Pensions

Management Faces the Pension Problem

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Foreword

Realizing the tremendous problems posed by the current drive for pensions, especially insofar as smaller companies are concerned, the Industrial Relations Division has prepared this study under the guidance of the Subcommittee on Collectively Bargained Pension Plans of the NAM Employee Benefits Committee.

It has been designed primarily to assist smaller companies with some of the major problems and considerations in pension planning. It focuses special attention on the many fundamental questions on which information must be obtained in order to develop and establish a sound company policy on pensions. Pension planning is an involved and technical problem, and this study should not be construed to be a complete treatise covering the manifold and complex issues relating to this subject. There is no attempt to tell any employer whether he should or should not have a pension plan, what kind of a pension plan he should have or to indicate any possible pattern of pension development for NAM membership.

It cannot be emphasized too strongly that each employer confronted with pension demands should avail himself of the most competent professional advice available to him. Since local considerations and practices may be of major importance, employers will find it advisable to consult with the state, local and trade associations affiliated with the National Industrial Council. The Industrial Relations Division of NAM also stands ready to supply information of a general nature on pensions.

CLIFFORD F. HAWKER, *Chairman*
NAM Subcommittee on Collectively
Bargained Pension Plans

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WHAT IS A PENSION PLAN?

A private pension plan is a formal system under which an employer **commits himself in advance to pay a determinable sum at regular intervals for the entire remaining life** of employees who leave the company at a pre-determined age or within a certain age range and who meet certain other definite standards. It involves anticipation of the cost of such payments, a formal provision to meet that cost, and sound adjustment of that cost to the economic structure and fortunes of the company. Profit-sharing plans, thrift and savings plans and informal arrangements under which benefits are paid at management discretion do not come within the meaning of formal retirement programs.

EARLY PRIVATE EMPLOYER PROGRAMS

Some employers had recognized the constructive employee relations values in pension plans for rank and file employees well before 1900. Among the earliest known programs were those established by the Grand Trunk Railroad in 1874, the Adams Express Company in 1875, the Baltimore and Ohio Railroad in 1880 and the Consolidated Edison Company in 1892. Andrew Carnegie appropriated four million dollars from steel corporation reserves in 1901 to establish a retirement trust fund. The installation of sound, private programs was limited for many years to those companies that could afford to establish pension funds from reserves on the books or that were prepared to adopt the conservative financing methods required by insurance companies and bank trustee services.

WHAT FORCES ARE BEHIND THE RECENT INTEREST IN PENSIONS?

An Aging Population

In 1920, we had approximately 5 million people aged 65 or over; today there are about 11 million; it is estimated that by 1980 those aged 65 or over may exceed 20 million. Although life expectancy from age 40 has not improved significantly, more people are and will be living to reach retirement age, due to advances in medical science and to the general increase in population. Economic and social pressures following 1929 brought these developments to public attention and stimulated consideration of ways and means to solve the economic problems of old age.

An Increasing Tendency Toward Retirement by Age 65

A larger proportion of the population is now engaged in urban pursuits and a larger proportion of the gainfully employed works for others rather than being self-employed. An accompanying tendency developed for men and women at age 65 and older to receive less income from regular employment. During the depression of the 1930s, it was considered desirable to encourage the withdrawal of those over 65 from the labor market in order to make employment opportunities for the younger unemployed, and retirement pensions at age 65 were considered a suitable mechanism for accomplishing this desired end.

The Social Security Act

Considerable pressure on Congress from many sources resulted in the passage of the Social Security Act in 1935. The Old-Age and Survivors Insurance provisions of this measure awakened popular interest in formal provisions to be made during working years for the time when unemployment because of age was probable. Increases in the cost of living and the depreciation in the value of the dollar during and following World War II intensified the pressure to increase federal benefits. Because the federal program had been designed in 1935 purposely to afford only a basic minimum layer of protection, attention was directed to various suggestions for expanding or supplementing Social Security benefits.

Emerging Governmental Interest in Private Pensions

Congress in 1926 authorized income tax exemption for certain payments to pension trust funds and premiums paid to life insurance companies under group annuity contracts. Under this stimulus, private pensions began a slow growth, which was intensified after the passage of the Social Security Act. A sharp increase in the number of plans established immediately prior to World War II coincided with the growing labor shortage of the defense period when the value of a pension plan in reducing employee turnover and in attracting new workers became apparent.

In 1942, the passage by Congress of the Wage Stabilization Act and the revision of the Internal Revenue Code created conditions especially favorable to pension growth. With wage rates frozen and corporate tax rates approaching 90%, the newly liberalized treatment of employer tax deductions for contributions to pension plans plus the ability to get advance approval of such arrangements resulted in qualification for tax exemption of 4,208 pension plans from August 1942 to December 1944.

The Rise of Labor Union Interest in Private Pensions

Labor unions historically had been opposed to private company benefit programs on the ground that they were paternalistic and tended to make employees less militant on other issues. However, when Wage Stabilization regulations prevented outright wage increases, unions sought and gained a variety of "fringe" adjustments, including pensions, in order to justify their dues collections. Also, as indicated above, employers in many cases resorted to pension plans in an effort to attract and retain employees in a tight labor market. Many existing employer-established pension plans were forced into union contracts under War Labor Board policy.

The establishment, under federal duress, of the coal miners' welfare fund with its magic $100 per month pension promise made it inevitable that other union leaders would attempt to emulate John L. Lewis. Up to this point, union pension demands had been principally strategic maneuvers designed to draw employer concessions on other points. Now, however, union negotiating committees were instructed to insist on pensions.

Full Scale Federal Intervention in Private Pension Planning

In 1948, the protection of law was extended by NLRB to the union drive for negotiated pensions. In a decision that had wide implications in the labor relations field at large, the Board ruled that Inland Steel Company must bargain with the union over its pension demands and the age at which employees could be retired. This doctrine was extended by the Board in a later case to include insurance and other benefits and both decisions were affirmed by the courts. These developments found the majority of employers and unions unprepared to cope with the issues created and ill-equipped to engage in the complexities of welfare-plan bargaining.

1949 saw pension proposals assume the status of major demands as some unions exerted industry-wide or nation-wide power and sought to impose a standardized benefit plan package on various industries. This development was prompted by several factors—membership pressure for "security"; a conviction that the economic climate was not favorable for a fourth round of direct wage increases; and a hope that industries faced with union pressure for private pension programs would support increased federal benefits as an alternative.

The specific direction of the "fourth round" of nation-wide union postwar demands was determined on the basis of expediency rather than sound business economics by a presidentially appointed fact-finding board attempting to avert a steel strike. Although finding against a direct wage increase, the Board voiced the doctrine that the steel industry was responsible for providing for the "depreciation of its human machine" and that contributions to pensions to provide for this "depreciation" should be considered a normal item of current operating costs. The non-contributory principle and the cents-per-hour recommendation of the Board became an integral part of the fourth round union demand "pattern," disregarding the further recommendation that pension and insurance programs should be tailor-made to fit the circumstances and abilities of individual companies.

Nature of Recent Settlements

Principal settlements in the various basic industries have largely conformed to the contracts signed by Ford Motor and Bethlehem Steel, which are closely related to the Steel Board doctrine. Notable exceptions have been the agreements signed by Inland Steel and by General Motors.

In the case of Inland, the company negotiated the right to offer to employees a choice of coverage either under the non-contributory "Bethlehem Plan," which was advocated by the union, or under the contributory plan developed by Inland. Both plans were presented on a non-competitive basis in personal interviews with each employee affected. The interest shown in the additional features provided in the Inland plan, despite the fact that participation would be on a contributory basis, is evidenced by the company's disclosure that 74% chose the Inland plan. Even among union members, the company's plan proved more attractive—70% chose the Inland plan.

The recent five-year agreement signed by General Motors has been widely discussed, owing to several departures from conventional labor-management practices. With respect to pensions, it should be noted that the union did not adhere to its announced objective of $125 per month but settled for a maximum pension of $100 per month, including Social Security, which was to be increased to $117.50 per month if Congress were to grant Social Security benefit increases of the magnitude expected by the negotiators.

The May 25, 1950 issue of *Current News,* published by Industrial Relations Counsellors, Inc., New York, states on Page 83:

> "Collective agreements negotiated so far this year, with their main stress on pension and welfare provisions, show a trend toward no wage rise at all or smaller ones than in the previous year. A recent Bureau of National Affairs analysis of 815 collective agreements signed during the first quarter of 1950 and of 3,550 settlements signed in 1949 discloses that 26 per cent of the contracts in 1950 did not include a pay increase, as against 21 per cent in 1949. Contracts calling for raises of 4 to 6 cents an hour were 34 per cent of the total in 1950 and 28 per cent in 1949; those lifting pay from 7 to 12 cents an hour represented 24 per cent of the total in 1950, and 32 per cent of the total in 1949; and 8 per cent of the 1950 contracts granted 10 or more cents an hour, as against 15 per cent of those in 1949. On the other hand, welfare plans in the two years nearly tripled, being covered in 4 per cent of the total contracts in 1949 and 11 per cent in 1950, while health and welfare provisions, covered in 14 per cent of the 1949 settlements, were in 29 per cent of the 1950 contracts.
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> "It now appears that in 1951 labor will put emphasis on wages, not pensions, and will seek (1) a 35-hour week at forty hours' pay in industries where unemployment is prevalent, (2) health insurance and disability pay plans, and (3) in some industries, severance pay provision and union shop clauses. Drives for pensions will continue in industries where they are not now paid, with the goal $125-a-month benefits. (Business Week, May 20; U. S. News and World Report, May 26)."

It will be noted that these figures are for settlements in all industries and may not be applicable to manufacturing industries or specific localities.

MUST I HAVE A PENSION PLAN IN MY COMPANY?

No Legal Requirement

There is no law which compels an employer to establish a private pension plan in his company, whether or not he has a union, and whether or not a union demands a pension. Most employers are already involved in one form of compulsory pension plan since they are required to contribute a percentage of their payrolls and to deduct employee payroll taxes for the federal Old Age and Survivors Insurance program.

Compulsory Collective Bargaining on Pensions

Employers who are subject to the Taft-Hartley Act are now required to bargain collectively over pension demands made by duly certified or recognized unions. This requirement has come about through several NLRB and court decisions which have held that employer contributions to pensions and other "social insurance" programs come within the meaning of "wages" or "conditions of employment," and that the age and terms of retirement come within the meaning of "conditions of employment."

