

# Pensions (1951)

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## RETIREMENT -- A LABOR VIEWPOINT

In the past three years, organized labor, particularly in the mass production industries, has given retirement security a top priority in collective bargaining. Even though the impact on living costs of the Korean War and defense program has recently necessitated a shift in emphasis to wage adjustments and other measures to protect workers' immediate living standards, labor's concern with the retirement problem is in no sense transient. It will continue because it is a recognized part of labor's larger concern with the security, dignity and well being of the individual workers comprising unions and of workers generally.

Labor sees retirement security not only as an income maintenance problem, although income maintenance understandably has received and will continue to receive major emphasis. Retirement security is also related to such fundamental concerns of workers in a democracy as the right to work and the right to the greatest possible degree of self-determination.

Because of these inherently broad implications, specific programs for realizing retirement security -- governmental and non-governmental -- are not a "fringe" concern of labor, despite the frequent use of that term to refer to pension, health insurance and other non-wage demands in collective bargaining. Democratic unions, responsive to the needs of their members and accepting their responsible role in modern industrial society, are placing and will continue to place in the future a very high priority on such programs.

### Meaning of Retirement to the Individual Worker

For the typical industrial wage earner, retirement is apt to be at best a traumatic experience. Once the decision to retire is made by him, or made for him by circumstances or authority beyond his control, it means many things.

A lifetime pattern of work habits and work values is broken or radically altered. He has looked to the job as a central point of orientation in living, controlling where he lives and how he lives. When temporarily off the job -- and such periods are numerous in the life of the average industrial worker -- his focus has been on when he will be recalled to the job or the finding of a new job and the urgent question of bridging the gap in his own and his family's income during the interim.

Retirement -- withdrawal from the labor force -- means, certainly in the vast majority of cases, that the worker is no longer confronted with an "interim". He must cope, for an indefinite period, with a drastic downward adjustment of income. How drastic will depend on a combination of circumstances, most of them beyond the individual worker's control: whether, for example, retirement comes after the magic age of 65; whether his industry has a pension plan; the local standards of public relief, if this must be a recourse; not to mention socio-economic factors affecting real income from whatever source derived.

Often, because of the frequency of failing health or incapacity as a factor in industrial retirements, the retirement period will bring substantial medical costs as an offset -- perhaps an overwhelming offset -- to such reductions in living expense as he may be able to effect by careful planning. Typically, he will have few if any resources to pay for medical care. Group health insurance, if previously available, normally

terminates on retirement. Individual health insurance rates in the "sub-standard risk" category applied to the retired worker are likely to be beyond his means. Such savings as he may have accumulated are needed for other purposes and all too frequently are wiped out by a single acute or prolonged illness.

Added to these economic problems are the emotional problems of family adjustments and changed personal and community relationships.

It is to be expected, therefore, that the question of when retirement will come and what it will bring by way of security or insecurity is a matter of some concern to nearly all individual workers and a matter of pressing concern and often acute anxiety to those workers for whom the reality of retirement looms close, whether because of age, poor health or incapacitating disability.

#### Implications of Retirement Security at the Collective Bargaining Table

The industrial pension plans recently established through collective bargaining represent a partial answer to some of the most urgent retirement security needs of the workers covered.

Before examining some specific aspects of these plans and their possible lines of development, it may be useful to consider briefly certain implications of the advent of retirement security at the collective bargaining table.

When the Federal Social Security Act was first passed in 1935, it was widely hoped in America that this legislation marked the beginning of a comprehensive national social insurance system which would develop and keep pace with the needs of people. Organized labor strongly supported the Act and shared the hope.

After more than a decade of operation it became apparent that this hope was ill founded or perhaps, more accurately, premature. Major groups in the working population and major risks remained uncovered. Primary insurance benefits for workers past age 65 averaged nationally about \$26 per month. Inadequate to start with, they had become more inadequate as living costs pushed upward. Public assistance, conceived in 1935 as a stop-gap until insurance provisions of the Act could become operative, had become the basic program to which a disturbing proportion of older workers was forced to turn for barest subsistence. No social insurance protection -- only general relief supplied by States and local communities -- existed for workers deprived of income by temporary or permanent disability.

