The original documents are located in Box 57, folder "1976/03/29 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

~~EYES ONLY~~

MINUTES OF THE ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE MEETING

March 26, 1976

Attendees: Messrs. Simon, Seidman, Lynn, Greenspan, Baker, Usery, Schmults, MacAvoy, Gorog, Porter, Perritt, Penner, Ely, Darman, Hormats, Arena, Morris, Hartquist

1. Proposed Amendment to the Aviation Act

The Executive Committee discussed a memorandum, prepared by OMB, on a "Proposed Amendment to the Aviation Act," which is attached at Tab A. The proposed amendment, developed by DOT, would permit the Civil Aeronautics Board to contract with commuter carriers to provide essential replacement services to small communities at a minimal cost while phasing out the existing CAB subsidy program. The proposed amendment is described in detail in the memorandum.

Decision

The Executive Committee approved support for the proposed amendment.

2. Administration Policy on the Use of Government Sponsored Loans in Leveraged Leases

The Executive Committee reviewed a memorandum, prepared by OMB, on "Administration Policy on the Use of Government-sponsored Loans in Leveraged Leases," which is attached at Tab B. The discussion focused on the nature of the benefits obtained by lessees, the political pressure in support of leveraged leasing arrangements, and the distinction between the use of this method of financing for transportation programs such as AMTRAK and for the MARAD shipbuilding program.

Decision

The Executive Committee approved the OMB policy of prohibiting the use of government-assisted loans as debt capital in leveraged leases, except for the MARAD shipbuilding program which will continue to use this method of financing.

~~EYES ONLY~~

3. Task Force Proposal for Improving Agency Regulations

The Executive Committee reviewed a "Task Force Proposal for Improving Agency Regulations," prepared by Ed Schmults. The discussion focused on a two-pronged effort on Federal regulatory problems that has been approved by the President -- a proposal for a longer term review of the government's role in the economy and a short-term project designed to improve agencies' existing regulations and procedures without necessarily calling into question their legislative purpose.

There was general consensus that: (1) The scope of the Task Force's inquiry should be broad in nature; (2) the Export Control Administration, the Environmental Protection Agency and the Occupational Safety and Health Administration should be considered as possibilities for initial task force reviews; (3) that the Task Force effort should be headed by someone in the White House with participation by other Executive Branch agencies, including the staff of the Council on Wage and Price Stability.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 24 1976

MEMORANDUM FOR: ECONOMIC POLICY BOARD

FROM: PAUL H. O'NEILL

SUBJECT: Proposed Amendment to the Aviation Act

Last October, the President sent to Congress the Aviation Act of 1975 which calls for the reform and modernization of Civil Aeronautics Board (CAB) regulation of the airline industry. Both the Senate and the House have scheduled hearings in early April.

In preparation for these hearings, the Department of Transportation has discussed the bill with a number of interested parties, including Congressional staff, representatives of the air carriers, and the communities they serve. A major concern that has been raised repeatedly in these discussions is the fear that small communities will lose service as a result of our bill.

DOT has done extensive research in this area and believes strongly that the issue is much more emotional than real. Their research indicates that in the past, when a small community has lost service from a certificated airline, commuter carriers have generally come in to provide replacement services. They estimate that the risk of losing all air service will be limited to about 30 points and that based on past trends in commuter service, this estimate is probably high.

On the other hand, DOT is convinced that the loss of service issue, albeit unfounded, will be a major issue in the upcoming Congressional debate. They believe, as do other members of the Domestic Council Review Group on Regulatory Reform, that unless action is taken to allay small communities' fears, we stand little chance of getting an air bill enacted this year. Accordingly, DOT has developed a proposed amendment to the Administration's bill which would permit the Civil Aeronautics Board to contract with commuter carriers to provide essential replacement services to small communities at minimal cost.

At the same time, the amendment would permit us to phase out the existing CAB subsidy program which is generally recognized by all concerned to be wasteful and inefficient. At present, the Board administers a subsidy program which consists of a series of long-term, sole-source, cost plus contracts with certificated local service air carriers. The FY 1977 budget includes $73 million in outlays for this program. The estimated cost of the alternate program proposed in the amendment would be less than $1 million in FY 1977 and 1978, and at a maximum, the government's liability in any given year is estimated at no more than $13 million. In any case, the payments to commuter carriers would be offset by reductions in the present subsidy program. Additional information on budget impact follows.

Briefly summarized, the proposed amendment would:

- Prohibit expansion of the present program. Carriers not receiving subsidy under the existing program would be ineligible to receive it in the future. This would bar trunk carriers such as Pan Am, TWA, and Eastern who have petitioned the CAB for hundreds of millions of dollars in subsidy in the past from participating in the program.

- Provide that points receiving air transportation as of January 1, 1976 would continue to receive minimum essential service until January 1, 1986.

- Direct the CAB to undertake a rulemaking procedure to define essential service, taking into consideration such things as the needs of the communities to be served, the availability of alternative transportation services, the type of equipment which would be economical, etc.

- Permit the CAB to contract for minimum essential air service, using 3-year agreements arrived at through normal government competitive procurement procedures. The Board would provide subsidy only in cases where minimum essential service is not otherwise available.

- Subsidize air transportation service for eligible points for two years after they had lost service. If after two years, the city could not generate 5 or more passengers per day, CAB subsidy would drop to 50 percent of providing the replacement service.

- Announce our intention of phasing out the old subsidy program and direct the Secretary of Transportation to study the effects of the subsidy program and to submit appropriate recommendations for legislative action to Congress.

The budget impact of the proposed amendment is expected to be very small. In the short run, it will have little or no effect on the existing subsidy program. In the long run, the proposed payments to commuter carriers would inherently be more efficient. For example, by abandoning unprofitable points under the liberalized provisions of the Administration's bill, local service carriers will improve their financial positions and reduce their own need for subsidy. Also, subsidizing commuter carriers which are operationally more efficient than the larger local service aircraft would be less costly. Funding for the proposed program would be accomplished within the existing "payments to air carriers" account in the CAB's budget.

The proposed amendment has been through the normal OMB legislative clearance process. Except for minor technical changes in legislative language, all agencies agreed with the proposed amendment. However, prior to giving DOT final approval, the proposal is submitted for EPB consideration.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 27, 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE OF THE ECONOMIC POLICY BOARD

From : James T. Lynn

Subject: Administration Policy on the Use of Government-sponsored Loans in Leveraged Leases

The purpose of this memo is to acquaint members of the EPB with the total costs of leveraged leases to government-assisted enterprises in which direct or guaranteed Federal loans are used as debt capital, and to seek your approval of our efforts to eliminate this combination.

Leveraged leases coupled with government-assisted loans are being sought by a number of private and quasi-private economic activities supported by the Federal Government in an attempt to enhance their Federal subsidies. Under these arrangements a lessor, usually a limited partnership seeking to obtain tax shelter for income from other sources, invests equity capital of about one-quarter the total equipment cost, with debt capital from government-sponsored loans on behalf of the lessee making up the remainder. The lessee obtains the use of the property in return for lease payments which are approximately equal to debt service payments on the debt capital. The return on the lessor's equity capital investment is the set of tax benefits (investment tax credit and accelerated depreciation deductions) which may be used to shelter unrelated income.

