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Briefing Report to Congressional Requesters

July 1986

PENSION INTEGRATION

How Large Defined Benefit Plans Coordinate Benefits With Social Security

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES DIVISION

B-223621

July 21, 1986

The Honorable Bob Packwood
Chairman, Committee on Finance
United States Senate

The Honorable John Heinz
Chairman, Subcommittee on Savings,
Pensions and Investment Policy
Committee on Finance
United States Senate

The Honorable William L. Clay
Chairman, Subcommittee on
Labor-Management Relations
Committee on Education and Labor
House of Representatives

In January 1986, your offices requested information on how often individuals' company pension benefits are coordinated with Social Security, a process known as integration. In integrated plans, higher paid workers get a pension benefit that replaces a greater share of their final earnings than lower paid workers, thus countering the tilt in Social Security benefits toward low earners. Consequently, lower paid workers receive a small (or sometimes no) company pension benefit.

As noted at the time of your request, integration data will aid your consideration of the proposed Tax Reform Act of 1986 (H.R. 3838). This bill, as amended by the Senate in June 1986, includes provisions that guarantee some minimum pension benefit to all participants in integrated employer-sponsored pension plans. These provisions affect the methods employers may use to integrate pension benefits with Social Security. We briefed staff of the Senate Finance Committee on our preliminary analyses in February 1986, prior to its consideration of H.R. 3838. In this report, we discuss the plans and people that might be affected by the Senate integration amendments.

As agreed, we compiled and analyzed available data, particularly large statistical surveys with generalizable findings. We used data from the Department of Labor's (DOL's) Bureau of Labor Statistics and the Internal Revenue Service (IRS). We also relied upon a 1980 Bankers Trust Company study of major corporate retirement plans. We did not independently validate these data.

Most of the published articles and unpublished data we used concern large defined benefit pension plans and their participants. These plans have 100 or more participants and use a known formula based on salary, years of service, etc., to calculate a worker's benefit. According to DOL, defined benefit plans in 1985 totaled approximately 229,000, of which 26,000 were large and 203,000 were small (fewer than 100 participants). About half the people in pension plans (52 percent in 1982) were in large defined benefit plans.

Our analysis of the most recently available information--1984 participant data and 1981 plan data--suggests that changing integration rules might affect many workers and require many employers to modify plan provisions. In this briefing report, we estimate the maximum proportions of large defined benefit plans and their participants that might be affected by the proposed changes in the integration rules. We could not estimate the actual number of people and plans that would be affected because we do not know how many integrated plans already conform to the proposed requirements or how many people are in such plans.

We found that over half of large defined benefit plans (57 percent) coordinated their benefits with Social Security. Similarly, over half of the members of defined benefit plans (56 percent), which included 77 percent of white collar participants and 34 percent of blue collar participants, belonged to integrated plans. More specifically, regarding large defined benefit plans and their participants:

--Thirty-four percent of the plans, covering 36 percent of the participants, used the offset method, whereby a person's initial pension amount is reduced by a stated percentage of the person's Social Security benefit. If the Senate amendments are enacted, initial pension amounts may not be cut by more than half when applying the offset method.

--Twenty-two percent of the plans, covering 19 percent of the workers, were step-rate plans, which calculate pension benefits at different rates on earnings above and below specified levels. For example, under current rules, a person with average final earnings of $25,000 might receive benefits of 10 percent of the first $10,000 of earnings and 47.5 percent of the remaining $15,000. The Senate amendments would limit the percentage that can be applied to earnings above the specified level to twice the percentage applied to earnings below the specified level.

--One percent of the plans, covering 1 percent of the participants, used the pure excess method, whereby workers accrue pension benefits in a year only if their annual earnings are above an amount specified in the plan. The Senate integration amendments would prohibit the use of this method.

We informally discussed the information in this report with IRS and DOL officials, and their comments have been incorporated, where appropriate.

Copies of this report are also being sent to the Chairmen of the Senate Committee on Labor and Human Resources, the House Committee on Ways and Means, and the Joint Committee on Taxation, and other interested parties.

If you have questions or wish to discuss the analyses in more detail, please call me on 275-6193.

Burma H. Klein

for Joseph F. Delfico
Senior Associate Director

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ABBREVIATIONS

BLS	Bureau of Labor Statistics
DOL	Department of Labor
GAO	General Accounting Office
IRS	Internal Revenue Service
TCMP	Taxpayer Compliance Measurement Program

PENSION INTEGRATION:

HOW LARGE DEFINED BENEFIT

PLANS COORDINATE BENEFITS

WITH SOCIAL SECURITY

INTRODUCTION

The Internal Revenue Code of 1954 allows an employer sponsoring a pension plan to coordinate benefits with Social Security. This coordination process, known as pension integration, has generated repeated policy debates.

The proposed Tax Reform Act of 1986 (H.R. 3838), as amended by the Senate, would change the way employers integrate pension benefits with Social Security. In January 1986, the offices of the Senate Finance Committee and the Subcommittee on Labor-Management Relations of the House Education and Labor Committee asked us for information on pension integration to assist them in their consideration of H.R. 3838. In February 1986, prior to the Senate Finance Committee's mark-up of the bill, we briefed its staff on the results of our work to date.