Many of the issues and problems raised by this requirement have yet to be clarified by judicial recognition and undoubtedly will be the subject of much contention in legal and labor relations circles. For the present, the Labor-Management Relations Act has been interpreted to mean that the existence of a contract does not annul the employer's continuing duty to bargain on a subject not mentioned in the agreement. "It should be emphasized that the NLRB's interpretation of the duty to bargain, as defined in the Taft-Hartley Act, has not yet been passed on by the courts. At the same time, it should be recognized that, unless and until an appellate court reverses the Board's interpretation of the proviso, employers will be expected by the NLRB to conduct themselves so as to conform with the Wagner Act rule of bargaining 'continuously' with respect to matters not covered by contract. Thus under the Board's theory, for example, a union apparently would be free on the day following signing of a contract to renew demands which might have been discussed and abandoned by the union in earlier negotiations in exchange for some valuable consideration." [1]

Although the requirement to bargain on pensions does not mean that the employer must agree upon a plan, he is subject to an unfair labor practice charge if he refuses to bargain at the union's request. It appears at this writing that an employer must discuss with his union, in advance, the terms of a pension plan which he desires to install unilaterally. It has also been held that where a union has been certified or recognized, the employer must consult with the union before making any changes in existing retirement plans. This apparently applies both to plans established outside of, or included in, the terms of the union contract.

Some companies which were not able to adopt a pension plan at their union's request have negotiated a waiver of the union's right to discuss pensions for the term of the agreement. Such a waiver should be clear and specific in its terms. Other labor relations authorities suggest the negotiation of a general waiver clause wherein the union would waive any right to further bargaining for the term of the agreement on any and all matters whether or not included or mentioned therein. In the recent five-year contract signed by General Motors, the parties agreed to forego bargaining for the duration of the agreement on any subject, whether or not covered in the agreement. Others have attempted waivers which specifically mention the various non-bargainable subjects for the term of the agreement, but such a course might produce a list of exceptions longer than the contract itself.

The preceding questions and problems strongly suggest the advisability of full exploration of such matters with the company's counsel before deciding on a particular course of action. Although the many legal complexities surrounding compulsory bargaining on pensions seem to impose stumbling blocks in the way of employer initiation of plans, the several advantages which can accrue as the result of the establishment of a sound program may outweigh these difficulties.

DO MY EMPLOYEES WANT A PENSION PLAN?

Results of Surveys

There are substantial indications that many employees today look to their employer to provide a major proportion of retirement security.

> A December 1949 study made by the Opinion Research Corporation reports the following attitudes held by a nationwide sample of manual workers in manufacturing industry. A major question was, "Who has the duty to provide pensions—Government, Company or Individual?" When asked about each one separately, 77% said Government has a duty to help provide for a man's old age, 88% said the company a man works for has a duty, and 96% that the individual himself has a duty to help. When all three were combined in the same question, and employees were asked to select which one has the principal obligation, they voted (in rounded figures): Government 19%, employer 18%, all three 11%, the man himself 53%. Ninety-one per cent of those interviewed said that they felt federal Social Security would not provide enough retirement income and 65% thought that it wasn't possible for the average man to provide for himself by his own efforts. Sixty-six per cent claimed that they would sooner have ten cents an hour in pensions than have a wage increase. (Quoted by special permission of the Public Opinion Index for Industry, Opinion Research Corporation.)

The February 15, 1950 issue of *Modern Industry,* in a survey of worker opinion on the pension issue, says in part, "It's clear that workers assign such a high degree of responsibility to their companies only because they are convinced that they are earning retirement pay as they work. They look upon pensions as deferred wages, not as gifts from benevolent bosses." This article further states, "After 15 years of welfare statism, only a small percentage, regardless of age group, look toward the Government alone for future security. The great majority have either accepted a part of the responsibility or feel that they are earning pensions as a part of their day's work. Furthermore, substantially more workers say that they would rather keep their freedom to move from company to company and job to job than sacrifice it for an assured pension."

Statistics quoted in that report indicate that more than

[1] NAM LAW DEPARTMENT MEMO, October, 1949, "The Employer's Duty to Bargain on Matters not Covered by an Existing Contract," page 11.

60% "would favor a pension plan where the company paid a fixed percentage of its profits before taxes into the pension fund; half of these approved this method even if it means that there might be some years when the company could not afford to make any pension contributions."

The Individual Company

Before proceeding very far in his thinking about pensions, an employer ought to decide whether or not *his own employees* really want a pension plan. The presence of effective two-way communications is a decided asset in this connection.

Full information on whatever benefit plans presently exist in the company should be in the hands of employees, including data on employer contributions to state unemployment insurance, workmen's compensation and federal Social Security. Often employees are not aware of the cost to the company of existing benefits and do not understand the extent of existing protection.

The facts of each company's particular situation will modify employees' desire for a pension plan. There may be a majority of younger employees in the work force, and this group may prefer that emphasis be placed on wages or other employee benefits. If the work force has a large proportion of older workers, the cost of adequate pensions for this group may be prohibitive, even under the best of plans. Such a group may prefer that attention be directed toward providing work beyond the age at which retirement might be required. Some employees and unions take the view that company pensions are too paternalistic or will restrict the worker's right and ability to change jobs at will. There are still others that claim that we must place our primary reliance on federal pensions and that widespread company programs are economically and socially unsound. Each employer should be prepared to analyze his employees' views and the composition of his employee group in order to determine how high an order of priority should be given the pension program.

Consideration by management of a pension plan should also be made in the light of whatever other employee benefit plans may be existing in the company or may be desired by employees. A sound balance as between the various types of benefit plans—group life insurance, sickness benefits, severance benefits, hospitalization, vacation plan—usually has more employee relations value and employee acceptance than any one particular plan which is arbitrarily imposed without reference either to employees' benefit needs or desires.

ARE MY EMPLOYEES LIKELY TO NEED A PENSION PLAN?

Many employers show increasing concern about the economic status of long-service employees after retirement from active service. The determination of the needs of retired employees is an important primary step in considering whether or not a pension plan should be undertaken. An intelligent estimate should be made by the employer of the ability of his employees to provide for themselves after they are retired.

Such evaluation ought to be in terms of local area realities and should not be unduly influenced by popularized "patterns" or by developments in other localities. It involves consideration of the extent of private insurance and annuities held; savings, coverage under federal Old Age and Survivors Insurance, home ownership, part-time employment opportunities which may become available, and other dignified non-charitable sources of support.

A company pension should be designed to fill a definite need, to accomplish a specific purpose and should be realistically tied in with individual and governmental provisions for retirement income.

THE GOVERNMENT HAS A PLAN— WHY SHOULD MY COMPANY HAVE ONE?

The Old Age and Survivors Insurance provisions of the Social Security Act are designed to produce a basic minimum pension. Except in unusual circumstances, recipients of this pension have had to supplement this basic minimum[1] with other sources of support.

A few students of retirement security problems propose the elimination of private pension programs and the establishment of an "adequate" federal pension, supported by general taxation. Some employers and some labor unions are of this persuasion. However, it is questionable whether our economy could bear such a burden in the years ahead when more persons will live to be over 65.

Many employers continue to regard federal Social Security as a base upon which to build sound company plans where the circumstances of the company permit establishment of a private plan. Thus, the private plan is linked with the federal program on a supplementary basis, permitting the creation of a retirement income which should be adequate to encourage employee retirement and which should take into account the living standard which the employee has experienced during his working years.

WHAT DO PENSIONS COST?

Historically, pension growth has been retarded more by the substantial costs involved than by any other factor. Despite industry's bitter experience in under-estimating pension costs, many quarters today are broadcasting the fallacy that such costs, both present and future, may be estimated simply on the basis of so many cents per hour to return a benefit of so many dollars per month. Often these estimates seem to be rather reasonable on the surface and lead many to believe that a "modest pension" can be purchased with a relatively small outlay of company funds. This is a false and misleading conception, especially when cost estimates developed under one particular plan as of a given date are assumed to be applicable to the differing circumstances of a wide range of companies.

Five cents per hour spent by one company will not always buy the same pension for that company since the age distribution of the employees may change; neither will it automatically buy the same pension for other companies. "Cents per hour" is merely a method of estimating current costs—it is not a measure of benefits. General average pension costs which are frequently referred to may be entirely misleading for a specific company—and especially in the case of small companies. This is because the factors which influence pension costs—such as age distribution, turnover, withdrawals, length of service, sex, occupation, death rates, etc., vary considerably from company to company.

Pension costs must be viewed in the light of the particular conditions prevailing in the individual company. A pension plan that one company may safely absorb could bankrupt another.

[1] Even the expanded benefits of the new Federal Government program are considered as providing no more than a basic minimum layer of protection, in view of current living costs.

It is possible to estimate in advance roughly what a pension plan will cost in the immediate future.[1] This is because over just a half-dozen years or so, there are not likely to be great changes in wage or salary levels, size of the working force or big changes in the number of employees of different ages, sex or length of service. All of these are factors which help determine pension costs.

The present age of employees, for instance, determines how soon they may reach pension age and thus, over what period of time the employer can accumulate a pension fund for them. Sex is important because women live in retirement longer than do men and therefore need a larger pension fund to sustain any particular monthly amount of pension. The length of service already rendered by present employees is important because presumably in determining the pensions of these present employees there will be given some credit for past years at work during which there was no pension plan in existence.

For another reason, age, sex and present length of service are important since they affect any particular employee's chances of remaining at work until pension age. Other factors affecting costs are the amount of pension, the age at which employees will retire, the anticipated interest income of the fund, whether or not vesting is provided, and the eligibility provisions desired. Thus, the cost of the plan is not automatically determined when the employer agrees to some fixed contribution.

The ultimate cost of a pension plan cannot be calculated precisely in advance. The "true" cost of a plan which is the amount of pensions plus the expense of administration less interest earned on the funds, if any, depends on long-term changes in the factors noted above, and can be approximated only by assembling estimates, based on recent experience of a large number of basic elements.

Initial benefit disbursements under a new plan are almost invariably much less than future outlays. This is because the money needed to pay benefits increases in a geometric proportion as the number of people retired under the plan increases from year to year. Only after many years of operation does the number being retired each year tend to offset the pensioners who die during that period, and thus stabilize costs. This aspect of pension costs is a principal reason for the failure of a considerable number of plans, and illustrates the necessity for a conservative approach to pension planning so that the plan will survive good times and bad.