This type of leveraged leasing is permitted under current tax laws. However, because lease payments are tied to debt service, leverage leasing arrangements are very attractive to government-assisted enterprises which can provide debt capital to the lessor at lower than market rates through government subsidized (direct or guaranteed) loans. At the same time, such arrangements allow non-taxed government enterprises, such as REA coops, to benefit indirectly from tax incentives for investments.

The cost of a leveraged leasing arrangement to the Government is very high when revenues foregone as a result of tax sheltering are counted. Gains to the assisted enterprise, the lessee, are much smaller than gains to the lessor. Attachment 1 to this memo is a comparison of the costs to government of a one-million dollar equipment acquisition by AMTRAK through leveraged lease or through direct purchase. The comparative costs and savings of leveraged leasing to AMTRAK would be $151 thousand, 17% below the costs of direct acquisition with an FFB loan; the present value of costs to the Government (including revenues not collected), would be $427 thousand, 483% higher than the cost of financing direct acquisition with an FFB loan.

It has been OMB's policy to prohibit the use of government-assisted loans as debt capital in leveraged leases. With OMB support, the Administrator of REA has refused to guarantee loans to cooperatives for this purpose; and the Secretary of Transportation has required AMTRAK to discontinue the use of this procedure. Only the MARAD shipbuilding program continues to use this method of financing.

The growth in the volume of government guarantees, coupled with the conversion of loan guarantees to off-budget direct loans through purchases of guarantees by the Federal Financing Bank, make us more vulnerable than ever to this arrangement, for the use of Government loans minimizes the lessor's problems of accumulating debt capital and greatly reduces the interest rate that largely determines the lease rate charged the lessee.

REA cooperatives, particularly those entering into the capital intensive area of generation and transmission of electricity, have been especially active in lobbying for permission to use REA guarantees, converted via FFB to off-budget direct loans, as a procedure for acquiring debt capital to be used in leveraged leases; AMTRAK has sought to return to this procedure for future equipment acquisitions; and new guarantee programs will undoubtedly seek to use it unless it is forbidden, expressly, as in the Synthetic Fuels legislative proposal, or by general Administration policy.

Enforcement of an Administration policy will require action in several directions: (1) There must be a constant review of loan programs to insure that Federal lending assistance is not being used in conjunction with leveraged leases, and these can be very subtle; (2) loan administrators must steadfastly refuse to grant loan or loan guarantee authority where the combination exists or is being attempted; and (3) new or renewal proposals of legislation involving loan programs should contain specific prohibitions against such use. (Credit policy specialists of OMB are available to assist in the preparation of these prohibitions.)

My purpose in presenting this memo is to seek the approval and support of our efforts to prevent the spread of leverage leasing.

Attachment

THE WHITE HOUSE

WASHINGTON

March 26, 1976

TO EPB EXECUTIVE COMMITTEE MEMBERS

The attached papers will be reviewed at Executive Committee meetings the week of March 29.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

March 25, 1976

MEMORANDUM TO ECONOMIC POLICY BOARD

SUBJECT: Status of Financial Reform Legislation

Attached for EPB discussion is a memorandum which details the legislative status of the Financial Institutions Act.

Pending further developments in the House Banking Committee we are proceeding in accordance with option #3.

I recommend that an EPB task force be established to consider the housing question raised in option #4.

George H. Dixon

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6
UNITED STATES GOVERNMENT

Memorandum

Department of the Treasury
Washington, D.C. 20220

TO : SECRETARY SIMON

DATE: 3/23/76

FROM : George H. Dixon

SUBJECT: Financial Reform Legislation

SUMMARY:

Enactment this year of meaningful financial reform legislation along the lines of the FIA is increasingly doubtful. The Senate has passed a good bill but it is effective only upon the subsequent approval of the Mortgage Interest Tax Credit which is in trouble. The House Banking Committee is trying to consider an unmanageable 275 page bill which goes far beyond the FIA into areas which the Administration strongly opposes. Democrats are badly split and many just want to be rid of the controversy. Industry support and opposition has polarized and the give and take balance of the FIA has been lost. The Committee bill makes the Credit Unions, S & L's, and Mutual Savings Banks clear winners and the banks clear losers. The bankers have organized a highly effective lobbying campaign against any legislation this year.

Within the next few weeks we must decide whether the portions of the FIA which are likely to survive the current turmoil are worth the compromises and political price which must be paid to achieve them. Our current judgment is that they are not and that we should prepare for that decision by limiting our support to the specific bill that passed the Senate and not engaging in efforts to "fix" the proposals likely to emerge from the House Banking Committee.

BACKGROUND:

The Senate:

In December the Senate passed the FIA by a vote of 79 - 14. Four factors were key in obtaining this result:

1. The concern of many including the Chairman, Mr. Proxmire, the homebuilders, and unions that the bill might be detrimental to housing was defused by segregating the Mortgage Interest Tax Credit from the bill, while making the effective date contingent on its subsequent passage. This assured the housing advocates of a chance to block the bill at a later time if they deem its provisions to be inadequate.

2. Because of the conciliatory efforts of Treasury and the speed with which Chairman McIntyre moved the bill to the floor, the banking lobby did not mount an effective campaign against the bill.

3. A major amendment which surfaced for the first time in mark-up to permit interest on demand deposits diverted the attention of Senators and the banking industry from the other issues in the bill.

4. Substantial sweetening in the credit union provisions which occurred in mark-up caused that industry group to launch a major lobbying campaign on behalf of the bill.

As a result of these four factors the 79 - 14 vote should not be considered indicative of how the Senate would vote on a conference report.

The House:

The conditions which led to Senate passage will not recur in the House. In fact, the realization of what happened in the Senate works against the passage of any legislation which we might find acceptable. The bankers have mounted a very effective lobbying campaign, taking the position that they oppose any legislation this year. Expansion of the bill to include regulatory agency consolidation, substantial alterations in the structure and operation of the Fed, and significant changes opposed by the Administration in the FIA-type provisions have not diverted attention as in the Senate but have brought many members, particularly the Republicans and Freshman Democrats to label the bill as "controversial, no win legislation." The housing advocates continue their opposition and are on firm ground with the knowledge that even if they don't prevail in the House, the Senate can and likely will back them up.

Most observers believe that Chairman Reuss must have a bill to establish his credibility as the Committee Chairman. Financial Institutions Subcommittee Chairman St. Germain may be in position to challenge for the full Committee Chairmanship and is largely standing aloof from the current controversy. He is in position to disclaim responsibility for failure if it occurs or to claim credit as the conciliatory force if a successful bill emerges.