BACKGROUND

We use a question and answer format to present background information on pension integration.

What Are Defined Benefit Pension Plans?

These plans employ a known formula, which usually uses salary and years of service to determine individual benefits.[1] Employers set up and contribute to a trust fund and may use insurance company funding mediums (e.g., annuities) to pay for these benefits. Trust fund assets are normally invested in a diversified portfolio that may include real property and marketable securities.

What Types of Formulas Do Defined Benefit Pension Plans Use?

In this report, we discuss plans that use three types of formulas: final pay, career average, and dollar amount. Final pay plans compute benefits using average earnings in the final years of work--often the last 3 or 5. The career average plan computes benefits on the average earnings in all years of employment. Dollar amount plans usually pay a specified amount for each year on the job, regardless of earnings.

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[1]Pension terms used in this report are defined in the glossary. (See pp. 27 to 28.)

How Many Defined Benefit Pension Plans Are There?

Exact numbers are not available. According to Department of Labor (DOL) estimates, in 1985 they totaled approximately 229,000. Approximately 26,000 were large (100 or more participants), while the rest, 203,000 plans, were small (fewer than 100).

What Are the Tax Advantages of Setting Up These Plans?

Employer contributions to pension plans that meet Internal Revenue Service (IRS) requirements are generally tax deductible, earnings on those contributions are not taxed, and workers pay no taxes on employer contributions or investment earnings until they get their benefits.

What Is the Relationship Between Social Security and Pension Benefits?

Both give workers retirement income. Under the Social Security system, the benefits replace a bigger portion of preretirement earnings for low income workers than for high income workers. As table 1 shows, workers' Social Security benefits, as a percent of preretirement earnings, fall as earnings rise.

Table 1:

Social Security Benefit Replacement Rates for Workers Retiring at Age 65 in 1983[a]

	Final year's earnings	Social Security benefit level (percent of final earnings)
Worker A	$10,000	51.4
Worker B	20,000	40.2
Worker C	30,000	28.2
Worker D	40,000	21.2
Worker E	50,000	17.0

[a]Retirees with 30 years of service and salary histories based on changes in national average earnings between 1953 and 1982, as published by the Social Security Administration.

Source: GAO report, Benefit Levels of Nonfederal Retirement Programs (GAO/GGD-85-30), Feb. 26, 1985.

Social Security costs are borne by workers covered by the program and their employers. Funds come from a payroll tax levied in equal proportions on employers and workers. Tax is paid on earnings up to the taxable wage base set by the Social Security Administration. In 1986, this base is $42,000.

Recognizing employers' contributions to the Social Security system, the Internal Revenue Code (sec. 401(a)(5)) lets employers coordinate pension and Social Security benefits in computing employees' retirement benefits. This coordination, known as pension integration, compensates for the Social Security system's tilt toward low paid workers by giving proportionately more pension benefits to higher paid employees.

How May Pension Benefits Be Integrated With Social Security?

Employers may use one of three ways: offset, pure excess, and step-rate, according to IRS revenue rulings. (See pp. 13 to 19.)

How Do Integrated Plans Qualify for Favorable Tax Treatment?

Along with meeting other IRS requirements, integrated plans qualify for favorable tax treatment when combined benefits payable under Social Security and an employer's pension plan, as a percent of pay, are not greater for "highly compensated" employees, company shareholders, or officers than for other participants. Consequently, these plans may qualify for favorable tax treatment even though the pension benefits by themselves may favor the highly paid.

Why Do Employers Believe Integration Is Necessary?

--They contribute to Social Security.

--It allows them to balance Social Security's benefit tilt toward lower paid employees by raising pension replacement rates for higher paid employees (as long as the combined Social Security and pension benefit replacement rate does not favor that group).

--They would otherwise have to pay more pension benefits to their employees; some employers might have to end their pension plans because of increased costs.

Why Do Some People Oppose Integration?

--In return for the favorable tax treatment given employer-sponsored plans, opponents of integration believe these plans should contribute more toward lower paid workers' retirement income.

--Employers' contributions to Social Security do not fund benefits for current employees; therefore, employers should not be permitted to combine pension and Social Security benefits to meet IRS qualification requirements for favorable tax treatment.

Why Is the Congress Considering Changing the Integration Rules?

According to the Senate report on H.R. 3838, the Congress used tax incentives to encourage employers to set up pension plans covering low and middle income workers. Also, Social Security benefits do not adequately replace these workers' preretirement earnings, nor can these employees save enough for retirement. Consequently, integration rules, which permit an employer to eliminate benefits for lower paid employees, undermine the original congressional policy. Accordingly, under the Senate version of tax reform all employees covered by an integrated plan would get some minimum pension benefit.

OBJECTIVES, SCOPE, AND METHODOLOGY

To estimate the number of people and plans that would be affected by the proposed changes in the integration rules, we sought information on the following three topics:

--participation in integrated plans,

--incidence of integrated plans, and

--use of various integration methods.

