at 65 earned an annuity, we may compare it with the Federal annuity. But if there is any eligibility requirement for an annuity, such as 10 years' service, it is impossible to predetermine whether he will meet these requirements and, accordingly, whether his private benefits are "at least actuarially equivalent" to the Federal is impossible.

SHOULD PRIVATE ANNUITY BENEFIT SCHEDULES BE LESS FOR THOSE WHO HAVE EARNED FEDERAL BENEFITS

Another problem is what shall be the minimum rate of benefits allowable? Should annuities be at least one-half of 1 percent for the first $3,000 earned after 1936 and while covered be the private system? Might it be a lower rate for persons who had earned Federal credit before coming into the private system? There are several important considerations. Allowing the minimum rate of one-twelfth of 1 percent in a private system where Federal benefits on the first $3,000 had already been earned under the Federal system might be desirable because:

(1) It would not reduce the individual's pension below his Federal benefits.

(2) It would not encourage persons under the Federal system to enter a private system merely long enough to increase their pension at a one-half percent rate, deserting it when the rate decreased. High contributions might both encourage and result from such short-term coverage.

It might be undesirable because:

(1) It will delay instituting private systems, because it will result in much higher contributions being required to initiate a pension system in 1937 than in later years. (Until an employee has earned $3,000 in wages, six times the benefits per dollar wages are earned as are earned thereafter. Accordingly, the cost of building annuities will be vastly less in later years, if minimum rate of benefits may be one-twelfth of 1 percent instead of one-half of 1 percent for the person who has already earned Federal benefits for $3,000 in wages.)

(2) Employment of workers who have not earned high initial benefits elsewhere may be discouraged, because of the tremendous expense in providing them.

(3) The Federal old-age reserve account may be left with an undue percentage of annuities on the $5 per thousand of wage basis compared to its annuities, including the 83- and 42-cent per thousand basis.

(4) The Social Security Board would have to compute and certify earnings since 1937 of each employee electing private coverage, in order for the private system to determine the prospective benefits he might earn with it and contributions necessary to support these benefits. It involves expensive computations otherwise unnecessary.

Some of the objections raised in the above situations may be avoided if assistance by grant in aid instead of exemption from tax is determined upon as the method of encouraging private plans. A comparison of advantages and disadvantages of grant in aid and of tax exemption follows.

II. Federal Encouragement of Private Systems

COMPARISON OF TAX EXEMPTION AND GRANT IN AID

There are two methods of financially encouraging private pension plans, one by grants in aid, the other a credit against tax, or tax exemption. The financial effect, both from the view point of the Government and the private plan, is identical for tax exemption and a grant in aid if the grant in aid is measured by the pay roll and is the same percentage as the tax. But there are several other possible bases of making grants in aid to a private plan than merely on a percentage of the wages the employees covered by the plan are earning. A more logical basis would be to base assistance to a plan on the cost of benefits being accumulated for people under it. Or to express it more accurately, the benefits that the Federal Government will be relieved from paying these employees. The considerable difference in the payments is illustrated by the following examples.

Consider two people employed on January 1, 1937, one 20 and one 60, each earning $100 per month. Expressed in terms of taxes which will be paid with respect to employment, the value of their expected annuities will be a little less than the taxes in the case of the younger, and about 15 times taxes in the case of the older.

Only in isolated instances will the cost of benefits approximate the amount of tax exemption for the persons in a private system. If the average age of employees at entry in the system were 25, for instance, and the average salary $1,200, taxes and benefit costs might balance over a period of years. If the age were 45, premium costs over a period of years would be something more than twice the amount of these taxes. Initial premium costs based on earned benefits would be much more variable, with even greater advantage to the employer in the earlier years of the system, if the average age of his employees should be low.

A pension system when beneficiaries' average age is high costs much more than the taxes paid with respect to this group. Conversely, if a low age group, it might cost less than taxes. The same might be true with respect to high and low average salaries. All three main factors in determining reserve costs, wages, ages, and the benefit rate bracket of employees should be considered.