CURRENT SITUATION:

House:

The final day of hearings on the House bill was today, March 23. With amendments, the bill now runs almost 275 pages. Committee staff has all but abandoned that document and is not even preparing a section-by-section analysis. Instead, Chairman Reuss has instructed his staff to prepare alternatives which segregate the major issues. The Committee Democrats will caucus, probably Thursday, to see if they can reach agreement on which areas to include. Current speculation is that strengthened enforcement powers for the regulatory agencies, some changes in the organizational structure of the regional Federal Reserve Banks, holding company restrictions, and foreign banking are most likely to achieve support. Major regulatory agency consolidation and the FIA-type proposals for expanded powers are each rated about a toss up. The bill's major housing provision, which we argued against, to expand FHLBB advances seems to be in trouble. Mark-up is expected within two weeks on the Banking Committee proposals.

Senate:

In the Senate, Chairman Proxmire is moving ahead on parallel legislation in areas which the House may potentially include. A bill to consolidate the banking regulatory agencies is now scheduled for mark-up about April 7. Hearings on bills affecting bank holding companies and foreign banking in the U.S. are well under way.

Housing:

Although obscured in recent weeks by the controversies raised by the House bill, the effect of FIA-type reforms on housing remains a critical factor. Our response, the Mortgage Interest Tax Credit, is in political trouble. The House Banking Committee has delcared it cost ineffective. It has been criticized from many quarters including industry groups such as the U.S. League of Savings Association who would receive the greatest financial benefit from passage. It is expensive. At recent hearings before a House Budget Committee Task Force, our own estimates of a revenue loss averaging $700 million per year over the first five years were said to be too low. Neither the Ways and Means Committee nor the Senate Finance Committee have evidenced interest in considering the tax credit proposal.

A joint Treasury, FHLBB, and HUD effort to determine if satisfactory alternatives are available has not been successful. HUD tells us privately that they are unwilling to consider alternatives, and that without the MITC they would appose the Financial Institutions Act.

TREASURY OPTIONS IN DEALING WITH THE HOUSE BANKING COMMITTEE:

1. Do nothing further until the mark-up has been completed.

   Pro-

   - Our positions on all issues are known and part of the record.

   - The Chairman and staff have repeatedly rejected our offers to work with them in the development of the bill.

- With the active opposition of the banking industry, homebuilders, and AFL-CIO, the chance for legislation which we could support is practically nil.

- The possibility of defeating a bad bill without having to veto it might be increased if we do not convey the impression that we are trying to work with the Committee to improve it.

Con-

- We have four years work invested and the FIA is a Presidential initiative.

- With the confusion that now exists, anything can happen, including the possibility that we may be able to obtain an acceptable bill.

2. Work to see if we can "fix" any bill by negotiating improvements or compromises in exchange for our support.

Pro-

- The Chairman needs a bill and knows that we can probably block passage. Certainly no bill in this area could survive a veto. We could utilize this to our advantage.

Con-

- The Democrats are so split on these issues that it is doubtful if the Chairman or anyone else could keep any bargain made. Further, it is not at all certain that we could deliver enough Republican votes.

3. Work with Committee Republicans to develop a substitute which would consist of the Senate-passed FIA with minor amendments.

Pro-

- Reasserts our positive leadership and gives the Republicans and the Administration something to be for.

Con-

- Limited chance of success because the Chairman needs a "Democrat" bill.

4. Continue efforts to develop a new housing alternative to be offered as an amendment to or replacement for the MITC.

Pro-

- The House needs a housing provision to combat opposition from homebuilders and labor. Possible Administration support of a housing program is a potentially very valuable bargaining tool.

- If FIA-type provisions should pass the House we would be ready to address the Senate's concern for housing.

Con-

- HUD does not want to back away from the MITC, thus we would have trouble keeping the Administration forces together.

- There is no assurance we could improve on the MITC. We might end up supporting a housing program to get FIA that we would be uncomfortable with in the future.

- Any alternative would be expensive.

RECOMMENDATIONS:

I recommend that we proceed on the basis of Option #3. With respect to Option #4 we should continue efforts to develop an alternative to the MITC but withhold any decision on offering it until we have some indication that structural reform along the lines of FIA is still possible.

ejb

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

MAR 25 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: W. J. USERY, JR.

Subject: 1976 Collective Bargaining Negotiations

As you are well aware, in the next year or so a number of major collective bargaining agreements 1/ will expire, affecting roughly 4.5 million workers. This memorandum briefly reviews the characteristics of collective bargaining in the principal industries affected and the issues that are expected to dominate those negotiations.

The first major negotiation was concluded successfully on February 2, when the International Ladies Garment Workers Union reached agreement with dress manufacturers in eight states; the three-year contract, covering 65,000 workers, provides for a pay increase of about 10 percent in the first year, with lesser adjustments in 1977 and 1978. Ahead and currently in progress are major negotiations in several strategic industries:

Trucking	March 31; 450,000 workers (discussed at TAB A);
Rubber	April 20; 67,700 workers (TAB B);
Electrical Equipment	June 27, July 7; 155,900 workers (TAB C);
Meatpacking	August 31; 37,500 workers (TAB D);
Automobiles	September 14; 715,350 workers (TAB E);
Farm Equipment	September 30; 100,200 workers (TAB E);
Construction	March-July; 746,000 workers (TAB F);
Retail Food	March-July; 99,100 workers (TAB G).

In all, upwards of 40 percent of the 24 million union members will be working under new collective bargaining agreements by the end of the year, nearly double the number affected by 1975 negotiations.

Outlook

There will be a wide range of settlements occurring this year, reflecting different conditions in the affected industries and different membership concerns. Although settlements will vary, the average wage adjustment for the first year of new contracts is likely to be close to that of 1975 agreements--in the 9-10 percent range, and in the area of 7-8 percent measured over the life of the contract. Where cost-of-living adjustment clauses (COLA) have been in effect, 2/ pressure for catch-up wage increases will be moderated. However, COLAs typically do not fully compensate for the rising cost of living; some for example, include a "cap" (adjustments are limited to a maximum increase),and in others the adjustment formula does not keep pace with the CPI. The 1970-75 ratio of escalator wage increases for workers receiving them to CPI increases is estimated at 0.6; 3/ some (e.g., the Auto Workers), however, benefited more than others (e.g., the Teamsters). Where contracts include COLAs, it is likely that the provisions of the adjustment--as well as catch-up wage increases--will be important issues. In industries where no escalator clause exists, such as rubber, strong efforts will be made to recover lost ground, and this may complicate negotiations.

In addition to wage adjustments, pension arrangements (partly because of ERISA) and job security (e.g., efforts to increase employment by a reduced work week with no cut in pay) are likely to be major topics of bargaining.

1/ BLS defines a "major collective bargaining agreement" as one which covers 1,000 workers or more.

2/ In 1975, 58 percent of workers in major collective bargaining units (v. 26 percent in 1970), were covered by COLA provisions; this figure represents approximately 7.7 million employees.

3/ For major agreements, such as automobiles and trucking, the ratio is closer to 0.8.

TAB A

TRUCKING

The National Master Freight Agreement (NMFA) 1/ covering approximately 450,000 members of the International Brotherhood of Teamsters (IBT), expires on March 31, 1976.