In identifying data, we looked for large statistical surveys from which to generalize to a defined universe of plans or participants. The data that met our criteria focused mainly on large defined benefit plans, that is, plans with 100 or more participants. About half of pension plan participants (52 percent in 1982) were in large defined benefit plans.

We relied primarily upon the most recent data, 1984 participant data and 1981 plan information from annual employee benefit surveys by DOL's Bureau of Labor Statistics (BLS) in the following two publications:

1. DOL/BLS, Employee Benefits in Medium and Large Firms, 1984, Bulletin 2237, June 1985. (Our main source for participant information.)

2. Donald Bell and Diane Hill, "How Social Security Payments Affect Private Pensions," Monthly Labor Review, May 1984. (Pension plan data computed from results of BLS' 1981 survey of employee benefits in medium and large firms.)

For this report, we categorized plans in the BLS annual surveys as large defined benefit plans. Although the surveys did not report plan sizes and contained some defined contribution plans, a cognizant DOL official estimated that a maximum of 7 percent had fewer than 100 participants and defined contribution plans constituted only 2 percent of the plans surveyed.

Also, if a plan had more than one benefit formula, one of which was integrated, BLS counted the plan as integrated. Thus, the proportion of large defined benefit plan participants whose pension benefits were integrated with Social Security may be overstated. We therefore can only report the maximum proportion of integrated defined benefit plans (those with at least one benefit formula coordinated with Social Security) and their participants.

We also used a 1980 Bankers Trust Company study for data on characteristics of retirement plans of major corporations. Despite its nonstatistical sample that did not allow generalization, we thought it had pertinent information on how selected Fortune 500 and other major corporations apply current integration rules.

We used other data that show the frequency of pension integration in the middle to late 1970's. Because these data sources varied in sampling design and size, trends shown in this report are intended only to give a general indication of how integration has changed over time. (App. I describes data sources used in this report. We give additional data for various years in app. II through VI.)

We neither verified the data's accuracy nor collected new information.

RESULTS OF ANALYSIS

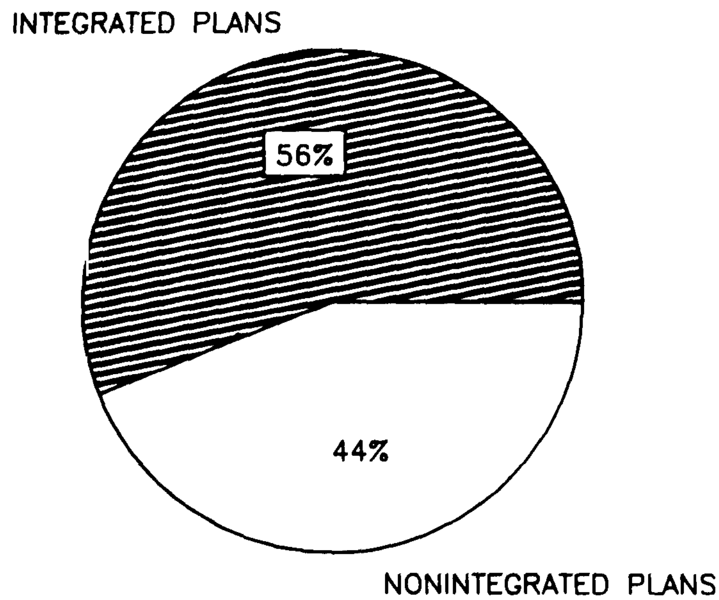
Presented below is the information on pension integration that we developed in response to the congressional request.

Prevalence of Pension Integration in Large Defined Benefit Plans

1. What is the maximum proportion of plan participants who will be affected by changes in the integration rules?

More than half the workers in large defined benefit plans in 1984 belonged to plans that coordinated pension benefits with Social Security, as shown in figure 1.

FIGURE 1:
PARTICIPATION IN INTEGRATED AND NONINTEGRATED LARGE DEFINED BENEFIT PLANS (1984)



PERCENT OF PARTICIPANTS

Data on occupational groups show that white collar workers were more likely to be in integrated plans than blue collar workers.[2] In 1984, 77 percent of white collar participants were in integrated plans, as opposed to 34 percent of blue collar participants.

Typical wage profiles partly explain the variation between occupational groups. White collar workers in a defined benefit pension plan generally span a wide range of compensation levels. Integration allows employers to take the resulting differences in Social Security benefits into account by using one of the integration methods permitted by the IRS.