WHAT KINDS OF PLANS ARE AVAILABLE?

There are six major types of pension plans based on the nature of the pension benefits, and a considerable number of combinations thereof. They are:

1. *Definite benefit type*

   In this type, the pension is computed by multiplying a pre-determined percentage (for example, 1%) of an employee's earnings by his years of service or by his years of participation in the plan. The amount of annuity therefrom can be predicted in advance since the amount credited annually is established by formula. Usually the percentage given to past service is slightly less than that for future service. It is adaptable to employee contributions which usually are related to earnings and remain fixed for each earnings bracket. The employer pays the remainder —usually ⅔ to ¾—of the cost of the annuity credited each year. This cost customarily varies from year to year.

2. *Flat percentage type*

   After completion of a specified number of years of service, the employee may be retired on a pension equal to a flat percentage (for example, 25%, 30%, 40%) of his earnings. It is possible to recognize service over the required minimum by establishing basic and additional benefits. The pension may be based on the average salary for a certain number of years, on the final annual salary[2] or a number of other similar arrangements. This plan is also adaptable to employee contributions.

3. *Money purchase type*

   A variable benefit is returned under this type of plan. A definite percentage of employee salary or payroll is set aside each year. To this may be added employee contributions geared to earnings. These moneys are used to purchase whatever pension they will buy which will be relatively large for a young employee whose contribution will bear interest for many years but relatively small for an employee near retirement age.

4. *Deferred profit-sharing type*

   A percentage of yearly net profits may be accumulated to the employee's credit, being disbursed upon retirement on the basis of a pre-determined formula and payable either in cash or by investment in a paid-up annuity. To some extent this is not a true pension plan because there is no commitment to pay a determinable sum at regular intervals; there are no employer contributions if there are no profits from which to make them, nor are employees retiring when the plan is new likely to receive an adequate pension.

5. *Combined money purchase—deferred profit-sharing type*

   This arrangement, which adapts the leading features of the two previously mentioned types, is particularly adaptable to small and medium-sized concerns that have no large cash reserves to fund past service at the beginning of their pension plan. In some cases a pension plan has been established to provide a minimum basic pension (perhaps including Social Security) to which a profit-sharing plan has been added to provide supplementary benefits. Thus the employer's commitment is held to a minimum which can be handled in good years and bad, the funds for supplementary benefits being provided only when the company's economic situation makes it feasible.

6. *Flat benefit type*

   A uniform benefit is provided for every pensioner who fulfills a minimum service requirement—a proportionate reduction often is provided for shorter service. It is not related to past earnings—each person who fulfills the basic eligibility requirements gets

[1] See Appendix A, "Pensions and Group Insurance" by Edwin C. McDonald, pgs. 6-11.

[2] It should be realized that a pension based on a percentage of the *final* salary may vary appreciably from that based on *average* salary.

identical pension payments. Many of the recently negotiated plans are of this type.

There are also many other varieties of pension plans, especially of the non-funded, pay-as-you-go and informal types. These are not considered here because they generally are not established on an actuarial basis and may often be financially unsound.

WHAT INFORMATION IS NECESSARY FOR TENTATIVE CONSIDERATION OF A PENSION PLAN?

Before an employer can decide whether or not his company should have a pension plan, there are several matters on which he should acquire information. Such a procedure is a necessary prelude to full exploration of ways and means. Even if the employer's ultimate decision will be that he cannot adopt a plan, the following areas should be investigated in order to deal with union demands successfully and in order that employees may be informed of the reasons behind his decision.

Among the most important factors are:

1. The advantages and disadvantages of company pension plans;
2. The needs and desires of employees for pensions;
3. The differing benefit problems of hourly, salary and supervisory employees;
4. Community and local area practice;
5. Stockholders' interest and attitude;
6. General financial position of the company, stability of the business, employment, competitive and market positions—past, present and future;
7. Actual and expected treatment of aging employees by the company; e.g.—are they sometimes given a pension on an informal basis, retained on the payroll at a higher rate than they really earn; the costs of "make-work" jobs for those employees for whom the employer feels responsibility; problems in impartial and uniform application of such plans; is advancement blocked by retention of superannuated supervisors and executives?
8. Union demands and their costs as applied to the particular company;
9. The amount of money (total and cents per manhour) now being spent on such non-wage labor costs as vacations, insurance, health and medical costs, informal retirement pay, recreation, etc.;
10. The amount of money which is presently available and which may be expected to become available in the future for additional employee benefits;
11. The types of plans available, the benefits provided and the probable costs of each, all viewed against the composition of the work force — age — sex — amount of past service—mortality rates—turnover, etc.;
12. A tentative retirement age;
13. Funding arrangements available; ability of the company to finance the obligations thus created;
14. Attitude of employees, stockholders and management toward employee contributions; costs and administrative aspects;
15. The desirability and costs of vesting provisions;
16. Relationship with Social Security and existing company benefit plans;
17. Legal obligations and restrictions under various state and federal laws and regulations, and especially tax exemption requirements of the Bureau of Internal Revenue.

Owing to the technical and complex nature of pension problems, the initial exploration of the preceding questions should be made with the assistance, where necessary, of competent professional advice. Retirement plans are long-term programs which must meet the pension requirements of the company and its employees as they exist today and as they will develop over the next 25 or 30 years. They have to be constructed so as not to place an undue burden on the company during years of poor earnings but at the same time provide for employees as they retire in a fashion that, when added to Social Security, will give adequate retirement income.

To develop a plan which will meet satisfactorily the needs of the company and its employees, protect the interests of the stockholders, take into account the stability of the company's business, its financial condition, its relationship with employees, and which will be flexible enough to meet changing conditions—is indeed a complicated task.

WHAT ARE THE ADVANTAGES OF COMPANY PENSION PLANS?

The business and employee relations values of a pension plan can be determined only with reference to the particular conditions faced by the individual company. The short-term advantage gained by granting a plan to settle a strike or to relieve heavy employee or community pressure may quickly evaporate if the plan has not been tailor-made to fit the circumstances and capacity of the business.

However, soundly developed plans geared to present realities and future probabilities can have benefits for both employer and employee which in the long run may prove of specific value to the enterprise. Many employers claim these advantages for their plans:

1. *Orderly method to separate superannuated employees*

   This may be the most substantial attraction from an employer's point of view. It allows removal of the older employee without imposing hardship on him. Some employers claim that the cost of pensions is likely to be outweighed by the savings in wages which otherwise would have been paid less efficient employees.

2. *Creates "room at the top"*

   An employer with a promotion-from-within policy is aided both at the production employee level and at the supervisory and management level by a retirement plan which removes older employees and provides opportunity for advancement of younger men. The incentive benefits created as a result of such a plan are apt to promote greater efficiency.

3. *Attracting and retaining personnel*

   Under certain conditions, such as during World War II, pension plans have been considered as aids in attracting employees and in inducing others to remain with the company, particularly in the executive and technical classifications. Undoubtedly, pensions do discourage turnover in the higher age brackets. In connection with executives and other high salaried people, pensions offer a means of paying deferred compensation which it is impractical to pay currently because of high income tax rates.

4. *Better employee relations*

   It is claimed that employees who have fewer economic worries about old age are likely to be better team players and more efficient producers. There is undoubtedly considerable employee good will generated by a sound program which recognizes long and faithful service, especially if the benefits of the plan are well understood. Knowledge among employees that retirement will be made in a humane and nondiscriminatory manner may develop employee appreciation of the employer's desire to do more than his share in developing good human relations.

5. *Better public relations*

   It is an advantage for a company to have a reputation for being concerned about its employees' future welfare and for being progressive in its human relations. A good plan avoids the appearance in the community of destitute, aged, long-service former employees or the necessity for them to depend on charity.

6. *Better treatment of a business cost*

   Since some humane and systematic procedure for removing older employees from the active roll seems desirable from the point of view of personnel management, employee relations and public relations, it is often advantageous to adopt and publish a definite pension plan and to take, in accordance with the plan, the necessary steps to make sure that when a man retires, there will be on hand a capital sum which with interest, and considered on the average, will pay his pension until he dies. The annual payments to accumulate this capital sum over an employee's active years are analogous in a certain sense to machinery depreciation accruals which are charged during the active life of the machine and accumulated to offset the capital write-off when it is retired.

Because a similarity in accounting treatment may exist between "depreciation" and certain methods of pension funding, it does not follow that employers are responsible for "depreciation of the human machine" they employ. Provisions for depreciating equipment must be made by any company which desires to stay in business and thus provide job security and earning power for employees. The "human machine," however, if one can properly call it such, is not an asset secured by the employer at some designated purchase price, and therefore requires no provision for depreciation. Determination of a sound pension program is not facilitated by forced comparisons between men and machines.

SUPPOSE INVESTIGATION DISCLOSES THAT I CAN'T AFFORD A PLAN— WHAT DO I DO?

An employer may have to conclude, after thorough analysis of the factors previously mentioned, that a sound and workable pension plan cannot be effectuated in his company. Many employers have had to make this decision despite heavy union, employee and community pressure. In this situation, companies have explored the following possibilities:

Inform All Employees

An explanation of the reasons and necessities behind the employer's decision not to provide a pension plan should be made to employees. If such communication is backed up by facts and figures wherever possible and if opportunity is provided for answering legitimate employee questions, much suspicion, dissatisfaction and unrest may be avoided. Many employees have been led to believe that the employer can give or withhold pensions simply on the basis of his attitude or willingness to do so. This misconception should be dispelled. At the same time, the employer should make sure that his employees fully understand all other employee benefits to which they may be entitled.

Investigate Thrift or Profit-Sharing Plans

If a pension plan is impractical or impossible, there are other plans wherein an attempt can be made to provide a partial old age income for employees. Such arrangements as thrift plans, where an employer matches employee contributions into a fund which is invested to provide a lump sum or an annuity upon retirement, are frequently used in lieu of formal pensions. There is also a variety of profit-sharing programs, applicable to a wide range of business enterprises.