Structure of Bargaining

Economic issues are negotiated at the national level with Trucking Employers, Inc. (TEI), an industry association. Other contract items, such as work rules and grievance procedures, are bargained locally. Over-the-road drivers are paid by the mile for driving time and on an hourly basis for non-driving time; other workers are paid on an hourly rate. Compensation for both groups of employees is determined simultaneously.

These negotiations have been complicated in the past by IBT locals in Chicago (38,000 members)--which bargain independently--and the Chicago Truck Drivers Union (CTDU) (12,000 members)--an independent union which competes with the IBT Chicago locals. In 1970, after the national agreement had been completed, the CTDU negotiated a higher settlement, forcing the Teamsters to reopen negotiations on the master agreement. In recent years, however, the CTDU has engaged in joint bargaining efforts with the IBT Chicago locals.

Wage Trends

Average weekly earnings in the trucking industry have increased more than the national average over the last decade, but the COLA 2/ in the NMFA has not kept pace with the CPI during the last two years.

Industry Trends

Operating revenues fell steeply in 1975, and there was a reduction of about 100,000 workers to the current level of 900,000.

1/ The NMFA is by far the largest agreement in the industry and sets the pattern for other negotiations which cover another 250 000 workers.

2/ For hourly workers: \$.01 per .3 increase in the CPI (1957-59= 100); for mileage workers: .25 mills per mile (10 mills=1 cent) for each .3 increase in CPI (1957-59=100). Guarantee of 8 cents, and a cap of 11 cents.

Key Issues

The IBT has demanded: increases in the weekly employer contributions to the pension fund, and health and welfare fund, of $12 in each of the three contract years, the division of the total $36 increase between the two funds to be determined during the negotiations (employers currently contribute $22 per week to the pension funds and $21.50 per week to the health and welfare fund); a substantial increase in pay ($2.50 per hour for hourly workers and $.18 per mile for over-the-road drivers over the course of the contract); unlimited COLA.

Outlook

Though there have been local and wildcat strikes, there has never been a national trucking strike. This year's negotiations, however, are complicated by the activities of two independent groups: the Fraternal Association of Steel Haulers, (who staged isolated strikes in 1973) who have vowed to operate if there is a strike, and the Independent Truckers Association, who have threatened to strike unless the IBT's demands are met. An additional element in the negotiations is the mid-June elections for IBT officers, at which President Fitzsimmons is up for re-election.

TAB B

RUBBER

Contracts at Goodyear, Firestone, B.F. Goodrich and Uniroyal expire April 20 (General Tire's contract expires May 15) affecting 67,700 members of the United Rubber Workers.

Structure of Bargaining

The URW bargains with each of the major producers separately on a company-wide basis. In the past, the URW selected a 'target' company (or companies) for serious negotiations and the settlement reached there set a pattern for the other major producers. However, at the URW's 29th Convention in October 1975, a constitutional amendment was passed removing the 'target' company concept and allowing for strikes against any of the affected companies. Non-economic issues are bargained at the plant level.

Bargaining may be complicated by the International Society of Skilled Trades (ISST) which is trying to organize URW skilled workers; the NLRB regional office in Cleveland recently dismissed ISST craft severance petitions for four of the five major companies, but the ISST plans to appeal these decisions to the full Board and has threatened a walkout if the decision is upheld. Interest among skilled workers in a separate union has been caused by the shrinking differential between skilled and unskilled workers (since 1967, wage increases have been in cents-per-hour applied across-the-board).

Wage Trends

Over the last decade, average weekly earnings for workers in the tire industry have increased less in percentage terms than the corresponding rate for all manufacturing workers. The position of rubber worker salaries with respect to those of auto workers has declined significantly over the last decade. The current contract lacks a COLA provision.

Industry Trends

During the recession, the Big Five tiremakers, like all automobile related industries in 1975, had sharply reduced income ($273.4 million down from $491.5 million in 1974). Employment in the industry dropped from 102,000 production workers in July, 1973 to 83,000 in July, 1975.

Key Issues

Catch-up wage increases; absence of a cost-of-living escalator clause (COLA); the wage differential between workers engaged in tire manufacturing and workers employed in other product lines (currently 26%) (management wants to differentiate between the two types of workers, labor does not); geographic wage differentials; skilled trades differential.

Outlook

Not good.

TAB C

ELECTRICAL EQUIPMENT

Contracts between the industry leaders, General Electric and Westinghouse, and a coalition of unions headed by the International Union of Electrical, Radio, and Machine Workers (IUE) and the United Electrical Workers (UE) expire on June 27 at GE and on July 11 at Westinghouse, affecting 155,900 workers. In addition, bargaining in the industry will take place at various times in 1976 between a dozen other unions and many other companies.

Structure of Bargaining

Economic terms are bargained at the national level; other issues, such as grievance procedures, are negotiated at the plant level. The electrical unions bargaining position is relatively weak compared to union strength in trucking or automobiles; a significant number of GE and Westinghouse plants are non-union.

Wage Trends

Electrical workers have a "capped" 1/ COLA clause 2/ in their contract, which has kept their adjustments lower than those received by auto workers and steel workers, though slightly higher than those provided under the National Master Freight Agreement.

Industry Trends

During the recent recession, industry sales fell drastically, though prices increased. Profit margins for both GE and Westinghouse declined in 1975. Seasonally adjusted industry employment sank from 2,083,000 in December, 1973 to 1,712,000 in July, 1975, but has increased to 1,796,000 by February of this year.

1/ The "cap" each year varied between 5 and 14 cents per hour.

2/ ($.01 per .3 percent rise in CPI (1967=100))

Key Issues

Uncapping the COLA; catch-up wage increases; supplemental unemployment benefits; union shop; improved pensions.

Outlook

Unlikely to present problems; bargaining in 1973 was peaceful.

TAB D

MEATPACKING

The master meatpacking agreement between the Amalgamated Meatcutters and Butcher Workmen (AMCBW) and the major meatpackers (Armour, Wilson, Morrell, Cudahy, Swift) affecting 37,500 workers expires on August 31.

Structure of Bargaining

Bargaining occurs simultaneously among the largest companies, with the first settlement setting a pattern for the others.

Wage Trends

The agreement includes a COLA provision, 1/ which has increased hourly earnings at a rate above the national average for the private non-farm economy, but has not kept pace with the CPI.

Industry Trends

Companies enjoyed improved profit margins in 1974 and 1975 on rising sales; unemployment in the industry is below the national average.

Key Issues

Catch-up wage increases; job security in response to increasingly automated plants; improvements in COLA provision.

Outlook

No problems expected.

1/ $.01 per 0.4 rise in CPI (1957-59)=10. No cap.

TAB E

AUTOMOBILES

Contracts between the United Auto Workers and Ford, General Motors, Chrysler, and American Motors expire on September 14, 1976, affecting 717,350 workers. In the past, these agreements have been closely linked with settlements in the farm machinery industry, where workers are also represented by the UAW; those contracts expire on September 30, affecting 100,200 workers.

Structure of Bargaining

The traditional UAW bargaining practice has been to select a "target" company, and use that agreement to set a pattern for other members of the Big Three; Chrysler was the target company during the last round of bargaining. This year, American Motors, which in the past has deviated slightly from the GM-Ford-Chrysler pattern, will be bargaining simultaneously with the Big Three.