In contrast, blue collar workers in a defined benefit pension plan generally get similar hourly rates, thereby receiving similar Social Security benefits based on their own work

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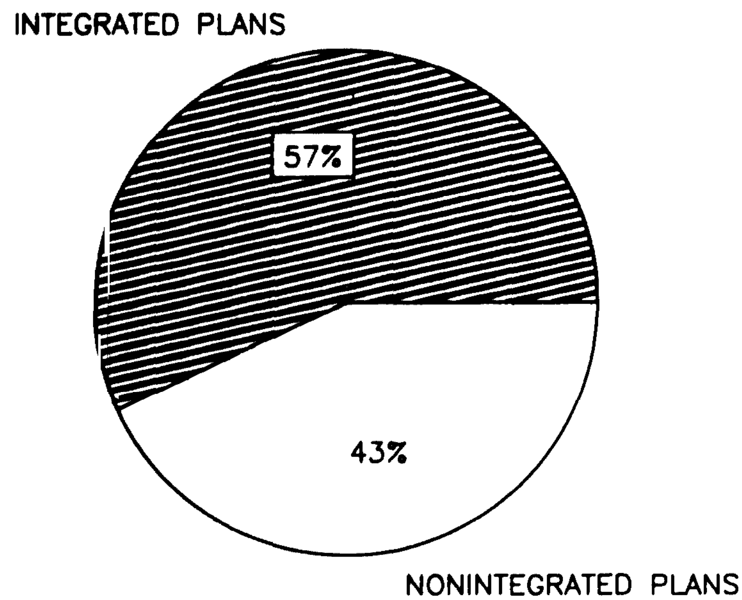
[2]BLS defines white collar workers as individuals in the professional, administrative, technical, and clerical occupations. Blue collar workers are employed in production occupations.

histories. Therefore, employers need not use one of the integration methods for workers to receive similar replacement rates when their pension and Social Security benefits are combined.

2. <u>What is the maximum proportion of plans that will be affected?</u>

More than half the large defined benefit plans in 1981 had a benefit formula that took Social Security into account in computing pension benefits, as shown in figure 2.

FIGURE 2:
FREQUENCY OF INTEGRATED AND NONINTEGRATED LARGE DEFINED BENEFIT PLANS (1981)



PERCENT OF PLANS

Historical data suggest a lower proportion of integration among these plans before 1981. Integrated plans constituted 47 percent of plans in 1979 and 1978 and 42 percent in 1977.

As table 2 shows, the likelihood of these plans being integrated with Social Security differed by the type of benefit formula used by the plans.

Table 2:

Integration Status of Pension Plans by Type of Benefit Formula: Large Defined Benefit Plans (1981)

Status	Final pay	Career average	Other[a]
	-------------(percent of plans)----------		
Integrated	81	60	6
Not integrated	19	40	94
Total	100	100	100

[a]Primarily dollar amount plans.

Frequency of Use by Large Defined Benefit Plans of the Offset Method

1. What are offset plans?

Offset plans subtract part of a worker's Social Security benefit from a preintegrated pension amount. Therefore, as Social Security benefits rise, pension benefits decrease automatically unless the benefit formula is changed. (See fig. 3.) Employers generally may not cut more than 83-1/3 percent of the Social Security benefit from the preintegrated pension amount, according to IRS revenue rulings.

Figure 3:

Example of a Pension Benefit Computation: Offset Integration Method[a]

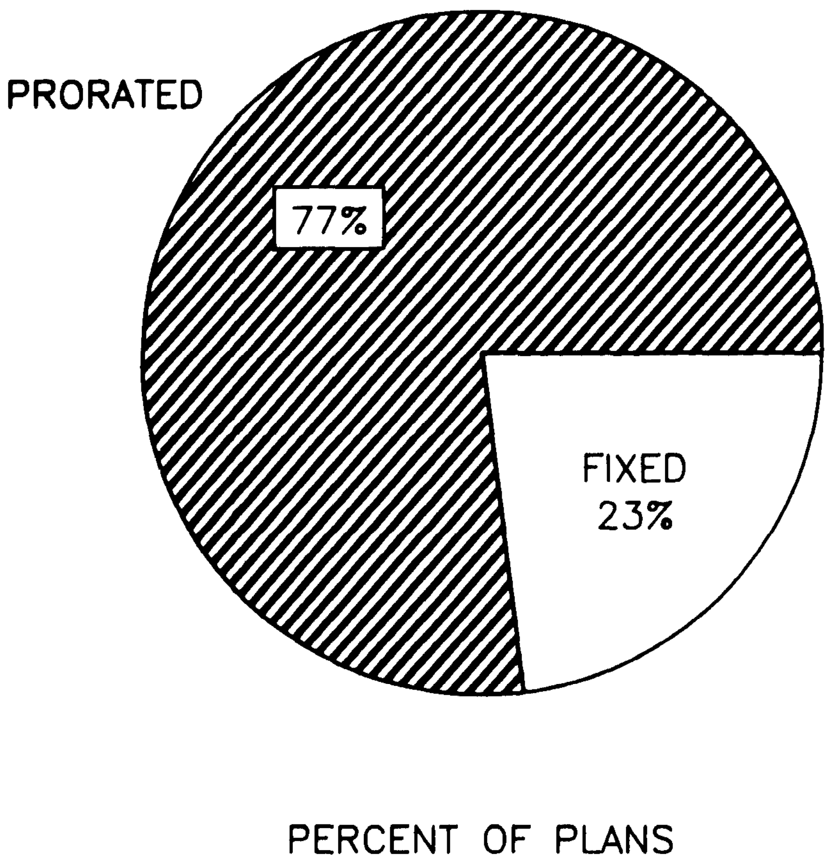
Pension amount	minus	60% of worker's Social Security benefit	equals	Annual pension benefit
$6,000	minus	(60% X $5,140)	equals	$2,916

[a]Assumptions: Worker age 65 retiring in 1983 with 30 years of service; pension amount based on final pay formula, with worker having a final average salary of $10,000; offset percentage selected only for illustrative purposes; Social Security benefit computed from the data on Social Security replacement rates contained in GAO report, Benefit Levels of Nonfederal Retirement Programs, (GAO/GGD-85-30), Feb. 26, 1985.