A tax exemption offers very little encouragement to private pension systems where the employees' average age is high, compared with the encouragement it offers where the average age is low. This results in the paradox of encouraging pension systems most where the private system has young employees and the immediate need is least. If instead of by tax exemption, encouragement is by grants in aid, based on the burden which the private system lifts from the old-age reserve account, the above paradox may be avoided.

ADVANTAGES AND DISADVANTAGES OF GRANTS IN AID

In determining whether grants in aid on this basis should be given private pension systems, advantages and disadvantages should be considered. Among the advantages are:

(1) The cost to the Federal Government for such grants would be no more than if the beneficiaries were acquiring Federal-benefit rights.

(2) The Federal subsidy paid on account of older workers would be sufficient to eliminate a serious financial interest in discriminating against their employment.

(3) Fellow workers would not feel that older workers were increasing their contribution rates to their private plan.

(4) Pension plans would be more equally encouraged. Systems with expensive risks (old employees) would receive more than those with inexpensive risks (young employees).

Some disadvantages are:

(1) Administration costs are high. Particularly if a large number of private plans qualify, costs of determining proper grants in aid will be considerable and require actuarial work of a high order. The computation must be made at least annually for each private system.

(2) Computation is difficult. In computing benefits earned by persons not yet qualified for annuities it must be decided as to what assumptions should be made as to eventual qualification.

For example, a person who has earned $9,000 in wages may not have worked for a period required to qualify for an annuity. If he quits work before

completing this period, he will be entitled only to 3½ percent of his earnings. If he completes the period, he will be entitled to a substantial annuity. What benefit will he earn? Three hundred and fifteen dollars at 65, if we assume he will never become eligible, which is a proper assumption only if age absolutely precludes him from serving the required period before 65. If he qualifies, with respect to $9,000 he has earned, he will get a monthly pension, beginning at 65, so total pension payments would amount to $1,560. The startling difference between this and $315 illustrates the importance of making proper assumptions as to ineligibles, as to benefits they will earn. It is particularly important in the case of pension systems in 1937 and the ensuing few years when no one is eligible for an annuity.

There is also the matter of making assumptions as to how many monthly benefits, if any, the beneficiary may forfeit because of employment after 65. There are no experience tables to act as guide in these situations, though each has a very definite bearing on arriving at the amount he may be expected to draw from the old-age fund.

SHOULD GRANTS IN AID BE FULL BENEFIT PREMIUM OR LESS?

In case it is decided that private plans shall be encouraged through grants-in-aid based on the value of earned benefits, the question arises as to whether the annual grants-in-aid should be the full amount computed as actuarially proper for the year, or a part of such amount.

There are several incidents to making grants-in-aid on a 100-percent basis. Some advantages are:

1. More equal encouragement is offered private systems.
2. No actuarial disadvantage will result to the old-age reserve account because of wage and age averages in a private system (as would result if there were tax exemption).
3. The older worker will not tend to be discriminated against in employment or election for private coverage discouraged, as his grant-in-aid subsidy will be large.
4. Attempts to "beat the taxes" in title VIII by "cheap" pension schemes will be obviated, as there will be no exemption from tax.

Some disadvantages are:

1. The grant to a system with average age group beneficiaries, who are being paid average wages, would be initially something over three times the taxes paid with respect to the group.
2. If encouragement resulted in one-third of the workers being in private plans, in the earlier years the drain on the old-age reserve account might exceed taxes collected until title VIII.
3. If it were ever decided to lower Federal benefits, those in private systems would have received an unjust proportion of funds from the old-age reserve account.

If grants in aid are to be made on a 100-percent basis in the beginning, instead of increasing the encouragement in later years as is done by the Clark amendment, there are additional advantages:

1. Equal encouragement will be offered in 1937 that is offered in later years.
2. Computing "transfer reserves" where an individual changes from Federal to private benefits would be simpler.
3. There would be less temptation to shift expensive risks to the old-age reserve account, or to discriminate against them when they apply for a job.