Wage Trends

The most recent auto workers contract includes a COLA 1/ provision, under which cost-of-living increases have been nearly double the regular annual increase (3 percent in 1975) provided for in the agreement. The cost of providing benefits in the last ten years has increased by 240 percent; benefits currently comprise 33.7 percent of compensation.

Industry Trends

Profits for the automakers fell by 65 percent from 1973 to 1974 and have remained low in 1975, despite a recovery in sales beginning in the fourth quarter. This decline in profits is partly due to increased imports which have caused manufacturers to raise prices less than cost increases, although sales of American made small cars have recently cut into this trend. Temporary or indefinite layoffs involved more than 200,000 workers at their peak in January, 1975 and have declined slowly. The union petitioned for and obtained relief under the 1974 Trade Act, which provides compensation to workers for loss of jobs due to imports. The heavy layoffs depleted the negotiatied Supplementary Unemployment Benefit funds at Chrysler and General Motors.

Key Issues

Job security (e.g., shorter work week without pay cut, voluntary over-time, restrictions on the use of foreign-made parts); financing or restructuring of Supplemental Unemployment Benefits (SUB) funds; pension improvements; skilled trades differential; cost of health benefits (industry wants workers to pay a larger share); retention of the present COLA clause (industry wants some restrictions).

1/ No cap. 1 cent per .3 rise in combined U.S.-Canada; on CPI. (U.S. 1967=100; Canada 1961=100, weighted 9 (U.S.) to 1 (Canada)).

Outlook

Strikes have occurred against the target company in each of the last three contract negotiations (65 days against Ford in 1967; 134 days against GM in 1970; 9 days against Chrysler in 1973). The COLA will moderate wage demands. But because it applies equally to everyone, the COLA has reduced the differential between skills and this has caused some interest among skilled workers in a separate union. The International Society of Skilled Trades is trying to organize UAW skilled workers and this could disrupt bargaining.

TAB F

CONSTRUCTION

More than 3,200 collective bargaining agreements covering 1.2 million workers--reflecting the large number of shorter term contracts negotiated in recent years--will be negotiated during the spring and summer. The 270 major agreements followed by BLS which expire this summer, involve 746,000 workers.

Structure of Bargaining

Negotiations are typically held between associations of local contractors and individual building trades locals.

Wage Trends

Construction settlements as a whole were more moderate in 1975 than in 1974 despite the general absence of COLAs, partly as a consequence of the severe impact of the recent recession on the industry. Settlements reported in 1976 so far have been moderate with the exception of several scattered settlements on the West Coast.

Industry Trends

The recession coupled with the rising cost of construction has greatly reduced construction activity. The national unemployment rate in construction peaked at 21.8 percent in May, 1975 and currently stands at 16.8 percent, but varies widely from region to region. Demand is relatively high in the Pacific Northwest (1975 wage increases averaged about 15 percent), but low in the Northeast (1975 wage increases averaged about 6 percent).

Key Issues

Pensions, particularly coverage of multi-employer plans; work rule changes to increase productivity.

Outlook

A variety of factors--low demand, high interest rates, little capital expansion, and increases in open shop construction--will moderate settlements in most areas; but in high demand areas --such as the Pacific Northwest and the Gulf Coast--wage increases may be significant. Most settlements will probably be in the 9-to-10% range for the first year of new contracts; settlements reported so far have run slightly lower.

TAB G

RETAIL FOOD

During the year, roughly 70 contracts expire between the Retail Clerks International, the Amalgamated Meatcutters and Butcher Workmen, and the Teamsters, and employer associations of food chains and individual employers, affecting 99,100 workers.

Structure of Bargaining

As in construction, bargaining is highly decentralized.

Wage Trends

COLA clauses have become more common in the food industry in recent years, and are now included in roughly 50% of the major agreements. Some of the contracts about to expire were negotiated under controls, and union attempts at large catch-up adjustments are likely.

Industry Trends

The return on equity of the five largest retail chains recently has declined somewhat, although industry performance appears to be improving. Unemployment in the industry is well below the national average.

Key Issues

Employers may try to trade off wage increases for changes aimed at increasing productivity, for example, more automated checkout stands. The issue is also important to the meatcutters in areas where restrictions still exist on centralized prepackaging of meat.

Outlook

Hard to predict because of the fragmented nature of bargaining.

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

MAR 25 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: W. J. USERY, JR.

SUBJECT: Plans to Evaluate the Impact of ERISA

In recent months, growing concern has been expressed about the impact of the Employee Retirement Income Security Act of 1974 (ERISA). Most of the publicity has related to possible increases in terminations of employee benefit plans because of ERISA. Other, less publicized concerns relate to its potential impacts on creation of new plans and on the operation of labor and capital markets more generally.

You received a preliminary report on employee benefit plan terminations on Feburary 19, 1976. More detailed information on 1975 plan terminations is attached at Tab I. This memorandum summarizes plans to evaluate the impact of ERISA more broadly.

The initial ERISA appropriation provided for six positions and approximately 125,000 contract dollars for research and evaluation. A supplemental appropriation received in December, 1975 added 5 positions and 1.55 million dollars. The Department has developed a comprehensive research and evaluation program to accumulate information for policy making, to complete statutorily mandated research, and to measure the full effects of ERISA.

Activities Now Underway

Three mandated studies are now underway: (1) an analysis of large pension plans before and after ERISA became effective to identify changes in participation, vesting standards, funding methods and administrative expenses (Tab A); (2) a "before-and-after" study of the types and levels of benefits and financial characteristics of pension plans, (TAB B), and (3) a survey of the benefits of former employees of government contractors affected by layoffs (Tab C). The Department of Labor is conducting portions of these evaluations. Other parts will be completed by outside contractors. Completion is projected for mid-1977 at the earliest.

Plans for Additional Evaluation

The Department has issued a request for proposals for a review of the funding provisions and funding status of public employee pension plans (Tab D). A request for proposals will be issued for a study of the effects of Title I of ERISA on the administrative costs of small pension plans. This will help determine the validity of recent public charges that the ERISA is confronting small business with a choice of major expenditures or termination of their plans. (Tab E).

A number of additional studies are planned to begin within the next four to six months. The requests for proposals will detail the specific points of interest and methodologies. These studies should provide insights into the impact of ERISA on (1) the changes in the size of the employee benefit plan universe (Tab F), (2) the types of plans being created and the characteristics of those plans (Tab F), and (3) the macro-economic effects of ERISA on financial markets and investment behavior (Tab G).

Specific projects will assess the impact of ERISA on collective bargaining, the role of private pensions in meeting the economic security needs of the Nation, the economic impact of ERISA on number of participants, number of beneficiaries, aggregate benefit payments and pension fund portfolio management (Tab G). The statute requires study of the actuarial characteristics and practices of plans, and also the operation of reciprocity and portability arrangements of plans (Tab G). Further, the Department (PBGC) will attempt to develop a forecasting model for plan terminations (Tab H).