The offset percentage is determined in one of two ways. A plan's benefit formula may subtract (1) a fixed percentage of a worker's Social Security benefit regardless of years on the job or (2) a prorated percentage. For example, a plan may specify cutting 1-1/4 percent of an employee's Social Security benefit from the pension amount for each year of employment. A plan with a prorated offset may also specify a limit (cap) on the offset percentage.

In 1981, most offset plans used a prorated percentage, as figure 4 shows. They cut from 0.75 to 5 percent of the Social Security benefit for each year of service. Those with a cap usually offset no more than half of the Social Security benefit.

FIGURE 4:
USE OF OFFSET PERCENTAGES IN LARGE DEFINED BENEFIT OFFSET PLANS (1981)



2. How will proposed changes affect the offset method?

Currently, the integration rules do not prescribe how much a worker's preintegrated pension amount may be cut by the offset method. The proposed changes limit such cuts to 50 percent, thereby boosting some workers' pension benefits. Consequently, some plan sponsors will have to amend their plans to satisfy this requirement if the Senate integration amendments are enacted.

3. What is the maximum proportion of plan participants who will be affected?

In 1984, 36 percent of large defined benefit plan participants were in plans using the offset method. About half of white collar and 19 percent of blue collar participants were in offset plans.

4. What is the maximum proportion of plans that will have to be amended?

In 1981, 34 percent of large defined benefit pension plans used the offset integration method. Most integrated plans (60 percent) used this method. Historical data suggest less frequency before 1981. Offset plans constituted 24 percent of large defined benefit plans in 1979, 22 percent in 1978, and 18 percent in 1977.

Integrated final pay plans were more likely to use the offset method than other methods. In 1981, most integrated final pay plans (69 percent) used it.

Frequency of Use by Large Defined Benefit Plans of the Pure Excess Method

1. What are pure excess plans?

Unlike offset plans, pure excess plans do not directly use an employee's Social Security benefit to determine pension benefits. Instead, they calculate pension benefits only on earnings above a certain amount specified in the plan (known as the integration level). Hence, workers who consistently earned below that level get no pension benefit at retirement.

Employers sponsoring such plans use one of two integration levels. Either they use a set dollar amount (fixed integration level) or an amount tied to the Social Security taxable wage base (variable integration level). Variable integration levels may adjust automatically with changes in the Social Security wage base, whereas changing a fixed integration level requires a plan amendment.

2. How will the proposed changes affect pure excess plans?

The Senate amendments would eliminate them and require employers to pay a minimum pension benefit to all participants.

3. What is the maximum proportion of plan participants who will be affected?

In 1984, 1 percent of participants in large defined benefit plans were in pure excess plans. We do not know how many participants earned below their plan's integration level and thus accrued no pension benefits in that year.

But according to IRS data for 1978, an estimated 114,328 workers earned below that level. They were less than 1 percent of the estimated 39 million plan participants.

4. What is the maximum proportion of plans that will be affected?

About 1 percent, according to 1981 data.

Frequency of Use by Large Defined Benefit Plans of the Step-Rate Method

1. What are step-rate plans?

Like pure excess plans, step-rate plans pay pension benefits relative to an integration level. But they do so on earnings above and below that level. Figure 5 illustrates this method.

Figure 5:

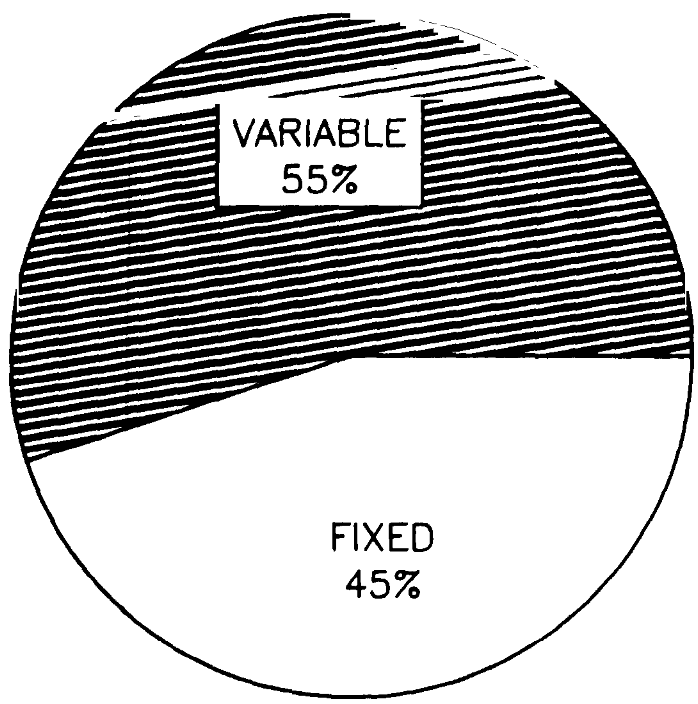
Example of a Pension Benefit Computation: Step-Rate Integration Method[a]

10% of average earnings below integration level	plus	35% of average earnings above integration level	equals	Annual pension benefit
(10% x $10,000)	plus	(35% x $15,000)	equals	$6,250

[a]Assumptions: Integration level is $10,000; total average earnings are $25,000; percentages used to determine the pension benefit payable above and below the integration level were selected for illustrative purposes only.