Other Employee Benefits

Analysis of contracts signed since collective bargaining on pensions became mandatory discloses that much attention has been given to other "fringe" benefits where pensions have not been granted. Such programs as group life insurance, sickness benefits, lump sum severance pay, and hospitalization meet current worker needs and offer the employer a worthwhile opportunity to demonstrate his concern over the welfare of his employees. Since these plans do not create future financial liabilities and are financed on a short-term basis (usually annually), they permit avoidance of commitments which might bankrupt the business. It should be noted, however, that in terms of employee relations values, a benefit program once begun is extremely difficult to discontinue. For this reason, benefit plans should be established at such a level as the company expects to be able to continue, through bad times as well as good.

Wage Adjustment

A wage adjustment granted in lieu of a pension plan is a currently popular method of disposing temporarily of a troublesome issue. Such a step should be weighed against the possibility that the pension issue may arise again later with equal or greater pressure.

Some authorities claim that many recently negotiated pension plans will not cost as much as either company or union estimated, and fell below the "cents-per-hour pattern." The implication is that the pension concession actually costs less than a wage increase. This argument can be answered only with reference to the facts of the individual company. It also ignores the realities of pension costs—that they pyramid over the years and persist during bad years as well as good, whereas the total wage bill tends to respond to business conditions.

Granting a wage increase in lieu of a pension requires consideration by the employer of the inclusion in his contract of the union's waiver of its right to negotiate on pensions for the life of the agreement. Considerable care should be taken with such a waiver, as noted on Page 5.

SHOULD I CONTRIBUTE "X" CENTS PER HOUR TO A UNION PENSION FUND, AVOID FURTHER RESPONSIBILITY AND LET THE UNION HANDLE THINGS AS IT SEES FIT?

One of the unfortunate aspects of labor's drive for "security" benefits is that many unions have implied that they care more for the welfare of employees than does their employer. It is particularly easy for a union to promote this attitude when the union administers the fund and determines how it is to be invested. By abdicating responsibility through contributions to welfare and pension funds over which they have no control, employers lose much of the human relations values obtainable and continue to bear the responsibility for plan failures.

If benefits are inadequate, or if expected benefits are not forthcoming because of unsound administration, employees will normally blame the employer. If funds received from the employer are insufficient to maintain the schedule of benefits established by the union, it will customarily demand that the employer finance the deficit rather than reduce benefits.

Having no control over union-managed pension funds, an employer may awake to find that his contributions for "welfare" objectives are being used as a slush fund or even as a strike fund. Full management or trustee control over pension and welfare funds is a most desirable objective—to insure sound administration, to demonstrate management's concern and assumption of responsibility and to assure that fund contributions and benefits are not considered as current wages but are being accumulated for specific future purposes.

Where a pension plan involves employer payments to union representatives (i.e., a union-managed fund) the Taft-Hartley Act requires that employers and employees be equally represented in the administration of the fund, with a provision contained in the agreement for settlement of disputes or deadlocks by an impartial third party. It should be noted that where there is no question of payment of employer contributions to union representatives for pension purposes, there is no legal requirement for joint administration (or the other requirements of Sec. 302 (c) of the Taft-Hartley Act).

SHOULD I FOLLOW WHAT I'M TOLD IS A GENERAL PATTERN—WITH OR WITHOUT UNION PRESSURE?

It has been repeatedly emphasized by pension authorities that retirement plans should be "tailor-made" to fit the requirements and abilities of each individual company and to meet the desires of employees and company. This is the strongest and soundest argument against the granting of any particular "pattern."

Although both employer and employee cannot help being influenced in their pension thinking by nationwide developments in industrial pensions, the pension plan ultimately established must conform to the facts of the local situation and reflect prevalent points of view. To be successful, any pension plan must be carefully integrated—benefits, eligibility requirements, funding arrangements, methods of meeting costs and other key provisions must be adjusted to each other, to the over-all objective of the plan and to the business which makes it possible. Thus, any so-called "pattern"—such as $100 per month or 10¢ per hour—must of necessity be modified by the other provisions which have to be adopted to make the plan work correctly. In addition, in the steel industry where much was made of the "pattern" by the union, the specific provisions vary widely from company to company and the costs to the individual employers deviate even more widely.

Another disadvantage of following patterns is that in many cases, a substantially uniform benefit bearing little relationship to earnings and service is likely to result. Such a benefit, of course, does not give extra reward to long and faithful service and is unfair to the higher skilled individual.

Some unions have referred to a "pattern" of 10¢ per hour as a minimum basis for discussion of employer contributions. On the assumption that $100 per month pensions will cost less than 10¢ per hour, some unions have demanded whatever benefits can be purchased at that figure. Employees covered by pension agreements that have been translated into these terms may be led to believe that for every hour they work, 10¢ is being placed in a kitty for their future benefit.

The concept of financing pensions by paying so many cents per hour tends to erase the distinction between wages and benefits, and the employer in such a case may face a demand in the future to discontinue such contributions and allocate the 10¢ to current wages or even to distribute previously accumulated 10¢ allocations even though they may be needed to finance the few pensions actually commenced prior to discontinuance of the plan. The possibility of such demand exists because union representatives may continue to think of the plan as a series of 10¢ deposits earmarked for individual employees rather than thinking of it as a mutual insurance fund with the contributions going to the benefit of those who draw pensions.

As indicated previously, 10¢ per hour (for example) will yield widely differing benefits from company to company, owing to differences in employee age, length of service, other eligibility requirements, interest earning rates, etc. Despite this, many unions cite pension gains in terms of cents per hour both for membership consumption and for purposes of comparison with gains made by other organizations. The prudent employer will be adequately prepared in advance for discussion on this point.

SUPPOSE THE UNION PRESENTS ME WITH A PACKAGE?

A substantial number of employers have been presented with a "package" of welfare demands—pensions, group insurance, hospitalization, medical expense, and other employee benefits. Often the union has stated that these demands could be defrayed by an employer contribution of so many cents per hour per employee and has insisted upon employer acceptance of a complete union-sponsored benefit program. The employer should insist on reviewing the details supporting such a package and preferably have them reviewed by one or more qualified experts.

Experience has demonstrated that no over-all approach is practical which ignores company financial status and employee needs. Each separate plan should be flexible enough so that changes which may be necessary in one plan would not involve changes in other elements of the program. It is possible that the need for correction of an unsound feature in one plan might open up the whole program to renegotiation. A package plan on a compulsory basis might be unacceptable to many employees who may not desire the coverage provided or who may have made private provisions which are more desirable.

Sound administration of a benefit program requires that each plan stand on its own feet financially. Since hospitalization, group insurance, and the like are benefit plans which do not require any long-term financial commitments, they are usually reviewed with the carrier annually. If an employer has agreed to contribute a specific sum toward the purchase of a complete package, increases in the costs of coverage under the various short-range plans might conceivably reduce the amount available for pension contributions. Similarly, the union may insist that employer savings under one plan be applied to the liberalization of the others.

If an employer has decided that there *is* money available for a benefit program, the basic question he must face is: how much is available and what can be done with it? If management has the answer to this question in advance of discussions with the union, it becomes easier to illustrate just how far the available money will go in buying the package that the union requests. In such a case, it may be possible to demonstrate that it would be preferable to omit any item which provides a wholly inadequate benefit and utilize available funds to provide adequate benefits with respect to such items as are finally included in the package, rather than to deal inadequately with certain items because of lack of funds.

It is the experience of companies which have administered benefit programs for years that such benefits are not a substitute in the eyes of the employees for maintaining wage levels and working conditions at least on a par with those of competitive or surrounding employers. Consequently, the employer should weigh carefully what portion of funds available for compensation should be used to finance benefits and what portion should go into more direct wage payments.

SHOULD I WAIT UNTIL THE UNION ASKS FOR A PLAN?

Most employers who have had some experience with pensions feel that the time to consider whether or not a pension is feasible or practicable for a company is *well before* the union raises the question. They agree that consideration of pension questions should be made in an atmosphere free from pressure, with sufficient time and information to avoid jumping to unsound conclusions. If the employer's decision is that he cannot afford a plan, he is thus well prepared to resist union demands with facts and figures and is better able to inform his employees of the true situation.

No employer is justified in establishing or agreeing to a pension plan unless he believes it is a sound business proposition. If, however, investigation has disclosed that a pension would be possible and practicable, an employer may well consider the advantages of voluntarily working out a plan in advance of union requests. Of course, such a procedure would involve consultation with the union (if any) in advance of establishing the plan, after which the employer's action would be conditioned by the conclusions reached during that discussion. The employer would be well advised to open discussions in such a situation only on a basis which he would be prepared to extend to non-bargaining unit employees. The advantages of establishing a company-initiated pension program are held to be:

1. The employer gets the credit for his demonstrated interest in his employees' welfare. Although the employer bears the lion's share of the cost, he loses much of the employee relations value of pensions when he is put in the position of being forced by the union to adopt a plan.
2. In many cases, the longer the employer waits, the more the plan will cost him. This applies because his group ages while he waits—there is less time in which to accumulate the required funds for a pension of a given number of dollars per month.
3. If the employer has established a reasonable pension, he may be able to keep many of the troublesome "issues" (such as employee contributions, eligibility requirements, vesting, joint administration, method of funding, etc.), from the bargaining table, thus preserving the flexibility he needs for successful operation of the plan.
4. The employer is in a better position to solve the many complex legal, tax and actuarial problems than if forced to consider them under the pressure of bargaining.
5. A sound and thoughtful approach by the employer may release much of the union pressure upon employees—the presence of a program adapted to the capacity of the company and the needs of the employees can be a strong antidote to unreasonable union demands.

It should not be construed that this document urges all employers to rush into pension plans merely to anticipate union demands or to accede to popular pressures. It is merely suggested that each employer give weight to these considerations in shaping his policy on pensions so that his position is taken in full view of the facts and probabilities which may apply, including the advantages flowing from the establishment of pensions before they become an issue in collective bargaining.

It is worthy of note that some unions are very well prepared for bargaining on welfare issues, often being accompanied by an expert in the field. Some unions, such as UAW-CIO, have prepared minimum standards to which each pension plan negotiated by a local union must conform. That union also maintains a social security department and assigns pension specialists to its various regional offices. Months have been spent by the union in acquiring pertinent data on the individual company, in preparing cost estimates of a variety of proposals and in stimulating membership interest. The employer who is not at least equally prepared may subject himself to an overwhelming barrage of statistics, contentions and pressures which he may not be able to refute.