Impact of Specific Decisions

We have, and will continue to undertake short term evaluations to estimate the impact of particular administrative decisions. A number of operational evaluations will also be conducted to review the administrative exemptions process, records maintenance systems, etc.

The results of these short term evaluations have been utilized in the recent past with respect to a number of the Department's decisions. For example, the ERISA requires that all pension and welfare benefit plans meet the reporting and disclosure requirements of Title I, but the Secretary is authorized to modify these requirements. The Department waived this requirement for nearly one million welfare plans, and waived the requirement that an accountant's opinion be provided on financial statements for these welfare plans and nearly 575,000 small pension plans. The total yearly cost savings of these decisions to plans is conservatively placed at over one billion dollars, and will save the Government several million dollars. Knowledge of these costs have already played a major role in making final policy decisions with respect to reporting and disclosure requirements. Information from the studies to be undertaken undoubtedly will play a major role in later decision making.

Timing

Research and evaluation studies on the impact of ERISA require the collection of data which are dependent upon the effective dates of ERISA provisions. These dates extend through late 1977 for many plans. The reporting, disclosure and plan termination insurance provisions of ERISA were among the first to be effective. As a result, the earliest studies relate to these topics. Studies of plan administration costs and plan terminations will come first, with other studies to follow.

Attachments

TAB A

Impact on Participation, Vesting Standards, Funding Methods, and Administrative Costs

Section 513 of the ERISA directs the Department to study the effect of ERISA on the provisions and administrative costs of pension plans. This includes vesting, funding, participation and fiduciary characteristics. The first phase of that study is presently in progress.

Prior to passage of the ERISA the Department of Labor had responsibility for administering the Welfare and Pension Plans Disclosure Act of 1958 (WPPDA). Reporting requirements of the WPPDA applied to all large plans, and thus the Department accumulated a great deal of descriptive information on welfare and pension plans.

The Office of Labor Management Policy Development and the Bureau of Labor Statistics have drawn a sample of plans for which they are reviewing WPPDA filings to obtain information on the provisions of these plans and their administrative costs. When these same plans file the first ERISA Annual Report with the Department in late 1976 and 1977, new information can be accumulated and a comparative analysis will be undertaken. This analysis will provide a picture of the effect of ERISA on plan provisions and administrative costs.

TAB B

Impact on Benefit Levels and Financial Characteristics

Section 513 of the ERISA directs the Department to conduct a study of the distribution, types and levels of benefits provided by pension plans and the financial characteristics of such plans.

The Department is approaching this as a comparative study of pre and post-enactment information. This will aid in determining the effects of ERISA on plan characteristics and provide a basis for further analysis of administrative decisions already made.

Hopefully, data already available in the Department will permit pre-ERISA characteristics to be determined with reasonable accuracy. Departmental staff will work to collect pre-ERISA information from WPPDA files and develop questionnaires where that is necessary. The first post-ERISA data is due to be filed in November, 1976.

TAB C

Profile of Former Employees of Government Contractors

Section 3032(a) of the ERISA directs the Secretary of Labor to conduct a full and complete study of the steps necessary to be taken to insure that professional, scientific, and technical personnel and others working in associated occupations employed under Federal procurement, construction, or research contracts or grants will, to the extent feasible, be protected against forfeitures of pension or retirement rights or benefits, otherwise provided, as a consequence of job transfers or loss of employment resulting from terminations or modifications of Federal contracts, grants, or procurement policies.

The major portion of this study is being conducted under contract by the University of Illinois (Professor Hugh Folk), including a survey of several thousand of workers laid off in the late 1960's by the Boeing Company and other Aerospace Corporations. The survey will attempt to ascertain the work history of these individuals, and their experience with retirement benefit programs.

Department of Labor personnel are working to identify the number of plans and participants directly affected by Federal contracts, grants, or procurement policies.

The final results of the study will be available in late 1976.

TAB D

Public Employee Retirement Systems

A study of Public Employee Retirement Systems (PERS) is being supported by the Department of Labor as part of a cooperative effort with the Congress. 1/ Such plans are exempt from ERISA.

The study will develop data on present assets, liabilities, accrued benefits, and contributions in order to determine the current funding status of PERS plans, as well as to formulate a series of projections on the future levels of these variables under current funding practices and under the minimum funding standards of ERISA.

1/ Section 513(a)(4) provides that "The Secretary of Labor is authorized and directed to cooperate with the Congress and its appropriate committees, subcommittees, and staff in supplying data and other information, and personnel and services, required by the Congress in any study, examination, or report by the Congress relating to pension benefit plans established or maintained by states or their political subdivisions."

TAB E

Impact on Administrative Costs of Small Plans

Section 513 of ERISA mandates a study of the effect of ERISA on adminstrative costs of pension plans. For purposes of the study, administrative costs are defined as those costs associated with establishing and operating the plan, whether paid directly from plan assets or by the employer from general revenues. Specifically, administrative costs are defined to include:

(1) the cost of completing and filing reports required by the Government, and disclosing information to participants;

(2) the cost of recordkeeping;

(3) salaries paid to employees of the plan;

(4) fees for services: legal, actuarial, consulting, corporate trustee, investment services, and auditing;

(5) premiums paid for bonding, termination insurance, and fiduciary insurance;

(6) supplies and equipment used by the plan.

Under the WPPDA the Department collected no information on plans with 1 to 25 participants, and only limited information from plans with 26 to 99 participants. As a result, the Department must go directly to a sample of these plans in order to collect pre-enactment data. In order to begin the collection of pre-enactment data, the Department will issue, by April 15, a request for proposals (RFP). Post-enactment data will be available in November, 1976.

Specifically, the study will assess the impact of ERISA reporting and disclosure requirements of small plans. The information obtained from this study should be of value in determining the impact of ERISA on small plans and small businesses.

TAB F

Current Information on Employee Plans and Plan Characteristics

Information to be obtained on the ERISA Annual Return/Report Form 5500, the Plan Description Form EBS-1, and data from the Internal Revenue Service Series 5300 filings (requests for intital plan tax qualification) will be available for analysis beginning in 1977.

These three data sources will allow the agencies to make regular summary computer runs showing the size of the employee benefit plan universe, the types of plans that are being terminated and created, the number of participants involved, and the provisions and characteristics of these plans. This will make practical an ongoing analysis of plans and the impact of ERISA.

TAB G

Micro and Macro Economic Effects

The Department of Labor has been working for several months to develop an overall proposal for research on the micro and macro economic effects of ERISA. A request for proposals will be issued within the next four to six weeks.

ERISA is likely to have major effects on the economy and on economic institutions, some intended and some not. It will impact the functioning of labor markets, aspects of industrial relations, income distribution, and capital markets. It may cause intra- and inter-industry shifts in financial and related services, and may affect the cost structures of firms. The research contemplated will provide guidance as to the character and magnitude of such less direct, but potentially significant, effects. Such a research program will include in-house and contract research encompassing topics mandated by ERISA, and other policy-relevant topics. Many of those future topics are dependent upon data not yet accumulated, but the planning is beginning.

The Department is now developing and will soon release Requests for Proposals (RPF's) for other mandated research and non-mandated evaluation. The following RFP's are now being developed.