Confronted with this situation, it was to be expected that workers, through their unions, would create pressures for action. Before and during the Second World War a growing number of employers had adopted various types of pension plans, most of them of limited coverage. Such plans reflected recognition of need; but, with isolated exceptions, they did not extend to workers in the mass production industries. In the immediate post-war period, attention of labor focussed largely on wage adjustments necessary to balance living costs. By 1948-49, however, concern with the inadequacy of existing social security provisions had reached a point where, for the first time in history, retirement and health security took precedence over wages on the agenda of large segments of American labor, particularly among the major industrial unions.

Toward the end of 1948 the National Labor Relations Board ruled in the General Motors case that unilateral employer action to establish employee benefit plans was an unfair labor practice. Subsequently, the

Supreme Court, in the Inland Steel and W. W. Cross cases, held that employers must bargain collectively with unions on pensions and group insurance. Shortly afterward the United Automobile Workers, CIO, and the United Steel Workers, CIO, announced their intention to negotiate for retirement income and health plans throughout the industries in which they had jurisdiction.

Fears were expressed by some forward-looking groups at that time that this turn to direct action through collective bargaining might mean a lessening of labor and general public support for improvement and extension of the Federal social security system. Developments since have proved such fears unfounded.

When the President appointed a Steel Industry Fact-Finding Board in the summer of 1949 in an effort to avert threatened strikes over pensions and health security, the Board issued a report which was a benchmark in the development of public policy on this subject and which upheld principles already enunciated by labor. The philosophy underlying this report, which won general and immediate public acceptance, is well expressed by the following excerpt: (quote)

"... We think that all industry, in the absence of adequate government programs (emphasis added), owes an obligation to the workers to provide for the maintenance of the human body in the form of medical and similar benefits and for full depreciation in the form of old age retirement -- in the same way as it does now for plant and machinery. This obligation is one which should be fulfilled by enlightened business management, not when everything else has been taken care of but as one of the fixed costs of doing business -- one of the first charges before profits."

The emphasis placed by labor on this obligation of industry did not in any sense mean lessened concern with governmental provisions.

Labor's drive for retirement security and for health programs, as repeatedly stressed by responsible leaders, is a two-way drive: a drive on the legislative front and a drive on the collective bargaining front.

This approach is predicated on the belief that the primary vehicle for protection against the economic hazards of old age and incapacity must be an integrated, universal public insurance program, assuring minimum levels of protection, consistent with reasonable standards of health, decency and dignity. It recognizes that, in the long run, security for particular groups of workers is inseparable from the problem of security for all workers. It further recognizes that supplementary industrial programs to fill gaps and meet needs of particular industries are essential now and will probably continue to have a significant, though perhaps altered role, as a more adequate basic public program is developed.

Viewed in this light, one important implication of the current collective bargaining programs is to be found in the incentives they create for legislative action. Most observers agree that the pension programs negotiated in the mass production industries during 1949-50 were a substantial factor in the wide public support which led to passage of the 1950 amendments to the Social Security Act. Much of this support came from business and industrial groups. Labor is convinced that the results so far achieved on the two fronts are more than coincidental and foreshadow an increasingly realistic facing of the retirement security problem by all groups concerned.

## Content of Collective Bargaining Programs

Against this background, what of the current collective bargaining programs themselves? What is their content and possible long-range significance?

Generalization is difficult. The outcome of negotiations in particular plants and industries has necessarily reflected differences in approach by employers and unions, differences in stress on particular features, and differences in economic conditions. Nevertheless, certain generally valid descriptive statements can be made.

First, the industrial pension plans established through collective bargaining have as their primary function the immediate supplementation of Federal social insurance. They are not designed to replace it and they have been established within a labor-management contract framework which will permit flexibility to meet changing needs of workers as changes occur in the social economic environment and in the Federal system. Within the limits of available money, the plans generally provide (1) age retirement benefits integrated with, or geared to take into account, primary social security allowances so as to provide appreciably more adequate retirement income for the worker past 65 than he could receive from social security alone; and (2) disability retirement benefits for permanent and total disability -- a risk still entirely uncovered by social security legislation. Benefits are generally related to length of service with the employer, though in some instances both earnings and service are determinants.

Second, the plans represent a deliberate allocation for retirement security purposes of part of an economic increment to employees which might otherwise have been allocated to the pay envelope or for other purposes in accordance with normal collective bargaining process. Retirement

security is recognized as a form of deferred compensation. It is in no sense a gratuity from the employer. Principles upheld by the courts, affirmed by the Steel Industry Fact-Finding Board, and implicit in labor-management negotiations on the subject have made this clear. In making this allocation, a further deliberate choice has been made -- namely, the allocation of the bulk of the limited funds currently available to assure maximum retirement security to older workers, at the cost of generally foregoing for the present such desirable pension plan features as vesting of benefits, transfer rights and other provisions directed to the special needs of younger workers.