Mr. F. W. Climer, Vice-president in charge of Industrial Relations for the Goodyear Tire and Rubber Company, in addressing a recent pension forum of the United States Chamber of Commerce, made the following comments with reference to pension negotiations: "In conclusion I would like to say for those who have not yet been through pension negotiations, but who are faced with that unpleasant task, three things which I believe to be of utmost importance. One, before you start negotiations, be well prepared with the best actuarial figures on your own situation that you can possibly get. Two, when you have concluded your agreement be sure it is well drafted. It's a very difficult job to put down in a contract the proper words to cover just what you agree to. This is important, of course, in any agreement, but these pension agreements may last in their fundamentals for many years. There are many ramifications, and the wording should be clear, concise, and difficult of any other than the intended interpretation. Third, much has been said about the effect on our overall economy of this pension movement. I don't profess to know too much about that part of the problem, but I am sure that no company should put into effect a pension plan unless it is well thought out, and unless it has as many financial safeguards as possible. It should be one that meets the specific need of the company and its employees rather than following some pattern set by someone else."

WHAT HAVE OTHER COMPANIES GIVEN?

During his tentative consideration of pensions, the employer should gather information on local area and community practice with respect to retirement benefits. Many local employers' associations have made excellent and detailed surveys of community practice with reference to existing pension programs. Not only should he study the possible demands his union may make, and their cost and problems as related to his company, but, also, he should examine what that union has gained from others, particularly those companies in the employer's industry.

Plans granted by an employer's competitors should be scrutinized carefully so that their effect on labor costs and market prices may be judged. Often a study of a competitor's pension bargaining history may be of value in determining whether or not a pension would produce an unhealthy effect on labor costs and his ability to remain in business during slack times. It is repeated, however, that another company's pension plan should not be adopted without careful consideration of its application to the circumstances of the specific company.

WHAT ARE THE PENSION OBJECTIVES OF VARIOUS UNIONS?

Organized labor's pension proposals have had a double-barreled purpose. As noted previously, many labor organizations have found it necessary to emulate the achievements of such pacesetters as John L. Lewis. In addition, however, as the more pressing problems of seniority, wages, grievance procedures, and the like have been settled, unions have turned attention to pensions, insurance, guaranteed wages and other formalized measures for employee security.

Organized labor's second purpose has been to secure support for liberalization of the federal Social Security laws so that the eventual retirement income of union members would devolve from two principal sources—the federal government and the employer.

With respect to private negotiated pension plans, there is considerable difference in the attitude of leading labor organizations. Even within one particular international union, demands may vary and settlements made by the various locals often differ from the basic program favored by the international. AFL, in general, stresses the need for higher public pension benefits and, except in isolated cases, has put little pressure upon employers for negotiated plans. The international unions of the CIO, however, have contributed most to the developing pressure for private plans. In general, CIO's objectives are the following:

1. *Flat benefits bearing no relationship to earnings or service*

   Each employee receives roughly the same benefit (for example, $100 a month, including Social Security) under many of the settlements negotiated in late 1949 and early 1950. Under these agreements, the employer was able to deduct the employees' primary Social Security benefit. In view of the liberalization of federal benefits, most companies that negotiated such agreements will spend less money than originally predicted. Thus, it is expected that many unions will demand fixed company contributions (expressed in terms of so many cents per hour) so that the deduction of Social Security benefits would have less effect on the employers' cost. This was an issue in the long Chrysler strike and was granted in the agreement made by General Motors. Others are expected to insist that employer savings under Social Security liberalization be applied to the purchase of additional benefits. Although $100 per month including Social Security has been a conventional pension settlement, much evidence exists to indicate an upward revision in union demands. For example, one prominent union leader has been quoted as saying, "Brick by brick we are laying the foundations until our pension plan represents a return of $200 a month. Give us ten years and we'll reach that goal."[1]

2. *Employer contributions*

   Although many agreements continue to be signed which provide for joint contributions of employer and employee, the general objective of most CIO unions is that the employer alone should bear the total cost of employee pensions. However, many plans negotiated with AFL unions and some with CIO unions have incorporated employee contributions.

3. *Joint administration*

   Although some settlements provide for joint administration of eligibility requirements and other questions in connection with day-to-day administration of the pension plan, there have been few agreements which give the union joint control with the company over pension funds. However, unions are expected to press for joint administration of the whole pension program on the ground that the money which the employer has contributed is part of the wages of the employee and therefore he should have some voice in its management. Both AFL and CIO unions have pressed for joint or even tripartite administration and one AFL union, (the IBEW) has stated in its journal, ". . . but it seems to us that the best plans as far as organized labor is concerned are those paid jointly and administered by the unions."[2] However, administration of pension funds to which firms with IBEW contracts contribute jointly with employees is on a tripartite basis.

   Employers should make every effort to assure that if joint administration is conceded, the union's participation in the administration of the plan does not destroy its soundness. In many cases, sharing the administrative responsibility has developed into effective union control owing to a lack of interest on the part of the employer.

[1] Monthly Letter on Economic Conditions, Government Finance, National City Bank of New York, May 1950, page 56.
[2] *Business Week*, November 5, 1949, quoting November 1949 issue of *The Electrical Workers' Journal.*

4. *Full vesting*

Unions have sought vesting arrangements whereby the employee receives all of the pension credits built up in his behalf in the event he decides to leave the company after reaching some minimum length of service or age. This has not been granted in any important negotiated settlements although it is quite common in many plans established before the era of mandatory bargaining. The pressure for full vesting is also behind union proposals for industry-wide or area-wide pension programs (such as the Toledo Plan) since the employee could carry his accumulated pension rights with him from company to company. For example, an area-wide pension program recently agreed to by UAW-CIO and the Automotive Tool and Die Association in the Detroit area covers about 4000 employees in 70 tool and die shops. This plan establishes a common trust fund thus permitting employees to move from plant to plant but to retain pension rights. It is reported that employer contributions to the fund will amount to 8¢ per hour which is expected to yield benefits of $100 per month, including Social Security.[1]

5. *No mandatory retirement age*

One of the advantages of a pension plan from the employer's point of view is that it provides for systematic, non-discriminatory retirement at a fixed age (usually 65). In general, unions oppose this feature and desire optional retirement with additional pension credits accumulating after age 65.[2]

6. *Coverage*

Except in the coal-mining industry, there has been no serious pressure for coverage of union members only, up to this point. However, current demands for the union shop are a possible prelude to demands to restrict benefits to union members only. Under the Taft-Hartley Law, limitation of pension benefits to union members only would probably be considered an unfair labor practice although in the absence of court or NLRB decisions no positive conclusion is possible.

Until recently, the central critical issue in bargaining has been the size and terms of benefit payments. However, recent negotiations indicate that the emphasis has shifted from bargaining benefits to bargaining costs—the employer has been faced with the demand to allocate a specific number of cents per hour to whatever benefit that contribution would buy. This is consistent with the theory that once a pension plan has been negotiated, the union will seek broadening and liberalization of its provisions. It has been pointed out by some employers that bargaining on the basis of costs is an approach which appears to accept the deferred wage theory of pensions and tends to smother the real problem which both the employer and the union should face—the retirement needs of the employees involved, the best way to meet these needs, and an equitable basis for meeting the cost.

Certain authorities feel that current union pension demands are a phenomenon which will fade in time to lesser significance. This theory is based on anticipated stronger membership pressure for current benefits, the unsoundness of many recently negotiated plans, the bitter disappointments to employees when their pension promises are not fulfilled and the expectation that expanded federal benefits will provide subsistence pensions while not tying employees to one company for life.

WHO SHOULD BE COVERED?

One of the major decisions to be made in pension planning is the extent of coverage which the plan should have. Recently negotiated plans have applied, almost without exception, to those in the bargaining unit only. In some of these cases, employers have developed similar coverage for supervisory, white collar and executive personnel. Many programs provide for additional supplementary coverage available to those earning above a certain salary minimum.

It may be observed that from a management point of view, the objective of a pension plan is not solely to grant benefits. As previously noted the pension plan is basically a device to maintain and increase productivity. Therefore, a degree of coverage should be sought which promises the greatest return in terms of reduced cost, turnover reduction, enhancement of employee morale and increased opportunities for advancement.

Some employers feel that separate plans should be developed for each major employee group so that changes in those plans subject to collective bargaining would not alter the application of the program to the other employees. This approach is advocated by many who point out that benefit needs vary from group to group and the employer may have different objectives in each case. On the other hand, it is pointed out that employees often move from one group to another, e.g., wage earner to supervisor, and vice versa, and therefore it is better to frame the general plan so that it covers employees without regard to the particular group in which they may be included at any specific time. In companies where differing plans are contemplated for various employee groups, the employer should review Treasury Department regulations so that discriminatory practices are not adopted which would result in denying tax exemption to company contributions. There are many employers, however, who feel that the desirability of a single company plan is indicated by considerations of sound financing, of determining Treasury Department approval and of equitable and uniform treatment of all employees.

Where an employer deals with more than one bargaining unit, it may be extremely difficult to obtain a uniform pension program covering all employees.

WHAT ELIGIBILITY REQUIREMENTS SHOULD BE CONSIDERED?

In addition to making a decision on which groups of employees should be covered, an employer must consider what requirements are to be imposed for entrance into the plan, what conditions will be necessary for continued participation and under what conditions benefits will be paid.

Entrance eligibility has been circumscribed by exclusions incorporated in many plans to reduce costs, to promote administrative simplicity and so that a more stable plan could be developed. In general, the most successful plans have been those which have included permanent personnel only. This is usually accomplished by establishing a minimum service requirement—such as two years. Some plans have established minimum and maximum age restrictions on entrance age to reduce the record-keeping and other costs due

[1] For further discussion of vesting, see page 18.

[2] For further discussion of retirement age, see pages 15-16.

to turnover among younger employees, and in the case of those who enter the company at an advanced age, to exclude from the operation of the pension plan those who can best be taken care of on some individual basis. It should be noted that to exclude older employees with long service actually would defeat several objectives of the pension plan unless other provision for them is made.

Other exclusions based on type of work performed, sex and minimum salary have been incorporated for cost reduction purposes. However, such limitations must be viewed in the light of Treasury Department regulations which do not permit tax relief where certain discriminatory practices exist. Furthermore, the broader the participation, the better a pension plan is likely to fulfill its basic purpose.

