

Pensions

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SEMINAR IN COLLECTIVE BARGAINING

A REPORT ON  
PENSION AND RETIREMENT PLANS  
UNDER COLLECTIVE BARGAINING

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## I. INTRODUCTORY SUMMARY

Pensions and retirement plans have attracted considerable interest in collective bargaining in recent years. The private plans have social and economic implications which need additional consideration for evaluating future courses of action. This emphasis is better understood from a review of the development of retirement programs and factors affecting it.

A brief survey of some of the technical and legal aspects of pension plans gives a background for the discussion of the place of such plans in collective bargaining. These aspects, naturally, influence greatly the course of negotiations. More important however, are the attitudes and goals of the parties involved. The negotiations are conducted within this environment. Difficulties and disagreements are very likely to arise. Technical problems have to be ironed out.

Arising from the agreements to adopt pension programs are many factors affecting the workers covered, those not covered, and society in general. These factors have economic implications and social impacts which need further examination. They are reviewed briefly to give some insight into the many ramifications of private pension planning.

## II. RECENT TRENDS IN RETIREMENT PROGRAMS

The pension movement is another aspect of the search for security. An aging population has brought with it the need and demand for assistance to the older age groups. As their numbers increase, these older citizens, by casting their ballots on the basis of their special interests, become more influential in their quest for amelioration of their problems. An ever increasing proportion of older people in the population does create a greater awareness of these problems.<sup>1</sup>

A predominantly industrial economy has produced conditions which accentuate difficulties of the older sectors of the population. The farm family could accommodate three generations. The grandparents were considered a welcome and venerated part of the family and contributed to its economic life. In urban centers, the typical family supports two generations. The older people are left to find support as best they can. However, an older person out of a job finds it extremely difficult to locate productive work which will afford a living.

Poor relief offered some assistance, short of starvation, but it carries a stigma with it which tends to undermine self-respect. Many feel that there is no substitute for thrift and personal savings. Without doubt this noble endeavor should be

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<sup>1</sup>Edwin E. Witte, "Government's Attitude and Responsibility to an Aging Population," address at the Centennial Conference on "The Problems of an Aging Population."

encouraged. However a consideration of the propensity to consume indicates a minus or very minimum propensity to save in the lower income levels.<sup>2</sup> Savings, then, are not likely to be sufficient to provide support for any large segment of the maturing population.

Due to the inadequate poor relief and personal savings, other means were sought to alleviate the needs of the older citizens. The government assumed some of the responsibility. To this has been added the impetus toward private and industrial pension plans.

#### A. Development of A Federal Program

Old age assistance was originally a county program which it administered and financed at its own option. The movement began somewhat before the nineteen twenties and gained impetus during this period. The Great Depression climaxed this drive. The stage was set for enactment of the Social Security Act of 1935.

1. The Social Security Act of 1935.--This Act not only included old age assistance based upon need but provided for a contributory program for old age benefits on the retirement of eligible members, with some survivor benefits.

Under this program, the employer and the employee are equally taxed. The collection is made through the employer. Based upon actuarial requirements, the present tax rate does not appear adequate. A higher tax rate is provided which is supposed to come into effect in future years. The higher rate is intended to meet this accruing deficit.

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<sup>2</sup> Alvin H. Hansen, Business Cycles and National Income, (New York: W. W. Norton & Co., Inc., 1951), p.149.

2. The Amendments of 1950.--In 1950, Congress amended the original Act and the Amendment of 1939. For approximately the first fourteen years of the program benefits averaged only \$26 per month. Under the amended system, the benefit rates were increased. Under this revision, average benefits have increased to approximately \$43 per month. During 1952, the average increased to \$47 per month.

This amendment liberalized some of the severe restrictions of the Amendment of 1939. Eligibility was liberalized somewhat. Coverage was substantially broadened. Now, in about eight out of ten cases, people near 65 years of age who can still find employment encounter little difficulty in meeting conditions of eligibility.<sup>3</sup>

3. Inadequacy of the Federal Program.--The increase in benefit rates has far from offset the decreased purchasing power of the dollar. An average of \$47 is not enough to meet the costs of even the elemental needs of older people. Future benefits will be higher for those coming onto the rolls. The average worker with wife of 65 who will retire in the last half of 1952 is expected to receive slightly over \$100 per month for the two of them. The average single worker is expected to get about \$65 per month.<sup>4</sup> These improvements will no more than meet the minimum requirements of living for those who retire under the newer terms.

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<sup>3</sup>Witte, op. cit.

<sup>4</sup>National Planning Association, "Pensions in the U.S.," A study prepared for the Joint Committee on The Economic Report, U. S. Congress, U. S. Government Printing Office, Washington, (1952), p. 12.