I. Studies of the impact of ERISA on collective bargaining, including: (1) the wage trade-off effects of pension plans; (2) the role of the union in negotiating and administering plans; and (3) the extent to which ERISA has led to a greater or lesser emphasis on pension benefits in relation to other types of fringe benefits.

II. The role of private pensions in meeting the economic security needs of the nation. The study would cover all aspects of retirement income, and relationships to pre-retirement income. These would be examined in the context of changes in savings patterns and the distribution of savings among alternative forms of retirement income. The interrelationships of private pension plans under ERISA and the Social Security System also will be addressed. The RFP would call for a comprehensive study, as mandated by sec.513(a)(2)(B). Specific issues must be further specified.

III. Study of the actuarial characteristics and practices of pension plans.

IV. Study of the operation of reciprocity and portability arrangements of pension plans.

V. Study of methods of encouraging the growth of the private pension system.

The ERISA also provides the Department latitude to conduct research and evaluation that is not mandated but would be useful in meeting implementation responsibilities. Specific non-mandated projects that are being started are:

I. Studies of welfare plans, including: (1) the effects of ERISA on the provisions and costs of plans; (2) new or emerging types of benefits; and (3) the role of employee health insurance plans in effecting changes in the health care delivery system.

II. Studies of the effect of ERISA enforcement powers, and, possibly, DOL strategies, including: (1) the effect of powers on participants and the operation of plans; (2) the nature of suits and complaints; and (3) the extent of "nuisance" suits.

TAB H

PENSION BENEFIT GUARANTY CORPORATION RESEARCH ACTIVITIES 1976-1977

Defined Benefit Plan Termination Data Base

Plans are being initiated to develop a data base of defined benefit plans for which valid notices of intent to terminate have been received, as required under ERISA section 4041(a). This data base will provide information on the characteristics of plans and participants covered by the termination insurance program and the sufficiency of assets to meet benefit liabilities.

It is expected that the information available from this data base will later be useful in evaluating the impact of ERISA and associated Federal regulations on terminating plans; the current level of guaranteed benefits available to plan participants; and the level of funding maintained by terminating plans.

Forecasting Model for Plan Terminations

During 1976-1977 we will begin to develop forecasting models for the level of plan terminations and insurance claims which will utilize data from a number of sources including: (a) data on the universe of all plans captured by the Department of Labor from the Forms EBS-1 and 5500, (b) certain data captured by the Internal Revenue Service, and (c) data from the PBGC termination data base.

TAB I

PENSION BENEFIT GUARANTY CORPORATION
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ANALYSIS OF SINGLE EMPLOYER DEFINED BENEFIT PLAN TERMINATIONS, 1975

HIGHLIGHTS

The number of terminations of pension and annuity plans since the enactment of the Employee Retirement Income Security Act of 1974 (ERISA) has received widespread attention in recent months. In particular, concern has been expressed as to the impact of ERISA on plan terminations. This report examines single employer defined benefit plan termination notices received by the Pension Benefit Guaranty Corporation (PBGC) during calendar year 1975. The major findings are:

- The number of defined benefit plan terminations reported to PBGC in 1975 was approximately 4,300, with about 3,950 of these covered under the PBGC termination insurance program. Using earlier BLS and Labor Department studies and historical trends, PBGC budgeted for from 3,700 to 4,100 defined benefit terminations in 1975. Using those same studies, approximately 3,200 terminations could reasonably have been expected in the absence of ERISA.

- In 35 percent of the plan terminations involving an ongoing employer, an intent to provide pension coverage to plan participants through another plan was cited.

- Seventy-seven percent of the plan terminations covered by the insurance program did not indicate that ERISA was the reason for termination. Adverse economic conditions, change in ownership or liquidiation of the employer's business were typical of the cited reasons for plan termination.

- Twelve percent of the plan terminations covered by the insurance program indicated that ERISA was the reason for termination. Eleven percent cited other reasons in addition to ERISA, such as adverse economic conditions.

In all terminated defined benefit plans covered by the Act, whether or not a successor plan is instituted, the participants are guaranteed vested basic pension benefits, within statutory limitations, paid from assets of the plans or by the Pension Benefit Guaranty Corporation.

ANALYSIS OF SINGLE EMPLOYER DEFINED BENEFIT PLAN TERMINATIONS, 1975

INTRODUCTION

In recent months, considerable attention has been paid to the apparent increase in the number of private pension and annuity plans terminating since the enactment of the Employee Retirement Income Security Act of 1974 (ERISA). In particular, concern has been expressed as to the extent to which ERISA may have contributed to this increase.

This report seeks to assess the impact of ERISA on plan terminations by analyzing both the number of plan terminations and the stated reasons for termination provided PBGC by plans terminating during 1975.

The number of terminations takes on meaning as a measure of the impact of ERISA when compared with the number of plan terminations which might reasonably be expected in the absence of ERISA. For this purpose, the report draws upon the results of a PBGC projection developed in early 1975 of the number of defined benefit plan terminations expected during 1975. The report also draws upon a study initiated by PBGC in early 1976 of those plans filing a Notice of Intent to Terminate with PBGC during 1975. This study included an analysis of the stated reasons for termination provided PBGC by the plans.

VOLUME OF PBGC PLAN TERMINATIONS, 1975

During calendar year 1975, the first full year after the enactment of ERISA, 5,035 notices of intent to terminate, including duplicate notices, were filed with the Pension Benefit Guaranty Corporation (PBGC). However, as shown in Table 1, an estimated 735 cases were closed administratively because (a) the termination related to an individual account plan, such as profit sharing, (b) the event reported was not a termination, (c) the termination had occurred prior to enactment of ERISA, or (d) the other reasons shown in Table 1. During 1975, PBGC received notices of intent to terminate 4,300 defined benefit plans, of which about 3,950 were actually covered by the PBGC termination insurance program.

ANTICIPATED VOLUME OF PLAN TERMINATIONS, 1975

The PBGC estimate of plan terminations for calendar year 1975 was made solely for budgeting purposes and was undertaken in two steps. First, historical data on IRS pension plan terminations were analyzed, and adjustments were made to estimate actual defined benefit plan terminations experienced during the 1967-1974 period. Second, projections were made for 1975 based on past experience. In addition, an estimate was made of the effect of adverse economic conditions and ERISA in projecting a work load figure for 1975. The results of these steps are summarized in the following sections:

Analysis of Historical Data - The number of applications for determination letters acted upon by IRS for terminated pension and annuity plans for the 8 years prior to 1975 provided the historical basis for projecting the level of defined benefit plan terminations for 1975. Data for the years 1967 through 1974 shown in Table 2, col. 1, indicate that the number of IRS determinations for terminated pension and annuity plans grew steadily during this period from an annual rate of 602 in 1967 to 2,577 in 1974, with an average annual growth rate of close to 25 percent.