Some long-established, non-contributory trusteed plans have no entrance eligibility requirements so as to reduce administrative problems and costs. In such cases, a requirement of minimum service to qualify for a pension is customarily imposed.

Continuance of participation in the plan is modified by requirements imposed with respect to layoffs, strikes, permanent disability, leaves of absence and discharge. Each of these situations should be explored and clarified by the employer so that the possibility of misunderstandings and disputes is minimized. He will also find it advisable to arrive at a clear definition of how service accumulates for pension purposes and to maintain the necessary service records so that there will be no difficulty when an employee becomes eligible to retire.

Eligibility for benefits upon retirement is usually a major point in union demands. Most recent agreements providing substantially flat pension benefits specify that a base pension will accrue to an employee at age 65 with 25 years of service, with a lesser amount payable to those with fewer years' service. Since the most desirable results are obtained from a plan which relates benefits to years of service and earnings, the employer may wish to adopt a benefit formula which provides additional benefits for additional years of service or for higher earnings.

WHAT COMPLICATIONS MAY RESULT FROM MILITARY LEAVES OF ABSENCE?

In view of recent international developments, the effect on pension planning of partial or total mobilization requires particular consideration. Employers should anticipate the following problems in connection with individuals who volunteer for military service or who are called to active duty through the Selective Service system or activation of reserve and National Guard units:

1. Is the period in service to be counted toward fulfilling eligibility requirements—both for membership in the plan and for computation of the period necessary to qualify for benefits?
2. Is the employer required to continue contributions during the period of military service?
3. In a contributory plan, will the employee be required to continue his contributions during the period of service?
4. If the plan includes expedited maturity (early retirement) for disability benefits, does it apply in the event of (a) disability incurred off the job; (b) in the event of service-connected disability?

Employers with negotiated pension plans should make certain that the intent of the parties is carefully spelled out in advance of possible large-scale mobilization. Employers with unilaterally established plans may desire to provide for these contingencies, both to avoid administrative and financial complications and to be able to advise the veteran of his status prior to entry into military service.

Similar consideration is necessary when leaves of absence are granted for other reasons, for example: leaves granted under contract provisions to union officers; leaves for personal reasons; sick and maternity leaves; leaves granted to veterans to study under provisions of the GI Bill of Rights.

The provisions of the Selective Service Act should be reviewed in making provision for employee obligations and benefits in case of military leave.

WHO SHOULD CONTRIBUTE?

The question whether employees should contribute to employee pensions has been the most controversial issue in recent pension negotiations. In general, the arguments in favor of employee contributions are:

1. Employee contributions provide greater benefits because of the limit to the fixed commitments that management can make. If the employer has absorbed all past service costs, employee contributions are sometimes necessary to assure adequate financing of current and future service.
2. To the extent that pensions result from employee contributions, they are clearly not a gift. To the extent that participation in a contributory program is voluntary, as it frequently is, charges of company paternalism lose their force.
3. The employee has a greater interest in the program when he helps to support it and has a better understanding of the nature and source of benefits. He is deemed less likely to press for unrealistic increases in benefits if he has to help support those increases.
4. The relationship of higher earnings to greater benefits acts as an incentive to increased effort. In a contributory plan where pensions bear some direct relationship to size of earnings, a pay increase means that the employee will also be eligible for a higher pension.
5. In many cases, the employer can hardly be expected to meet the higher costs of a pension plan with vesting provisions unless the employees help to meet the cost.

Unions have been successful in negotiating many non-contributory plans because of the assistance given their position by the recommendations of the Steel Industry Board. It was also contended by the unions that since pensions were a form of wages, the employees should not be expected to contribute additionally. Further arguments against employee contributions have been:

1. Under contributory plans, employees must pay out of income which has been taxed, whereas the employer's contribution is usually tax exempt. The employer's dollar contributed to a pension fund will buy a dollar's worth of benefits. The same dollar paid in wages to the employee and then contributed by him to the pension plan is subject to income tax and will therefore purchase less in benefits.
2. A non-contributory plan usually involves automatic

participation by all employees which results in group economies and lower administrative costs. Coverage of all employees results in making pensions available to those who are considered to need them most.

3. Necessary changes in the plan are easier to make because employee money is not involved. (This does not, however, affect the obligation to bargain.)
4. Contributory plans may involve problems in connection with the return of employee contributions in the event of layoffs or other temporary absences from work, and in case of termination of employment.

In studying this question, employers should develop alternative cost estimates based on each approach—contributory or non-contributory. In many medium and small size concerns, it may be that employee contributions will make the difference between the company's ability to have a realistic pension or none at all. In other cases, however, employers who may wish to retain as complete a degree of control over the plan as possible may find it desirable to develop a non-contributory program.

WHY HAVE MANY PENSION PLANS FAILED?

Financial collapse is a type of pension plan failure which causes the greatest degree of worry among company executives. However, there are other ways in which a plan may fail to fulfill the purpose for which it was originally intended.

Employees will judge the success or failure of a plan by the adequacy and certainty of benefits actually paid after retirement. The adjustment of plan provisions to the fluctuations in living costs is a problem which today is being faced by many companies that established plans prior to wartime inflation and the subsequent depreciation in value of the dollar. Some employers have found it necessary to supplement benefits under their existing retirement programs in order to maintain employee interest in their current pension plan.

Many plans established on an inadequately funded basis have failed when the company has been faced with bad business conditions over a period of years. Pension costs can be covered satisfactorily only by regular payments, actuarially determined over the years and applying to both good times and bad. Many unfunded or pay-as-you-go arrangements thus failed during the depression because no advance provision was made to accumulate the necessary funds to discharge the pension liability as it developed.

WHAT ARE AN EMPLOYER'S PAST SERVICE PROBLEMS?

There are two types of pension liability which must be considered in pension financing. One involves an employee's years of service before the plan was established (past service liability)—the other involves current and future service which will accrue. Therefore, in approaching the financing of a plan, a decision will have to be made on whether or not a past service commitment will be made and, if so, what provisions will be made to defray that cost. It will also be necessary to select the most suitable and systematic method of accumulating employer contributions (and employees', if contributory) for current and future service so that money will be available for benefit payments.

Because the assumption of past service liability is apt to be the most expensive immediate aspect of pension costs, some companies have ignored past service altogether in setting up their program and pay only on current and future service. Some pension agreements provide for amortizing the cost of past service over a considerable number of years —for example, ten or more. Ford Motor Company will meet actuarial requirements for future service liability but has adopted a level method of funding past service over a period of not more than 30 years. U. S. Steel has indicated that it will pay only the interest on its past service liability, estimated by the company to have been one billion on the day the plan was established. Still others limit the amount of past service liability by paying only for years of service beyond a specified date or age. Almost without exception, employers bear the entire cost of whatever pension is based on past service credits.

If it is desired to recognize past service, and amortize its cost over a number of years, the employer should give consideration to possible bad years in which he may not be able to meet these payments.

The determination of the period over which funding for past service takes place should be determined in the light of applicable Bureau of Internal Revenue provisions, in order to make sure that the funds then set aside are considered tax exempt.

SHOULD RETIREMENT BE COMPULSORY?

If option of delaying retirement is provided under a pension plan, the employer is apt to lose one of a plan's principal benefits—that of providing an orderly and non-discriminatory method of retiring aged and presumably less efficient personnel. However, in cases where deferred retirement is provided under negotiated plans, the employer may attempt to secure the right to retire those employees who have reached a specified age but who fail to live up to production standards.

In some cases, deferred retirement may lower pension costs to the employer since he may have a longer period in which to pay for the benefits. It may be advisable to permit employees to continue to work so that additional credits can be built up, especially if the plan does not recognize past service in determining eligibility for benefits. However, this advantage should be carefully weighed against increased costs of keeping employees of declining efficiency on the job and also against the possible effect on the morale of the whole organization of not opening up promotion channels for well-trained younger employees.

Early retirement at lower benefits is provided in many plans. However, as in the case of deferred retirement, the employer should prepare adequate cost estimates in advance so that the effect of such arrangements on plan cost can be predicted. It is necessary, also, to seek for uniform administration and to provide in advance for contingencies which may increase cost.

As noted elsewhere, unions seek non-compulsory retirement. Many employers suggest that the company retain full control over both deferred and early retirement so that efficiency and administration are not adversely affected.

It has been suggested that both from the viewpoint of the employee himself and from the viewpoint of society, industry may have to change its views concerning the wisdom of retiring employees at age 65. The social gain which may be achieved by continuation in productive work of those physically and mentally capable of adding to the gross national product may hold increasing significance in the future when the costs of programs established today begin to reach their peak.

Another factor which must be considered from the viewpoint of the employee himself is the factor that a compulsory retirement age established well in advance permits definite planning for retirement by the employee, permits the employee to retire without apologies and without making excuses or explanations and avoiding any implications of physical and mental deterioration, and also provides a period during which the employee may enjoy his leisure or develop pursuits requiring a slower pace than the demanding requirements of an industrial job.

SHOULD A PLAN BE FULLY FUNDED, PARTIALLY FUNDED, OR PAY-AS-YOU-GO?

Once a pension plan has been established, it becomes necessary to plan for the eventual payment of benefits to beneficiaries. Although the type of plan established usually determines how the benefits will be financed, there is considerable question over the soundest and most appropriate way to accumulate funds for benefit payments.

A pay-as-you-go plan is one in which benefits are paid as they become due out of current company earnings—no advance funding of either past or future service credits is undertaken. A partially funded plan is one in which a fund is accumulated to cover future service liability only, no provision being made for past service in advance. A fully funded plan is one in which all liabilities are calculated in advance, the funds to discharge these liabilities are accumulated as they are incurred, and are invested securely for purposes of guaranteeing payment of benefits.

In an attempt to get their foot in the pension door, many unions have negotiated pension arrangements which have allowed the employer wide latitude in the method of financing. For example, under the Bethlehem type of plan—sometimes called "terminal funding" or "emerging cost"—the company is not required to fully fund each employee's pension until the date pension payments begin, at which time the company purchases an annuity which guarantees that particular individual a pension for the balance of his life. U. S. Steel's approach was to fund future service credits as they become due but to pay only the interest on its past service liability. The interest alone is estimated to be approximately 25 million dollars per year. Some companies will find the cost of such arrangements just as unbearable as full funding at the beginning of the plan or systematic amortization over the years. For these reasons, the advantages and disadvantages of each are briefly summarized below.