Third, the nature of the current collective bargaining plans is such that they are having and will continue to have a profound effect on what may be broadly called retirement policy. Their negotiation and implementation are focussing, as never before, public, management and labor attention on questions related to utilization of older and handicapped workers, timing of retirements, pre- and post-retirement planning, and eligibility conditions. To a limited extent, the plans reflect some of the grappling with these policy questions which has already taken place. This focus on basic public policy considerations, which the plans necessitate, is a healthy one. It offers much promise for future progress.

The above three generalizations can perhaps best be amplified by examination of the programs and experience developed in a particular segment of industry. For the present purpose, the collective bargaining programs developed by the UAW-CIO with corporations in the automotive and related industries will be used.

As a concomitant of the principle of joint responsibility and mutuality of interest inherent in the collective bargaining process and of

the further principle that money allocated for retirement security is deferred compensation -- something set aside for the future benefit of workers -- the UAW has established in all its collective bargaining pension plan agreements the principle of joint union-management administration.

To carry out this principle, the pension contract provides for a board of administration, consisting of equal numbers of company and union representatives, with an impartial chairman, selected by the board members, empowered to vote in case of deadlocks. Typically, the board is responsible for development of administrative procedures, determination of rights of employees under the plan, collection of statistics, review of actuarial and financial reports, dissemination of information regarding the plan and its operation, and authorization of all expenditures from the pension trust fund for benefits and administration.

This concept of joint administration is still in a pioneering stage. Already, however, its validity is being demonstrated as a practical application of industrial democracy and as a means whereby management and labor can evaluate, on a day to day basis, the strengths and weaknesses of the programs agreed to at the bargaining table and the relation of these programs to general questions of retirement policy.

A second feature of all UAW pension plans is a provision for the funding of benefits on an actuarially sound basis by contractually stipulated employer payments into a trust fund. Like joint administration, this also has its long-range implications for sound planning, some of which are beyond the scope of this paper. Pertinent here is the fact that a trust fund gives both essential financial stability to the program and possibilities for future flexibility in policy and benefits to meet changing conditions.

One of the major policy questions with which labor-management bargaining committees and joint boards have been and will continue to be concerned is the timing of retirement and the relation of health, work-capacity considerations and worker self-determination to such timing.

To date we have not come up with satisfactory answers from either the union or management viewpoint. What we have is an amalgam, reflecting thinking on both sides of the bargaining table, restricted by the necessary limitations -- financial and structural -- of the programs developed.

There has been general and mutual recognition in negotiations that superannuation of workers actually occurs at varying ages, depending on both individual and occupational factors. However, the fact that social security benefits start only after age 65 and the fact that the plans take these benefits heavily into account have constituted a difficult hurdle in the way of implementing this recognition, as has the stereotype of age 65 itself.

In the UAW programs, "at or after age 65" has been established as the standard for so-called "normal retirement" with full benefits. Workers having a requisite minimum period of service may qualify for "early retirement", however, at age 60 -- usually with the choice of an immediate, actuarially reduced pension or deferred full pension commencing at 65. Because of the general inadequacy of early retirement benefits, if drawn immediately as the main or only income source of a worker actually ceasing gainful employment, the major present significance of the early retirement provision lies in the principle established and its potentialities for meeting varied needs.

"Early retirement" between 60 and 65 is provided for in most programs on the same basis as "normal retirement" -- at the option of the

worker without requirement of employer consent. In a number of plans, however, bargaining on this point has led to a compromise under which a substantially larger early retirement benefit is payable if the retirement takes place under "mutually satisfactory conditions" or at the employer's option than if it is based solely on the worker's decision.

All of the UAW programs foresee the possibility of, and contain a provision covering, the voluntary return of a retired worker to active employment with the same employer. Although the pension in such cases is suspended during reemployment, the worker can accumulate additional pension credits during this period. In case the retired worker obtains part-time or full-time employment with other employers, his pension is not affected. Opportunities for such employment will naturally be influenced by general economic and labor market conditions, employer policies, the worker's occupation, the possibilities of his shifting, with or without retraining, to other work, and his health and physical capacity. It is a safe prediction that both employers and unions will be increasingly concerned in pension planning with the implications of such opportunities or the lack of them.

