

*The Promise of Private Pensions*

A PENSION RESEARCH COUNCIL BOOK

The Promise *of*  
Private Pensions



*The First Hundred Years*

Steven A. Sass

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To Ellen  
and our family



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of great intricacy, scale, and organization. Labor and capital were flowing out of the family economy and into these large corporate establishments. Once there, and under the control of rational, systematic management, the household's factors of production became far more fluid, supple, and productive. But detached from the family and traditional skills, labor and capital suffered dangerous new vulnerabilities. The elderly, in particular, found themselves out of step with the new bureaucratic and mechanized regime. The private pension institution emerged as a way for the new corporate employers to address this deficit — and needs of their own — in a rational, systematic fashion.

The task turned out to be far larger and more resistant to system than the employers had imagined. They were forced to engage outside businesses and specialists to service their plans, including the largest insurance carriers and trust companies and the most sophisticated actuaries, lawyers, and investment managers. The government and the labor unions also demanded, and won, a powerful voice in these employer pension programs. So the institution became a Byzantine mosaic, the product of shifting corporate strategies, union campaigns, congressional mandates, judicial and administrative decisions, and the manipulations of actuarial, insurance, legal, and investment firms.

The institution is also an accretion. Pension plans are carefully counterbalanced sets of commitments, stretching far into the future, running between the employer, perhaps thousands of workers, their unions, the government, and outside investment vehicles. These complex arrangements are continually fought over and adjusted. But because of these carefully counterbalanced commitments, a plan of a particular vintage will persist for decades after the conditions that produced it no longer exist.

The pension institution is today a financial leviathan. A third of the private workforce participates in a private pension plan at any one time. Perhaps two-thirds will accrue a benefit over the course of their working careers. The institution is perhaps the largest beneficiary of federal tax incentives and absorbs more corporate revenue than any other employee "fringe" benefit, with the possible exception of health insurance. Private pension funds, as a result, in 1993 held about \$1.5 trillion in assets. Pension liabilities — the present value of future benefit payments — are perhaps even greater.<sup>1</sup>

The institution reached its high-water mark with the passage of the Employee Retirement Income Security Act of 1974, the nation's most

ambitious attempt to bring order to its private pension system. ERISA strengthened the institution's commitments and extended its reach. But soon after enactment the nation's larger economic system itself began shifting. The pension had been the creature of big business, big labor, and big government. In the years since 1974 the power of each has declined.

The nation's households still need a retirement income system. They still transfer their labor and capital to corporate engines of production, their members are retiring earlier, and they are living much longer. How profit-seeking enterprises respond to these changes, and to what degree their response is a pensioning system at all, is yet to be seen.