In 1981, most step-rate plans used a variable integration level rather than a fixed level, as figure 6 shows. A fixed integration level does not adjust automatically with changes in employees' earnings. Hence, if earnings rise as the integration level remains constant, employers must pay out more pension benefits because more workers will have more earnings above that level. To prevent higher pension costs, employers have to amend their plans to increase the integration level.

FIGURE 6:
INTEGRATION LEVELS OF LARGE DEFINED BENEFIT STEP-RATE PLANS (1981)



PERCENT OF PLANS

2. <u>What are the proposed changes affecting the step-rate method?</u>

The Senate amendments would set new limits on the relative benefits computed on earnings above and below the plan's integration level. It would require that the benefit accrual rate on earnings above the integration level not be more than twice as high as the rate on earnings below the integration level.

Under current rules, for example, a plan with a benefit formula that gives an employee a retirement benefit of 10 percent of average final salary below the integration level can give 47.5 percent of the excess of average final salary above the integration level. In this extreme example, an employee whose annual earnings consistently fell below the plan's integration level would therefore get 10 percent of average final salary as a pension benefit. In contrast, an employee in the same plan with earnings above the integration level would get 47.5 percent of average final salary above the integration level, as well as 10 percent of average final salary below that level.

If the Senate integration amendments are enacted, employers could increase the benefits of the lower paid or decrease the benefits of the higher paid. Using the previous example, the plan paying a benefit of 10 percent on earnings below the integration level could pay only up to 20 percent on earnings above that level. To pay a benefit of 47.5 percent on earnings above the integration level, the plan would have to pay at least 23.75 percent on earnings below the level.

3. <u>What is the maximum proportion of plan participants who will be affected?</u>

In 1984, 19 percent of workers in large defined benefit pension plans belonged to step-rate plans. Participation in step-rate plans was about 25 percent for white collar participants and 14 percent for blue collar participants.

4. <u>What is the maximum proportion of plans that will have to be amended?</u>

In 1981, 22 percent of large defined benefit plans used the step-rate method. Historical data indicate a similar percentage of plans used the step-rate method before 1981. In 1978, 23 percent used this method.

Integrated career average plans used the step-rate method more often than integrated final pay plans. In 1981, 88 percent of integrated career average plans used the step-rate method whereas 30 percent of integrated final pay plans used it.

Career average plans may use each year's Social Security taxable wage base as their integration level to compute benefit accruals in a given year. In this way, the plan's integration level automatically adjusts to changes in national average wages. In contrast, if final pay plans use the step-rate method, they are required to use an average of taxable wage bases as each participant's maximum integration level.

How Selected Major Corporations Apply the Current Integration Rules

According to a 1980 Bankers Trust Company study of 250 non-negotiated large defined benefit plans of major corporations, 86 percent were integrated. The following summary of 1980 corporate integration practices derives from this study:

--Both final pay and career average plans were often integrated--89 percent of final pay and 77 percent of career average.

--Over half of the integrated plans (56 percent) used the offset method; 75 percent of offset plans prorated the offset percentage by years of service.

--The predominant method of integration differed by type of benefit formula--74 percent of integrated final pay plans used the offset method, while 73 percent of integrated career average plans used the step-rate method.

--Most step-rate plans (60 percent) had integration levels that adjusted automatically with changes in the Social Security taxable wage base.

We noted similarities between results from the Bankers Trust study and data we presented for large defined benefit plans in general:

--predominance of integrated plans;

--prevalence of the offset method among integrated plans, with most offset plans prorating the offset percentage;

--links between the offset method and final pay formulas, and the step-rate method and career average pay formulas; and

--predominant use of variable integration levels by step-rate plans.

DATA SOURCES

In this appendix, we discuss the data sources used in this report.

1. <u>DOL/BLS, Employee Benefits Surveys (1979, 1981, and 1984)</u>

These surveys provide detailed information on pension plan provisions for employees in medium and large firms. Consisting of some 1,500 establishments, the sample gives national estimates on three occupational groups: professional/administrative, technical/clerical, and production workers. Although the surveys vary each year, they give data on pension plan features representative of some 21 to 24 million full-time workers. For the most part, the firms employed a minimum of 100 full-time workers in the three occupational groups. However, the sample did include a few firms in the service industries that had a minimum size of 50 employees. The 1979 survey was a pilot study, and BLS refined the surveys in subsequent years.

Three sources used in this report drew upon the DOL/BLS annual surveys. Their citations follow.

--<u>DOL/BLS, Employee Benefits in Medium and Large Firms, 1984</u>, Bulletin 2237, June 1985 (1984 participant data).