In addition to the above considerations some additional ones are set forth under the succeeding subtitle.

SHIFTS OF EMPLOYEES—QUESTIONS RAISED BECAUSE OF SHIFTS OF EMPLOYMENT

The matter of grants in aid just discussed leads to consideration of the matter of shifts of employees from private to Federal benefits. These will occur because of change of job or election. This shift of coverage will also result where the private plan terminates, whether because of its own insolvency, the insolvency of the employer, or his change of policy.

On shift of an employee from private to Federal benefits, what should be the effect on his benefits earned under the private system? Should the system still remain liable; should it have the option of escaping liability by paying a sum to the old-age reserve account; or should it be required to pay such sum?

CLARK AMENDMENT PROVISIONS AS TO WHEN THERE SHALL BE A SHIFT OF COVERAGE

The Clark amendment makes mandatory the payment of an amount to the Federal Government on (1) termination of the beneficiaries' employment; (2) election of a beneficiary for Federal benefits before reaching 65; (3) withdrawal of the Board's approval of the plan; (4) termination of the plan at the employer's option. It then provides Federal benefits for the service under the private plan.

Among the disadvantages of these provisions are:

(1) Regardless of the wishes of both insurance carrier and beneficiary, money is transferred to the Treasury of the United States on the beneficiaries' account when their employment terminates.

(2) The necessity of transferring this money practically precludes the vesting of benefits.

(3) Federal benefits are forced on an employee who might prefer only private benefits.

(4) Discharge of an employee is encouraged when his annuity cost greatly exceeds his taxes, as discharge, forces his withdrawal from the private plan.

(5) Investments of reserves are hindered, as the carrier may at any time be required to pay over huge sums, either because of withdrawal or termination of employment of a large number of employees, or termination of the plan.

(6) The private plan might be disrupted as a result of a labor dispute. (Withdrawal of employees might embarrass the employer by making huge payments immediately due by him.)

Among advantages are:

(1) On retirement a person receives benefits from two sources at the most.

(2) The annuity carrier is relieved from carrying a large number of small benefit accounts.

The amount transferred is accumulated taxes on account of the employee, plus interest. Among other incidents to this fact which may be regarded as advantages or disadvantages, depending on whether the viewpoint of the employer, the employee, or the Government is taken, are the following:

(*a*) The employer may relieve himself of the great burden of providing benefits to old workers who have elected his benefits by firing them shortly before 65. The discussion of reserves showed that the value of such benefits might be many times the taxes because of their services. This extra cost would, of course, then fall on the Federal Treasury.

(*b*) The employer may attract young workers by promising large benefits, contingent on continuance of the system, and before paying any benefits escape liability for any payment save taxes and interest by requesting or forcing the Board to discontinue the system. (Of course, a provision requiring nonrecoverable reserves proper to pay such benefits might be added, preventing this.)

CLARK AMENDMENT—AMBIGUOUS PROVISIONS—PROVISIONS AS TO TRANSFER OF FUNDS

Some interesting questions are raised under the provisions of the Clark amendment as to just what taxes are payable in case of the termination of a plan.

The amendment exempts from tax services of an employee who elects to come under his employer's plan when the plan meets certain requirements, and provides—

That if any such employee withdraws from the plan before he attains the age of 65, or if the Board withdraws its approval of the plan, there shall be paid by the employer to the Treasurer of the United States * * * an amount equal to the taxes which would otherwise have been payable by the employer and the employee on account of such service, together with interest on such amount at 3 percent * * *.

The situation with respect to beneficiaries on withdrawal of approval of a plan might be that of those still working for the employer:

(1) Some are employees under 65 who have received no benefits under the plan.

(2) Some are employees over 65 who have received no benefits.

(3) Some are employees over 65 who have received a lump-sum payment and are ineligible for annuities, and of those who were employees, but have retired from employment include the above and also.