Many of the people who are excluded from coverage are in the lowest income occupations in which savings are also the lowest. The remaining 1939 rule restricts eligibility. Younger workers and most old people who cannot find work are barred from benefits. The 1939 and present conditions of eligibility also discriminate against women. It is under conditions as outlined above that negotiated plans developed.

### B. Evolvement of Private Plans

Some private pension plans were in existence prior to the enactment of the Social Security Act of 1935. Most programs were unilaterally adopted. A few plans were negotiated with unions. Also some unions had their own pension systems. However, only a comparative handful of pension plans existed in the 1920's. Growth during the 1930's was slow. The number of plans has increased greatly since 1940.

1. Voluntary Company Plans.--Many company programs applied only to salaried employees, sometimes exclusively to the executives. For the most part, employers did not feel compelled to negotiate on pension plans. Those companies which consulted or negotiated with the unions were among those who were considered to have attained mature labor-management relations. Many plans collapsed during the depression. Much of the growth in the later 1930's was due to a rebuilding of these plans.

2. Stimuli to the Pension Movement.--In addition to the pressure due to an aging population and the shift from an agrarian to an industrial economy were such factors as union and governmental activities and external forces. Unions were developing

a greater interest in pensions. The government controlled wages in wartime, and this was a way to get increased benefits from employers. Wartime excess profit taxes, which made the net cost of installing a pension plan very small influenced the promotion of such plans. Higher personal income taxes and lower rates of return on investments made it more difficult for the individual to set aside funds on which to retire.

3. Developments in Pension Bargaining.--The real growth in collective bargaining of pension plans has occurred since the beginning of World War II. The wartime freeze on wages with the high levies of the excess profits taxes encouraged employers in good profit position to negotiate pension plans. These plans were used to attract and to hold labor in a market where a labor shortage was the usual situation. Also, the 1946 coal strike settlement, referred to frequently as the Krug-Lewis agreement, gave added stimulus to the movement. Other unions used it as an example and a basis for argument. The Inland Steel Case is considered highly important. The National Labor Relations Board held that employers could not refuse to bargain over pension plans. The Board's decision was sustained by the courts. Since this decision, the drive for pension plans has been accelerated.

### III. TECHNICAL AND LEGAL ASPECTS OF PENSION PLANS

In bargaining over pension plans the parties must work out many technical details and perform this function within the requirements of pertinent laws.

#### A. Features of Pension Plans

A pension plan may be said to consist of five basic elements. The provisions of the plan itself determine the effectiveness of adjustment to these elements.

1. Elements of a Plan.--The requirements or proper functioning of the five basic elements must be carefully worked out if the plan is to be sound and is to satisfy all participants. These elements and the essential role for each were summarized by William Goldner as follows:

- a. A group of workers eligible for membership in the plan. Role: The characteristics of the group together with the terms of the plan (item c) will determine to a large extent the ultimate liabilities which the plan must meet.
- b. A group of retired persons who are receiving benefits. Role: This retired group receives the pension payments, usually a given amount paid monthly for life.
- c. A method of raising funds with which to pay benefits. Role: Suitable financial arrangements must be made which are adequate to meet present and future benefit requirements.
- d. A group of policy-determining and/or administrative persons. Role: This group establishes the policies of the plan, certifies eligibility, writes checks, invests funds, maintains control.
- e. A set of policies or rules. Role: These govern amount of benefits, eligibility requirements, retirement

privileges, and the other conditions under which the plan will operate.<sup>5</sup>

2. Provisions of Pension Plan.--The important provisions of leading negotiated pension plans, which strive to answer the requirements of the above elements, are: (1) eligibility requirements, which include age, length of service, union membership, etc.; (2) contributions, whether company only or company and employee; (3) normal pension, according to a minimum, a monthly amount, a rate, or a percentage; (4) vesting, whether there is none, partial, or full; (5) retirement provisions which state the normal age, and if automatic, compulsory, or voluntary; (6) funding, by trust fund, insurance, or pay-as-you-go; (7) administration of fund, if it is to be by a joint selected trustee, joint board, tripartite board, or insurance company; (8) administration of plan, by a joint board, tripartite board, or company board.

#### B. Costs of Pension Plans<sup>6</sup>

Many factors go into determining the cost of a pension plan. Estimating such cost is extremely difficult since any estimate must be based on assumptions concerning these factors. Many of these assumptions are difficult to verify objectively.

1. Benefits based on life expectancy.--Mortality rates and tables are used to project life expectancy and thereby arrive at some estimate of costs. The average lifetime has been increas-

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<sup>5</sup>William Goldner, "Pensions Under Collective Bargaining," Popular Pamphlet, Institute of Industrial Relations, University of California, Berkeley, (1950), pp. 7-8.