Many employers are attracted to pay-as-you-go plans because they are cheaper in the beginning. While earnings are good, pension liabilities can be met as they arise. However, if business becomes slack, the question of ability to continue to meet pension promises must be faced. In addition, under any pension plan, costs are bound to increase over the years, roughly until the number of pensioners dying balances new additions to the rolls, and the employer may find that concurrent earnings will not support the benefit payments he must make in the future. Funding a plan is regarded as more secure both from the employer's viewpoint as well as the employee's, and has the additional advantage of spreading company contributions over a longer period of time. The employee has the assurance that the pension promise will be kept and the employer is more likely to avoid catastrophic costs when a large number of pensions become payable—and business may be bad.

Another advantage cited by employers for funded plans is that they afford security for employee contributions. A further advantage is found in the fact that interest earning on the accumulated funds serves to reduce costs over a period of years. It is worthy of note that Treasury Department regulations extend the greatest tax relief benefits to funded plans. Under pay-as-you-go plans, only the employer's actual pension payments on an annual basis are allowed to be deducted from taxes. Thus, interest earnings and tax advantages serve to make a funded plan cheaper than an unfunded plan on a long term basis.

The proponents of fully funded plans cite the failure of many pay-as-you-go plans during the depression when company earnings were not sufficient to meet the pension promises which these plans had made. A more recent example—the depletion of the UMW Health and Welfare Fund—indicates that benefit levels must be related realistically to income even where a substantial income is available for payment of benefits.

Whether or not the employer should fully fund, partially fund, or adopt a pay-as-you-go practice will depend partly on the type of plan he selects, the probable stability of the company, and the nature of the commitment he is able to make. Such decisions should be made in most cases only after full exploration with competent professional pension experts.

WHAT PRINCIPAL FINANCING ARRANGEMENTS ARE AVAILABLE?

The type of plan usually determines the financing vehicle and is also influenced by regulations of the state insurance department, the Internal Revenue Code, arrangements offered by the carriers available, etc. The various types listed below are flexible enough so that various combinations of desirable factors of each may be made. The majority of pension plans is financed under one of the following arrangements.

The Group Annuity Plan

This arrangement is offered by insurance companies usually under the terms of a master contract negotiated between the carrier and the employer. One form of this plan provides for the purchase of a unit of single-premium, deferred annuity for each year each employee is covered by the plan. This produces a deferred annuity beginning at a prescribed retirement age, the payment of which is guaranteed by the insurance company. The individual pension is purchased by the sum total of annual purchases. This plan is readily adaptable to the "money purchase" formula. It should be noted that insured plans usually require full funding of the pension before payments begin.

1. This plan is flexible in that contributions can be automatically adjusted for changes in employee income. Further advantages are a high degree of safety, employer relief from responsibility for the funds, guarantee of benefits and employee confidence that the pensions promised will be paid.
2. Disadvantages are that rates and terms with respect to future annuity purchases must be periodically renegotiated with the carrier. The employee cannot

take over the policy and continue it if he leaves the company, although if the plan has vesting provisions, he can under the conditions set up by the plan, take with him the pension credits accumulated to date and add them to pension credits earned with later employers.

Some insured plans employ the "deposit administration" procedure. Contributions based on actuarial estimates of probable pension payments are paid into a fund administered by an insurance company, interest earnings at a guaranteed rate for a stipulated period are added to the fund, and an annuity is purchased by assignment of a part of the fund on each employee's retirement date. In this plan, the insurance company does not undertake to guarantee the ultimate payment of specific benefits.

Individual Policy Plan

(Sometimes called the insured pension trust plan)

This involves individual contracts issued on each employee's life. A trust is created and the trustee retains possession of the policies and holds them until the employee dies, retires or terminates employment. The unit of annuity purchased is based on the total benefit to be provided so that the company contracts to buy a pension for the employee by paying an annual level premium for a certain stated period of years. On this basis, the pension is fully funded on the date benefit payments begin. The initial cost is based on the employee's salary when he enters the plan, and as salaries are changed, it is necessary to adjust the purchase of contracts to the rates then prevailing. This type is readily adaptable to small and medium-sized companies.

1. Advantages are guarantee of rates and terms for the life of each contract, and employee assumption of the contract under certain circumstances. Premium rates are higher for the same benefits than under the group annuity plan.
2. Disadvantages are relative inflexibility in adjusting contributions to changes in income. Premium payments must be continued whether or not employees are at work. There are heavy cash surrender charges during the early years of the policy.

The Trust Fund Plan

(Sometimes called self-administered or un-insured)

Funds are deposited in a trust under a trust agreement and are limited usually to certain relatively secure investments, though the company may broaden the type of eligible security somewhat if it wishes. Usually the employer hires an actuary to select the appropriate mortality tables, develop the various assumptions and specify the rate of interest which should accrue from investment of trust funds. Although a trustee is selected who is charged with investment and administrative duties, the employer is responsible for providing the pension promised to employees. In some agreements, however, the employer is specifically excused from making up any pension deficits due to loss of funds by the trustees. Ford Motor is a case in point. Under this type of plan, it is possible to avoid full funding of the pension on the day payment of it begins.

1. Advantages are flexible contributions which can be geared to business conditions.
2. Disadvantages are that benefits cannot be guaranteed and the employer assumes his own risk. Legal restrictions on the fields in which funds may be invested may cause the fund to earn inadequate interest income.
3. Unions generally favor trusteed plans because representation on the board of trustees can be demanded. Insured plans are regarded as less adaptable to joint administration since most administrative duties are processed by the carrier as part of its pension service.

WHAT IS THE SOCIAL SECURITY PICTURE AND HOW DOES IT AFFECT ANY PLAN I MAY HAVE OR MAY BE CONSIDERING?

Many private pension plans have been established on the basis of the primary benefit available under the federal Old Age and Survivor's Insurance system. Many of the fixed benefit plans recently developed as the result of collective bargaining also provide for the deduction from employer cost of the entire primary benefit or some fraction of it.

Many employers have also established supplementary plans for those earning in excess of the $3000 wage and tax base upon which Social Security benefits and taxes were based prior to 1950 amendments to the law. In other cases, private plans have excluded from coverage those earning less than $3000 on the theory that the federal pension provided for that category of employees.

The 1950 amendments to the Social Security Act contain several provisions which may require adjustments in private pension plans. The most important are:

1. *Increase in the wage and tax base from $3000 to $3600*

   Private plans correlated with the $3000 wage base may have to be reexamined, especially those plans which provide varying scales of benefits and contributions on the different subdivisions of an individual's earnings. It should also be noted that employer tax payments on behalf of employees who earn in excess of $3000 per year will have to be increased, thus affecting the amount of money available for other employee benefits. In addition, the employer is faced with a conflict between the higher federal tax and wage base and the $3000 figure upon which state unemployment compensation taxes are based.

2. *Increase in the benefit formula*

   The new benefit formula is 50% of the first $100 of average monthly wages, plus 15% of the next $200. Thus, higher benefits will result, both from the higher formula and from the fact that the gross amount of average wages to which the formula can apply is $50 per month greater. Benefits to those now retired will be increased about 77½% on the average and benefits payable to those retiring in the future will be approximately doubled. There is no increment for years of service. The minimum primary benefit has been increased to $20, the maximum to $80 and maximum family benefits to $150 per month.

3. *Higher tax schedule*

   Under the amended law, the tax rate for both employer and employee will remain at 1½% each until January 1, 1954. Then the rate will rise to 2% each, to 2½% in 1960, to 3% in 1965 and to 3¼% each in 1970. This is an item of cost which the employer must consider in deciding how much money is available for private pensions; it also must be examined from the viewpoint of the employee participating in a contributory plan. Cost considerations also take a new light in view of the increase in the wage and tax base to $3600.

VESTING—WHAT DOES IT MEAN AND WHAT DOES IT COST?

Vesting means the granting to an employee of a permanent, irrevocable right prior to retirement to some part or all of the money contributed by the company toward his eventual pension. Practically every contributory retirement plan provides for return of the employee's contributions usually with some interest and sometimes subject to a surrender charge, under stated conditions.

In the past, vesting arrangements have been included in pension plans both as an added inducement to younger employees, especially in contributory plans and to demonstrate the sincerity of the company's motives. Lately, vesting has been sought on the ground that employees should not lose accumulated retirement credits if they desire to change employment.

Vesting is usually in some form of guaranteed benefit and may apply in three circumstances: at termination of employment; on withdrawal from a voluntary plan; or death, in which case settlement is made with the designated beneficiary. Some pension specialists point out that cash vesting of the company's contributions should be avoided because of substantial increases in costs, because it might induce additional turnover and because it would tend to defeat old age security objectives. Cash vesting also may introduce additional complications in terms of the overtime provisions of the Wage-Hour Law.[1]

Occasionally, vesting is permitted after completion of a certain minimum number of years' participation in the plan. However, practically all present vesting arrangements are characteristics of plans established outside of collective bargaining; no principal negotiated pension agreement contains vesting provisions except those established on a contributory basis.

Since vesting provisions are cost-increasing measures of considerable magnitude where turnover is high, employers should investigate such proposals carefully. To some extent, vesting runs counter to one objective often sought by employers in pensions—to reduce turnover and help stabilize the work force. Additional caution should be exercised on the circumstances under which withdrawal from and reentry into the plan will be allowed.

WHO SHOULD ADMINISTER THE PLAN?

Pension plans established prior to the requirement to bargain collectively very seldom provide for other than complete company control of eligibility provisions, financing, and other elements of the plan. However, many unions have sought joint or tripartite administration and are expected to continue to press for this objective.[2] However, some of the earliest of the negotiated pension plans, such as those in coal mining and the needle trades, leave the entire administration to the union.

In general, administrative problems are made much more difficult when management does not exercise full control because the needed degree of flexibility to meet changing conditions does not exist when decisions are shared with employees. Many employers point out that when the company loses the power to appoint the trustee of the fund or otherwise shares management of the funds, there is little protection against use of those funds for other than benefit purposes.