(4) Some who have been paid all benefits due them, and have died.

(5) Some have received partial benefits and are due additional benefits.

All of the foregoing have been employees with respect to which there has been tax exemption. The formula for what is to be paid is "an amount equal to the taxes which would otherwise have been payable." There is no other measure. Either no amounts due with respect to a particular person, or the entire amount equal to exempt tax and interest is due. Under one possible construction, on withdrawal of approval of a system the employer owes the Treasury all taxes he has ever been relieved of paying because of the exemption provision. This would be both unfair and disastrous to an employer where a system had paid out large benefits in the course of years to persons who have retired, and who is then required to pay back taxes exempt because of paying them these benefits.

A second possible (but not probable) construction would be that only with respect to persons under 65 would there have to be made such payments.

Such construction would be both unfair and disastrous to the old-age reserve account if it is to pay persons benefits who are over 65 and are supposed to be drawing benefits from the disapproved private system.

A third possible (but not probable) construction would be that only with respect to persons in active employment would there have to be made such transfer. This would have the same disastrous effect as the above, if Federal benefits are to be paid those who have retired under the private system and qualified for its benefits.

If the Clark amendment provisions with respect to Federal benefits are construed as not providing any Federal benefits to persons over 65 covered by the disapproved system, then such persons are left without benefits where the private system is insolvent. The provisions of the Clark amendment are not clear, and it is hardly probable that they would be construed to provide Federal benefits for persons, or exclude them from benefits on either of the above bases.

The Clark amendment with respect to transfers, while ambiguous, seems to indicate the policy of requiring transfers of money to the Federal Treasury, (1) on election of the employee, or (2) shift of employment before 65, or (3) on disapproval of a plan, or (4) on election of an employer to end his plan.

If these general policies are determined upon, the subcommittee should determine the specific policy with respect to each of the situations previously outlined, as it would appear of as great importance to properly provide for those persons actually retired and entitled to annuities under a private system as those who have not yet retired. In either case, it is a question of leaving them to depend on a disapproved and possibly insolvent system for benefits earned under it, or of covering them into the Federal system.

GENERAL CONSIDERATIONS AS TO WHEN THERE SHOULD BE A SHIFT TO FEDERAL COVERAGE

In determining the policy as to when there should be a shift to Federal coverage, there are several considerations which the committee might bear in mind:

1. Whether the insurance carrier is solvent or insolvent.
2. Whether the beneficiary has reached the age of 65.
3. Whether all benefits due him have been paid.

The fact has already been mentioned that on termination of a private system its beneficiaries may fall in several different classes. The circumstances of solvency and insolvency and of the particular situation of the beneficiaries may result in adoption of varying policies as to shift of coverage, depending upon the various situations of beneficiaries, and the condition of the annuity carrier.

WHERE THE ANNUITY CARRIER IS INSOLVENT

In case it is the policy to protect the person who has elected private coverage by guaranteeing him Federal benefits in case his private system collapses, the transfer of reserves would be proper for all beneficiaries without respect to classification if the insurance company or other annuity carrier becomes insolvent.

WHERE THE CARRIER IS SOLVENT

A different situation is presented where the insurance carrier is solvent:

(1) No transfer should be made with respect to persons who have received all the benefits due them by the private system.

(2) As to those who have retired and have not received all the benefits, it would appear that there would be no necessity for making the transfer as long as the insurance company is willing and able to pay these benefits.

(3) With respect to those who have passed the age of 65 but have not retired, it would seem that there would be no necessity for transfer of their benefits unless the committee determines upon the policy of allowing an election of coverage for such persons.

(4) With respect to persons under 65 who desire to transfer coverage, it is also a question of policy as to whether it is desirable to allow such persons to force the transfer of reserves where the company is ready, willing, and able to pay benefits when they become due.

There are, with respect to this last-mentioned case, two situations: (1) Where the employee desires a shift in coverage; and (2) where he does not desire a shift in coverage.