Adjustments - The historical data on pension and annuity plan terminations had to be adjusted so projections could be made for the post-ERISA defined benefit plan termination case load. A study by the Bureau of Labor Statistics, Report on Characteristics of Terminated Retirement Plans 1955-1965, indicated that, on average, the number of actual terminations exceeded the number of applications acted upon by the Service during any period by 20 percent. In a period of increasing plan terminations, this 20 percent factor reflects the lag between the actual termination and the subsequent actions by the Service, by means of a determination letter or some other means. Applying this 20 percent factor to the figures on IRS determination actions results in an estimate of actual plan terminations per year (Table 2, col. 2). With this adjustment, for example, it is estimated that in 1974, 3,092 pension and annuity plans actually terminated compated to a determination rate by IRS of 2,577 plans.

Not all pension and annuity plans are defined benefit plans. It is estimated that defined benefit plans account for 70 percent of the pension and annuity plan terminations reported to IRS in the past (Table 2, col. 3). As a result of this adjustment, it is estimated that the level of defined benefit plan terminations grew from 506 in 1967 to 2,165 in 1974.

1975 Projections - In early 1975, a projection of the number of defined benefit plans that could reasonably be expected to terminate in 1975 was developed by PBGC by first extrapolating the historical termination trends and then adjusting the results to reflect anticipated effects of the recession and ERISA. The key assumption in these projections related to the expected growth above the 1974 level of defined benefit plan terminations. Projection I, assuming a 25 percent increase, was based on the historical average growth rate in plan terminations, while Projection II used the highest observed increase in the historical series, 40 percent, to reflect both trends and unfavorable business conditions.

The number of plan terminations in Table 3, line 2, are the result of a straight-forward projection of the 1974 experience (line 1) under the assumed growth rates, mentioned above. Estimated plan terminations in the post-ERISA period were further adjusted upward to reflect an assumed 5 percent under-reporting of plan terminations prior to ERISA, since prior to enactment the submission to IRS of an application for determination with respect to a plan termination was not mandatory. This adjustment resulted in the projected plan termination rates shown in line 3. All these figures, ranging from 2,706 to 3,182 terminating defined benefit plans, could be considered reasonable based on past experience.

However, 1975 was not expected to be a normal year. Therefore, PBGC made further adjustments presented at budget hearings on May 6, 1975, referenced in Table 3, line 4, which produced an anticipated termination case load ranging from 3,732 to 4,107 defined benefit plan terminations. These higher rates reflected the anticipated effect of ERISA.

In summary, the level of 4,300 defined benefit plan terminations (with 3,950 covered by the termination insurance program), corresponds closely with prior PBGC budget projections.

SURVEY OF PLAN TERMINATIONS, 1975

In early 1976, PBGC undertook an analysis of data obtained from plans filing notices of intent to terminate with PBGC between January 1, 1975, and December 31, 1975. A systematic 10 percent sample of filings was drawn; however, the analysis was limited to those filings that had not been administratively closed by December 31, 1975.

Since the estimates for plans in the report were based on a sample, they may differ from the figures that would be obtained from a complete enumeration of terminating plans. Particular care should be taken in interpreting small differences among percentages. The first results of this survey are summarized in the following sections:

Reasons for Termination, 1975 - Table 4 summarizes the results of the survey of stated reasons for plans terminating in 1975. In 77 percent of the covered terminated plans, no mention of ERISA appeared in the notice submitted to PBGC. Of the remaining plans, 12 percent cited ERISA as the sole reason for termination; 11 percent cited ERISA combined with other reasons.

The reasons for plan termination stated by plan administrators are in close agreement with the assumptions underlying the PBGC budget projections of defined benefit plan terminations for 1975. Therefore, when reasons for termination are related to PBGC projections for the 1975 termination case load, a close correlation is found between actual and expected experience. The expected termination level based on the assumption of unfavorable economic conditions (with no ERISA impact) shown in Table 3, line 2, is in line with the number of terminations (77 percent of 4,300) for which ERISA was not stated as a factor in termination.

Continuing Pension Coverage for Participants - The effect of the terminations of defined benefit plans may be completely or partly mitigated by coverage under a successor profit-sharing or money purchase plan.

Some 35 percent of all terminating defined benefit plans involving an ongoing concern included a statement that a successor plan or shift to some other existing plan was being planned for participants. More importantly, these estimated 1,000 terminating plans included about a third (or an estimated 30,000 participants) of all the participants in terminations involving ongoing companies.

Table 1. PBGC Plan Termination Experience, 1975

Notices received			5,035
Less:	Administrative closings 1/		735
	Individual account plans	221	
	Non-terminations	154	
	Other 2/	360	
Equals:	Defined benefit plan terminations		4,300
	Covered	3,950	
	Non-covered	350	

1/ Based on projections of experience to date.

2/ Includes plans terminated prior to enactment and duplicate filings by plan administrator.

Table 2: Historical Analysis of Pension and Annuity Plan Terminations, 1967-74

Year	(1) Applications for IRS Determination 1/	(2) Estimated Plan Terminations (1.20 x Col.(1)) 2/	(3) Estimated Defined Benefit Plan Terminations (.70 of Col.(2)) 3/	(4) Annual Percent Change
1967	602	722	506	----
1968	672	806	564	11.5
1969	868	1,042	729	29.3
1970	1,142	1,370	959	31.6
1971	1,605	1,926	1,348	40.6
1972	1,745	2,094	1,466	8.8
1973	2,222	2,666	1,866	27.3
1974	2,577	3,092	2,165	16.0

1/ Internal Revenue Service

2/ BLS Report on Characteristics of Terminated Retirement Plans 1955 - 1965 indicated actual terminations filed with IRS during period exceeded determination letters by 20 percent (lag effect).

3/ Treasury/Labor Study of Pension Plan Terminations 1972 indicated that defined benefit plans accounted for 70 percent of all determination letters issued in 1972.

Table 3. Projected Defined Benefit Plan Terminations for 1975 under Various Assumptions

	Projection I (25% growth rate)	Projection II (40% growth rate)
1) 1974 estimate from Table 2, column 3	2,165	2.165
2) 1975 estimates: no pre-ERISA under reporting	2,706	3,031
3) 1975 estimates: 5% pre-ERISA under reporting 1/	2,842	3,182
4) PBGC 1975 budget estimates 2/	3,732	4,107

1/ Estimate based on unpublished PBGC and IRS data.

2/ Published in Departments of Labor and Health, Education, and Welfare Appropriations for 1976, Hearings (May 6, 1975) before Subcommittee of the Committee on Appropriations, House of Representatives, Subcommittee on Departments of Labor and Health, Education and Welfare, Ninety-fourth Congress, First Session, Part 5, Department of Labor Related Agencies, p. 450.

Table 4. Percent Distribution of Stated Reason for Termination of Defined Benefit Plans, 1975 1/

Stated Reason	Percent
ERISA not mentioned	
Adverse business	33
Plan too costly	11
Change in ownership	11
Liquidation dissolution/closing	10
Other	12
Subtotal	77
ERISA mentioned	
Impact of ERISA	12
ERISA combined with other reasons	11
Subtotal	23
Total	100

1/ Based on a systematic 10 percent sample of plans filing valid notices of intent to terminate with PBGC during 1975.