Sharing the determination of eligibility under the plan is another way in which over-generous administration may result, thus ultimately increasing the cost of the plan. Where joint administration of eligibility requirements must be granted, employers suggest that the powers of the administration committee be defined by the pension agreement so that unforeseen liberalization does not occur. Where trustees are established to handle pension funds it may be advisable to deny them authorization to modify benefits agreed to during negotiations or to alter eligibility prerequisites. The authority to do so would be the authority to determine over the protests of the employer (as for instance where increase of benefits is approved by union and "public" representatives in a tripartite board of trustees) for all practical purposes what the employer's future costs for benefits will be.

Another consideration is the extent to which pension complaints will be subject to the regular grievance procedure of the collective agreement. It would seem prudent to exclude pension questions from the regular grievance procedure both because of the complex nature of pension questions and because the regular grievance committeemen and company representatives are not equipped to deal with such problems. Some authorities recommend creation of a special complaint procedure for pension questions which would be handled outside the regular grievance procedure. However, there are some employers who have agreed to process through the regular grievance procedure basic contract disputes over non-medical factual questions, such as an employee's age, period of employment, rate of earnings for pension calculations, etc., leaving the strictly medical questions to a specific settlement procedure.

Some authorities suggest that the pension plan be established as a document separate and distinct from the basic collective agreement, where one exists, in order to assure the continuity of the plan beyond the lifetime of the agreement and to help provide the stable conditions necessary for proper operation and financing of the plan. Other problems in connection with pension negotiation which require consideration are: the possible effect on the plan of layoffs, strikes or other cessation of production; bargaining over broad principles, policy and cost versus bargaining over all details. Some employers suggest the limitation of the pension agreement to such basic factors as benefits, eligibility requirements, retirement age, rights of beneficiaries, effect of prior service, effective date of the plan and the term of the agreement, leaving details for a special pension committee.

Companies with arbitration clauses which apply to wages may wish to scrutinize these provisions carefully in order to guard against the possibility of having to submit pension grievances to arbitration. In the event that it is impossible to eliminate arbitration, many authorities suggest

[1] See page 19.
[2] See discussion of Joint Administration, page 12.

strict limitation in the nature of complaints which may be carried to the arbitrator.

WHO IS INVOLVED IN PENSION PLANNING BESIDES A COMPANY AND ITS EMPLOYEES?

Any pension plan is a very complex undertaking. It involves numerous legal, tax, labor relations, actuarial, financial, accounting and insurance problems. In addition to the negotiations which may be necessary with a labor union, an employer is also faced with the possibility of concurrent negotiations with the Treasury Department officials, state insurance department representatives, and insurance and/or bank trustees. The employer involved in negotiations with respect to bargaining unit employees must also consider what steps, if any, he is prepared to take with respect to non-bargaining unit employees.

Although the corporate by-laws of many companies do not provide for submission of such issues to stockholders, it is a general practice to submit pension proposals to the stockholders for approval in advance of establishing the plan. Since any plan will unavoidably affect the earnings rate of the company and its very future as a continuing enterprise, most employers feel that their stockholders should not only be kept fully informed in these matters, but should have a voice in the final decision.

There are several federal and state laws which apply to pension and profit-sharing funds and the prudent employer will investigate the implication of these statutes thoroughly in advance of making any pension commitments. As previously noted,[1] the Taft-Hartley Act makes collective bargaining on pensions mandatory, and it also regulates the type and control of a pension plan which involves company payments to employee representatives. Pension plans are also regulated by a variety of state and federal laws. The laws of some states restrict the field for permissible investments of trusteed funds and regulate the duties of directors and stockholders. The insurance departments of several states also exert regulatory authority in the pension field. Employers should not overlook the benefits to be derived from consultation with the administrators of the several state and federal agencies involved, before finalizing a pension plan.

Applicable federal laws include not only the Taft-Hartley Act but the Investment Company Act of 1940, various sections of the Internal Revenue Code, the Fair Labor Standards Act of 1938 as amended, and the regulations of the Securities and Exchange Commission and the Treasury Department. Complications in terms of computing the employee's regular rate of pay for overtime purposes under the Wage-Hour Act may be introduced if the plan provides cash vesting, if the employee may receive any of the employer's contribution in lieu of benefits, or if he has the option to assign the benefits which he may receive under the plan. Reference to Wage-Hour Administrator's Interpretive Bulletin, issued January 1950, Part 778, may be advisable.

In 1942, the Internal Revenue Code was amended to make sure that employers would not be permitted to deduct as tax exemptions, contributions to pension trust funds if the pension plan contained a variety of discriminatory provisions, was adopted as a temporary expedient, was not actuarially sound, or did not provide true retirement benefits. However, a plan that the employer contemplates installing may be submitted to the Treasury Department for qualification in advance. Employers will find it useful to consult with local Collectors of Internal Revenue before setting up their pension plan.

The advice of counsel is strongly urged under these circumstances.

[1] See page 5.

IF I WANT TO EXPLORE THIS WHOLE PROBLEM, HOW DO I GO ABOUT IT?

Owing to the complexity of most of the issues, problems and questions in pension planning, an employer should secure competent professional advice. Initial exploratory discussions are often possible at no charge through the services offered by banks, insurance companies and consultant actuaries. In addition, some state, local and trade associations are equipped to discuss the pattern of area, industry and community pension settlements, and, in many cases, are able to suggest qualified consultant actuaries, insurance companies, or bank trustee services.

Banks and insurance companies usually render a rather complete service in the expectation of securing the pension business the company has to offer. Consultant actuaries, however, operate on a fee basis which is usually related to the amount of work involved. In addition, there are many pension consultants, some of whom can be extremely helpful. In view of the large sums of money involved in pensions, the employer should take great care in selecting sound consultants to assist him in solving so vast and complex a problem.

MUST I SELL THE PLAN TO MY EMPLOYEES?

The alert management will have communicated fully with its employees prior to the establishment of a pension plan, whether negotiated or not. The necessity for an adequate pre-selling job is indicated by the great amount of misinformation and lack of facts among employees. This is often heightened by lack of knowledge of the company's circumstances and abilities as applied to a pension plan and is influenced by the great publicity given to pension programs won by strong unions in the various key industries.

Merely because a plan is established by a company does not guarantee that employees will understand its benefits or will regard it as a desirable element of the company's employee relations program. Complete details of an announced program should be explained in plain and simple language so that each employee is fully informed as to the objectives, advantages and capacities of the program. Where a plan is contributory, the company will have to spend considerable energy in merchandising this program, especially where the work force contains a large number of younger individuals.

Many companies employ individual interviews with employees when a plan is established. Such meetings are aided by movies, film strips, charts, graphs, and other aids to communicating the facts of the plan, the benefit examples, the relationship of Social Security, eligibility requirements and the like. Considerable publicity is accorded through the house organ, letters to employees, and pension booklets written in simple language with plenty of examples in order to get the pension story across.

Even though the plan may have been negotiated with a union, the company will find it advantageous to accept full responsibility for informing its employees. In view of the fact that the company pays the major share of the cost of pensions, it should expect to get the employee relations credit that will flow therefrom.

In smaller companies an elaborate communication program may not be necessary but some kind of continuing information program is essential for best results.

During the years of employees' participation in the plan, there is considerable necessity for re-selling it because the details become vague as employees are unaware of the continuing cost to the company and because such benefits sometimes are taken for granted. Many companies have begun more intensive communications as the year of retirement approaches. If the plan contains options which the employee may exercise, this affords a good opportunity to relate the benefits of the plan with social security, to answer employee questions regarding details of the plan and to prepare employees for retirement.

APPENDIX A

ANNOTATED BIBLIOGRAPHY ON PENSION REFERENCES AND SOURCE MATERIAL

COLLECTIVELY BARGAINED PENSION PLANS IN NEW YORK STATE, State of New York, Department of Labor, Publication No. B-40, June 1950. This study analyzes 102 collectively bargained pension plans and presents a discussion of major provisions of collectively bargained plans in New York State.

GOVERNMENTAL AND VOLUNTARY PROGRAMS FOR SECURITY, J. W. Myers, in Harvard Business Review, March 1950. This article is an authoritative study of the relationship of the federal pension program to private pension plans. It includes a recommendation as to a suggested pattern for voluntary plans and several detailed examples of suggested method and cost of accumulating the pension in various amounts.

HANDBOOK FOR PENSION PLANNING, published by the Bureau of National Affairs, Inc., Washington, D. C., 1949. Several outstanding pension consultants and attorneys have contributed to this work. It discusses technical features in pension planning, tax problems, financing, costs, bargaining and communications. It also includes the texts of several pension plans and a discussion of collective bargaining provisions relating to pensions.

HANDBOOK ON PENSIONS, Studies in Personnel Policy No. 103, National Industrial Conference Board, New York, 1950. This document summarizes and brings up to date a great many recent Conference Board reports on pension issues and problems. It discusses types of plans, cost, financing, bargaining, and administration and presents articles by leading pension experts who discuss various critical issues.

HOW TO PLAN PENSIONS, by Carroll W. Boyce. Published by McGraw-Hill Book Company, New York, 1950. This is an excellent reference text for employers who wish to discuss most of the key questions and problems in pension planning. Capable use is made of case examples, tables and other statistical material. It discusses eligibility requirements, problems in retirement age, methods of financing and administration, correlation of social security with private plans, pension communications, and collective bargaining problems. It also compares leading negotiated settlements and contains the texts of some of the outstanding collectively bargained plans of recent months.

PENSIONS AND GROUP INSURANCE, by Edwin C. McDonald, One Madison Ave., New York 10, March 1950. This pamphlet presents handy estimates of the costs of various pension plans and also discusses several of the basic issues and problems in pension planning.

STUDYING YOUR POLICY ON PENSIONS, published by the Research Institute of America, New York, 1950. This 48-page analysis of pension planning is a condensed version of the subject matter presented in the Research Institute's 3-volume Labor Coordinator. It discusses problems in bargaining, social security, employee contributions, financing, costs and taxes.

SUCCESSFUL PENSION PLANNING, published by Prentice-Hall, Inc., New York, 1949. This 77-page pamphlet is available gratis from Central Hanover Bank and Trust Co., New York. It discusses ten basic questions which companies have to face in considering whether or not a retirement program is feasible.

WELFARE PLANS AND COLLECTIVE BARGAINING, issued by the Chamber of Commerce of the United States, Washington, D. C., 1950. This document discusses the over-all aspects of collective bargaining on pensions and other union welfare demands.

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