In the last case, the only reason for requiring transfer would be to avoid the ultimate situation of the employee being paid benefits from several different sources, and also to avoid the result of his failure to shift coverage in burdening the old-age reserve account.

An example of the effect of transfer on the old-age reserve account is illustrated by the following:

"A" has earned $3,000 under a private system, and will probably earn $3,000 more after its termination. If transfer of reserve is made to the Federal system, he will receive a total pension of $17.50. If there is no transfer, and he received a benefit both from the private system and also Federal system, he would receive $15 from each, and the old-age reserve account would, accordingly, be burdened $12.50 per month extra.

III. Supervision and Administration

Approval of private systems

The policy of requiring Social Security Board approval of private pension plans is indicated in the Clark amendment. It provides that such approval is a condition precedent to Federal encouragement.

This policy might include passing upon—

I. *The annuity carrier.*—This was provided in the Clark amendment which failed, however, to state the standards an annuity carrier should be called upon to meet. This failure leaves the Board without the benefit of definite Federal standards as a guide, and leaves the continuance of a private pension system at the untrammeled discretion of the Board.

Possible standards might be—

1. A designated period of annuity experience.
2. Financial resources meeting a designated ratio of anticipated risks under the private plan.
3. That it be some form of legal entity so that death would not interfere with the carrier's ability to perform its duties. (If carriers are required to be life-insurance companies, the duty of passing on the carrier might be very restricted.)

II. *The benefits provided.*—The Clark amendment made it the duty of the Board to determine whether the benefits are "at least actuarially equivalent" to Federal benefits. This raises an initial question:

When a private plan is presented, what types of benefits will be passed upon by the Board?

A "private plan" may include, among other benefits, sickness, accident, life insurance, medical attention and surgery, and pensions either before or after 65. These benefits may be of varying relative importance in the private system, as to cost and of actuarial value, so far as actuarial value may be calculated for some of the items.

The "Federal benefits" are essentially annuity benefits. Benefits payable in case of death or failure to qualify are very incidental, substantially amounting to a return of a person's taxes. It is a matter of policy for the Committee to determine whether any feature of a "private plan" other than the annuity feature should be considered. Incidents to this policy are discussed under "Benefits".

III. *The soundness of the plan.*—For the reasons mentioned under the discussion of reserves, certainty of benefits is equally important as amount of benefits. If carriers are limited to life insurance companies, the laws of the various States will go far toward guaranteeing the soundness of the plan. If trust companies and trustees generally are permitted to operate plans the matter is quite different. In the utmost good faith a very unsound plan

might be put into effect because of the lack of insurance knowledge or experience.

IV. *Investment of reserves.*—The matter of supervision of reserve investment, or limitation by law of types of investment is of great importance if trustees are to be allowed as carriers. If they are allowed, and strict supervision requirements are, accordingly imposed, it is doubtful whether life-insurance companies will enter the field.

Contributions of employers.—Whether contributions required of employees should be regulated by direct provisions of law, placed under the supervision of the Board, or unregulated, is a matter of policy. Of great importance is the determination of policy with freedom of election for coverage. If this includes the equal right of employees to elect private coverage, restrictions as to contribution rates are of primary importance. Suppose an employer's plan provides for contributions with respect to wages as follows:

Employee's age at entry into private system:	*Per month*
20 to 30	2
30 to 50	5
Over 50	10

Though the employer agreed to match contributions in each case, and though the required contributions are shown to be actuarially correct to provide the benefits, the effect is:

(1) Young employees are encouraged to enter the system.

(2) Old employees are practically prohibited from entering the system.

In case the policy of exemption from tax is determined upon, the further result will be—

(3) Selection against the old-age reserve account, a shifting on it of expensive risks.

ADMINISTRATIVE PROBLEMS

Besides the matters of initial approval and later supervision of private plans, a large administrative burden of accounting and actuarial work is incident to correlating private pension systems and Federal old-age benefits.