--Donald Bell and Diane Hill, "How Social Security Payments Affect Private Pensions," <u>Monthly Labor Review</u>, May 1984 (1981 plan data).

--Sara P. Hatch, "General Description of Private Pension Plans," <u>Financial Retirement Incentives in Private Pension Plans</u>, The Urban Institute, 1982 (1979 plan and participant data).

2. <u>Bankers Trust Company, Corporate Pension Plan Study: A Guide for the 1980's, 1980</u>.

This study provides information and historical comparisons for the principal negotiated and nonnegotiated defined benefit plans of many Fortune 500 companies and other major corporations. It contains data on 325 corporate retirement plans of 240 companies in 55 industries. Of the companies included in the survey, 216 were selected from Fortune's Top 500 industrial and Top 50 other industry listings. The remaining 24 were selected from other Fortune nonindustrial listings. The Bankers Trust Company limited its analysis of corporate pension integration practices to the 250 nonnegotiated defined benefit plans in the survey.

3. IRS, Taxpayer Compliance Measurement Program (TCMP), 1978.

This data source contains results from IRS' audit of a nationally representative sample of about 18,000 pension plans that filed forms 5500 and 5500c for calendar year 1978 and fiscal year 1979. Our analysis focused on the 16,211 nonterminated plans in the sample, which consisted of 3,202 large defined benefit plans, 3,647 small defined benefit plans, 3,844 large defined contribution plans, and 5,518 small defined contribution plans. Excluded from the sample were welfare plans, Keogh plans with self-employed or owner-employee participants, church and government plans, plans not intended to be tax-qualified, duplicate returns, prior year delinquent returns, and returns not posted to IRS' Employee Plans Master File by July 1, 1979. Plan and limited participant data for 1978 were taken from IRS' unpublished frequency tabulations of data elements from the IRS audit.

4. DOL/National Bureau of Economic Research, Employee Benefits Survey, DOL/EBS1, 1977.

This data source consists of a statistical sample of 44,093 plans representing all DOL form EBS1 filers. It includes 71.4 percent of all plans with 100 or more participants and 5.7 percent of plans with fewer than 100 participants. Data were taken from Laurence J. Kotlikoff and Daniel E. Smith, Pensions in the American Economy, The University of Chicago Press, 1983.

PERCENTAGE OF PARTICIPANTS[a] IN INTEGRATED

LARGE DEFINED BENEFIT PLANS BY OCCUPATIONAL GROUP (1984)[b]

(figures are percents)

Participants' plan characteristics	Occupational group: All occupations	Professional/ administrative	Technical/ clerical	Production
Plan is integrated:	56	77	77	34
Offset:	36	50	53	19
Offset varies with service	29	40	44	15
Offset does not vary with service	7	9	10	4
Step-rate:	19	26	22	14
Variable integration level	10	15	14	6
Fixed dollar amount	9	11	8	9
Pure excess	1	2	1	1
Plan is not integrated	44	23	23	66

[a]Full-time workers participating in pension plans of medium and large firms.

[b]Percents for categories may not sum to totals due to rounding.

Source: DOL/BLS, Employee Benefits in Medium and Large Firms, 1984, Bulletin 2237, June 1985.

PERCENTAGE OF PARTICIPANTS[a] IN INTEGRATED LARGE DEFINED BENEFIT PLANS

BY BENEFIT FORMULA TYPE (1979 AND 1984)[b]

(figures are percents)

Participants' plan characteristics	Benefit formula type: All plans 1979	All plans 1984	Final pay 1979	Final pay 1984	Career average 1979	Career average 1984	Dollar amount 1979	Dollar amount 1984
Plan is integrated	41	56	62	84	77	83	1	1
Offset:	22	36	44	62	6	20	1	1
Offset varies with service	17	29	34	51	2	12	0	1
Offset does not vary with service	6	7	9	11	4	8	1	0
Step-rate:	c	19	c	20	c	63	0	0
Variable integration level	-	10	-	13	-	20	-	0
Fixed dollar amount	-	9	-	7	-	43	-	
Pure excess	c	1	c	2	c	0	0	0
Plan is not integrated	59	44	38	16	23	17	99	99

[a]Full-time workers participating in pension plans of medium and large firms.

[b]Percents for categories may not sum to totals due to rounding.

[c]Data were not available separately on pure excess and step-rate plans.

Sources: 1984--DOL/BLS, Employee Benefits in Medium and Large Firms, 1984, Bulletin 2237, June 1985.

1979--Sara P. Hatch, "General Description of Private Plans," Financial Retirement Incentives in Private Pension Plans, The Urban Institute, 1982.

PERCENTAGE OF INTEGRATED PENSION PLANS BY PLAN TYPE AND SIZE (1978)[a]

(figures are percents)

Plan characteristics	All plans	Defined benefit		Defined contribution	
		Large	Small	Large	Small
Plan is integrated	35.9	47.0	65.1	12.5	26.9
Offset	5.1	21.7	17.8	0.0	0.2
Pure Excess	4.4	2.8	11.6	2.0	2.4
Step-rate	26.4	22.6	35.8	10.5	24.2
Plan is not integrated	64.1	53.0	34.9	87.5	73.1

[a]Percents for categories may not add to totals due to rounding.