With respect to imposition of compulsory retirement at any chronological age, the position of the UAW in common with that of most unions has been one of opposition. It would be a mistake, however, to assume that a clear-cut line can be drawn between management and labor attitudes on this question. Some employers have readily conceded the unsoundness of compulsory retirements for age alone and have been willing to accept the principle of worker self-determination, subject only to normal collective bargaining contract procedures covering layoffs or separations from employment at any age. A more typical employer position

is insistence on some stipulated cut-off age, with provision for management discretion in making exceptions for workers able and willing to work beyond it. Already a few employers who argued strongly for compulsory retirement in negotiations are realizing that flexibility, at least with respect to able, experienced older workers in a tight labor market, has definite advantages.

On the union side, the problem is complicated by labor's historic distrust of the individualized approach to any question involving job tenure so long as the decision is solely a management prerogative, open to discrimination, favoritism and abuses. Labor's long and successful battle to establish the principle of seniority as the foundation for rules governing lay-offs, rehires, right to bid on jobs, and vacation entitlement was largely motivated by this distrust and by years of unsatisfactory experience with other alternatives to the seniority approach.

A solution which labor feels is sound and which has been established in a number of plans is to give to the joint pension board of administration, on an individual case basis, the authority to make exceptions to automatic retirement or, conversely, to approve or disapprove company-initiated action to require a retirement under the plan. The board, consisting, as has been indicated, of equal management and union representation and an impartial chairman, is in a position to make an objective and full appraisal of facts before final decision is taken. The employee may be interviewed, medical findings may be obtained, his ability to perform satisfactorily his present job -- or another job -- may be assessed. The importance of this in terms of the acceptability of the final decision, whatever it may be, is obvious.

The provision in the UAW and in most other negotiated pension programs of a third type of retirement benefit -- for permanent and total disability prior to normal retirement age -- raises a wide range of policy questions, starting with the problem of definition. The general tendency in definitions has been to rely rather too heavily on traditional insurance company terminology. In more recently established plans, an effort has been made to move in the direction of a simple administrative definition, rather than place reliance on tight legal phraseology, in recognition of the fact that a basic implication of eligibility determination by a joint union-management board is individual consideration.

Another question of great importance is the medical examination procedure and its relation to the underlying objectives of a meaningful permanent and total disability benefit. A pattern already widely established, although still in a formative stage from the standpoint of full implementation, provides for examination by a diagnostic group medical practice clinic selected by the joint board.

In the agreement on arrangements between the board and the clinic, full latitude is left to the latter in determining the scope of examination necessary for the purpose. Referral -- accompanied by a transcript of previous medical or hospital records -- and transportation arrangements are a responsibility of the board. The clinic assumes responsibility for furnishing the board with a coordinated report which may include general and specific medical findings; indications of the presumptive permanence of the disability; possibilities seen for medical and/or vocational rehabilitation; indications as to "totality" of incapacity for regular employment with the employer or for other possible employment; and indications as to advisability of follow-up examinations.

The implications of exploring for a large group of workers the best methods for administration of permanent and total disability retirement security -- within a framework permitting approaches substantially different from those developed in the past by commercial insurance companies -- are obvious and challenging. It is possible that labor-management programs, utilizing community resources, will be the demonstration which will show the validity of inclusion of this type of benefit in the Federal social security system. Use of group medical practice clinics, such as those found at the better medical schools, as the medical agency to evaluate physical potentialities may lead to new thinking on the role of the medical team in programs of this type. The coordination between income maintenance, medical care and rehabilitation may, likewise, bring us closer to a generic understanding of the real problems of the individual incapacitated worker.

### Conclusion

In summary, it is clear that the retirement security programs presently established under collective bargaining should be judged not only by the point at which they have arrived but by the directions in which they are moving or may be expected to move.

Retirement security for particular groups in our society cannot be assured on a sound and long-range basis except through advancement of the retirement security of all groups. This requires a basic floor of security which can only come about through a substantially more comprehensive and effective public social insurance system than we have so far achieved.

Supplementary collective bargaining programs, designed for maximum flexibility, may be expected to continue to fill gaps and meet special needs in particular industries.

One of the most important aspects of these programs will be their effect on retirement policy, particularly with respect to such fundamental considerations as the right of self-determination, the right to work, the right to retire with a meaningful minimum security, and recognition of individual potentialities and needs.

A great deal of study, planning and coordinated action, in which labor, industry and the community will have essential parts, will be necessary if desirable goals, recognized by all of us, are to be attained.

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