COMPUTING GRANTS TO PRIVATE SYSTEMS

In case grants in aid are made private systems, complications in computing these grants will in a large measure depend upon the policy decided upon as to their fairness. If each private plan's grant in aid is accurately based on the burden it assumes and of which the old-age account is relieved, the actuarial work involved will be enormous. On the other hand, if the grant is based on amount of wages of those under the private system, computation would be easy.

However, if wages alone are the basis many unfortunate effects would follow. Among them:

(1) Systems with low-age groups would receive possibly 100 percent of their costs, while those with high-age groups, possibly 20 percent of their costs.

(2) A private system would receive no more for an aged employee than for a young employee, though premiums might be 10 times as great for the former.

(3) A private system would have a large financial stake in eliminating old employees and short-term employees, and throwing them on the old-age reserve account.

These results, of course, also follow from an exemption from tax. In one important respect, exemption would have an additional disadvantage: An exemption increases in rate every 3 years. The encouragement is 2 percent of wages in 1937, and 6 percent in 1949. Thus in case a policy of tax exemption is followed—

(4) A private system established in 1949 will be given three times the assistance the same system would have received in 1937.

COMPUTATION ON TRANSFER OF COVERAGE

If the policy of shifting coverage under certain conditions is followed, this involves a large amount of computation. Under the Clark amendment. on termination of a plan, election of the employee, or transfer of employment the worker becomes entitled to Federal benefits and an amount is paid the Federal Government. In case the policy of grants-in-aid were followed, this same

transfer might be required. In one case it would be necessary to compute the transfer sum by taking the total taxes exempt with respect to the employee each year in the system plus interest. In the other case it would be necessary to take the total of grants-in-aid each year because of the employee plus interest. If 1 out of every 25 of the workers transferred each year to Federal benefits and the total cost of collecting data-making records and computing transfer amounts were a dollar per transfer, this item alone would add a million dollars to administrative expense.

SUMMARY

In integrating private pension systems and Federal benefits, so as to achieve even a measure of financial fairness to the Federal Government and the private systems, and of protection to the beneficiary, many matters of policy arise. Policies must be determined in the light of attendant advantages and disadvantages. Determination of policy is made difficult because:

(1) The Federal schedule of benefits is radically different from those of private pension systems.

(2) Taxes under title VIII are on an entirely different basis with respect to benefits than are premiums with respect to private insurance benefits.

(3) Actuarial loss because of private plans can be prevented only by burdensome and expensive computations.

(4) Loss because of failure of private plans must be borne by the beneficiary or the Federal Government, or prevented by rigorous reserve requirements and burdensome supervision, or limiting private-plan insurance carriers to life-insurance companies.

(5) Safe reserve requirements for benefits must be discouragingly high, for earlier years, especially, or there must be a complicated procedure of transfer of reserves and risks under certain conditions.

(6) A policy of freedom of election of employees as to coverage at any time: (*a*) Makes private systems more expensive; (*b*) reserve investment more difficult; (*c*) removal of financial advantage to an employer for including or excluding an employee very important, and proper reserve transfer with transfer of coverage essential.

In conclusion, the problem of encouraging private pensions either by exemption or by grants in aid is most difficult. Policies determined will have grave effect on the cost to the Federal Government or the private system, the amount and certainty of benefits to the employee, and the effect of the private system on his chances of obtaining employment.

Simplicity in legislation can be achieved only by ignoring or inadequately dealing with these compl cated factors. Legislation effectively encouraging the type of private systems truly advantageous to beneficiaries must necessarily be the result of much patient study and careful determination of policy.

Senator KING. We will adjourn until next Saturday morning at 10 o'clock, unless other arrangements are made in the meantime.

(Whereupon, at the hour of 9:15 o'clock p. m., a recess was taken until 10 o'clock a. m., Saturday, Apr. 4, 1936.)

(The meeting called for Saturday, Apr. 4, 1936, was subsequently postponed.)