Source: IRS, Taxpayer Compliance Measurement Program, unpublished data, 1978.

PERCENTAGE OF INTEGRATED DEFINED BENEFIT PLANS

BY PLAN SIZE (1977)[a]

(figures are percents)

Plan characteristics	Plan size (No. of participants) 1-24	25-49	50-99	100-249	250-499	500-999	1,000-4,999	5,000-9,999	10,000+	Total
As a percentage of all plans:										
Plan is integrated[b]	61.02	65.29	36.85	46.88	38.46	38.82	35.81	33.26	32.52	54.77
Step-rate	45.99	47.53	22.27	27.55	23.60	22.36	14.71	15.37	15.03	39.14
Offset	15.03	17.76	14.58	19.34	14.86	16.46	21.10	17.89	17.48	15.63
Plan is not integrated[c]	38.97	34.70	63.15	53.11	61.54	61.18	64.19	66.74	67.48	45.23
Number of plans	(86,481)	(14,289)	(24,477)	(8,233)	(4,347)	(2,844)	(2,848)	(475)	(326)	(144,320)
As a percentage of integrated plans:										
Step-rate	75.37	72.80	60.44	58.76	61.36	57.61	41.08	46.20	46.23	71.47
Offset	24.63	27.20	39.56	41.24	38.64	42.39	58.92	53.80	53.77	28.53
Number of integrated plans	(52,772)	(9,330)	(9,020)	(3,860)	(1,672)	(1,104)	(1,020)	(158)	(106)	(79,042)

[a]Percents for major categories may not add to 100 due to rounding.

[b]Data on pure excess plans were not available.

[c]Category includes nonintegrated and nonclassified plans.

Source: Laurence J. Kotlikoff and Daniel E. Smith, Pensions in the American Economy, The University of Chicago Press, 1983.

APPENDIX V

PERCENTAGE OF INTEGRATED LARGE DEFINED BENEFIT PLANS BY BENEFIT FORMULA TYPE (1979 AND 1981)[a]

(figures are percents)

	Benefit formula type							
	All plans		Final pay		Career average		Other	
Plan characteristics	1979	1981	1979	1981	1979	1981	1979	1981
Plan is integrated	47	57	74	81	76	60	3	6
Offset:	24	34	48	56	3	7	1	6
Offset varies with service	18	26	36	44	1	3	0	3
Offset does not vary with service	6	8	12	12	2	3	1	3
Step-rate:	b	22	b	24	b	53	b	0
Variable integration level	-	12	-	15	-	20	-	0
Fixed dollar amount	-	10	-	9	-	33	-	0
Pure excess	b	1	b	1	b	1	b	0
Plan is not integrated	53	43	26	19	24	40	97	94
Number of plans	(966)	(914)	(468)	(510)	(135)	(151)	(363)	(253)

[a]Percents for categories may not sum to totals due to rounding.

[b]Data were not available separately on pure excess and step-rate plans.

Sources: 1981--Donald Bell and Diane Hill, "How Social Security Payments Affect Private Pension Plans," Monthly Labor Review, May 1984.

1979—Sara P. Hatch, "General Description of Private Plans," Financial Retirement Incentives in Private Pension Plans, The Urban Institute, 1982.

APPENDIX VI

GLOSSARY

Career average pay plan. A defined benefit pension plan that bases pension benefits on average earnings in all years of credited service.

Defined benefit plan. A pension plan that includes a formula for calculating retirement benefits (such as a specified percent of earnings or flat dollar amount per year of service) and obligates the employer to provide the benefits so determined. Therefore, employer contributions are not fixed, but are whatever is needed, together with earnings of pension fund investments, to finance the required benefits.

Defined contribution plan. A pension plan that obligates the employer to contribute money to an employee's account according to a formula (such as a specified percent of earnings). Benefits are not fixed, but depend on the amount of employer contributions and the earnings of pension fund investments.

Dollar amount plan. A defined benefit pension plan that provides a specified dollar amount for each year of service.

Final pay plan. A defined benefit pension plan whose formula computes benefits on average earnings in the final years of credited service--often the last 3 or 5 years.

Integrated pension plan. A pension plan whose benefits are coordinated with Social Security through the offset, step-rate, or pure excess method. Integrated plans provide greater pension benefits relative to preretirement earnings for higher paid workers than for lower paid.

Integration level. An amount described in the plan above and below which pure excess and step-rate plans specify different percent-of-earnings formulas. The integration level may be related to the Social Security taxable wage base or a specified dollar amount.

Offset plan. An integrated pension plan that reduces the calculated pension amount by a portion of an employee's Social Security benefit.

Pure excess plan. An integrated pension plan that calculates benefits only on compensation above a plan's integration level.

Social Security taxable wage base. The maximum wage or salary subject to payroll taxation for Social Security purposes in a given year.

Step-rate plan. An integrated pension plan that calculates benefits using different formulas for earnings above and below a plan's integration level.

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