<sup>6</sup>Goldner, op. cit., pp. 9-17.

ing, with indications that the trend will continue. The longer a person receiving a pension lives beyond retirement age, the higher the cost of the program. Some devices have been used to adjust for this trend.

2. Effect of labor turnover.--Voluntary and involuntary separation, and long-term separations remove workers from coverage. The measurement of this turnover is important in estimating cost. It tends to reduce cost and the term "discounting for turnover" has been applied. There is a lack of adequate information on turnover rates.

3. Reduction by interest earned.--Costs are further reduced by interest earned on funds set aside and invested. In fact interest may pay a substantial portion of pension costs since many payments are not made for some time in the future.

4. Administrative costs.--Costs of administering a plan are a minor item. They average around two to three percent of contributions to a plan, according to estimates.

5. Tax exemption as an offset.--By getting approval of the Bureau of Internal Revenue, the employer's contributions are tax exempt. The degree of profitability of the firm, of course, determines the extent of the advantages from tax exemption. However this factor is important in planning a private pension system.

6. Effect of composition of labor force.--The age composition of the labor force has an important bearing on pension costs. A firm with very old employees may find a pension plan prohibitive in cost. Provision must be made for older employees ap-

proaching retirement age, which increases the costs of setting up the plan. The length of service, past and expected, for members of the labor force influences the costs. If provision is made for past service, the cost must be estimated. Future service will be influenced by age and the turnover rate.

### C. Legal Aspects of Pension Plans<sup>7</sup>

Bargaining on pensions is directly affected by law. The pension subject has been considered to call for more reconciliation with government regulations than any other issue in collective bargaining.

1. Internal Revenue Code and tax benefits.--The importance of tax exemption has been mentioned above. Two sections of the Code apply in qualifying for tax benefits. Sec. 165(a), if the plan qualifies, permits the employer to deduct contributions from his income. Secondly, the employees are not subject to tax on the money set aside until they draw pensions. Meanwhile, the fund may accrue interest which is tax exempt. Certain stated provisions govern qualifications of a plan under this section.

Section 23(p) affects pay-as-you-go plans wherein pension payments are a deductible business expense. Also rulings of the commission have to be carefully reviewed before making any changes in a plan, as well as establishing one.

2. Social Security and wages.--Wages are the basis for the tax contributions to the government for unemployment and for old-age benefits. If a plan is qualified under Section 165(a) and so

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<sup>7</sup>Ibid., pp. 22-28.

certified, it is exempt from having its contributions considered as wages.

3. Wage-Hour Law and regular rate of pay.--The effect of Section 6(d)4 of the Fair Labor Standards Act is to exclude pension contributions from the rate of pay in calculating overtime. Section 165(a) qualifies the plan here too.

4. Requirements of the Taft-Hartley Act.--Section 302 designates the conditions under which an employer may make contributions to a union for welfare or security objectives:

- a. The contributions must be held in trust for employees and heirs, and must be for health, pension, disability, accident, and unemployment purposes only.
- b. The detailed basis on which such payments are to be made must be specified in a written agreement.
- c. The employer and employees must be equally represented in the administration of the fund, and in case of disagreement, an impartial umpire will decide the issue.
- d. Payments made for pensions must be made to a separate trust from which funds cannot be diverted.
- e. The fund must be audited annually.

5. Other legal aspects and problems.--Individual state laws have to be taken into consideration in developing a pension plan. Stockholders approval may be necessary for some pension plans. Liabilities of officers of the pension fund trust must be explored.

The parties to a plan should review decisions of the National Labor Relations Board when they are considering the adoption of a plan. The employer may be required to bargain with

the union over any new union demands which the union may make during the term of the collective bargaining agreement. Also, he may be required to provide the union with necessary and relevant information. Some court decisions are pertinent. In addition, some regulations of the Securities Exchange Commission apply to adoption of pension plans.<sup>8</sup>

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<sup>8</sup>Chamber of Commerce of the State of New York, "Pensions for Employees," Pension Forum, Hotel Astor, New York City, (February 16, 1950), pp. 58-63.

#### IV. PENSION PLANS AND COLLECTIVE BARGAINING

The inclusion of pension plans within the scope of collective bargaining is, with few exceptions, a recent development which may have far-reaching social and economic consequences for the parties involved, for the workers covered, for workers in general, and for society in general. For a better understanding of these influences, the goals of the parties should be reviewed as well as the kinds of decisions which must be made within this framework. Problems, many of a technical nature, must be resolved. Several areas of possible conflict are involved which require a reconciliation of aims and viewpoints. Private pension plans, once adopted, may affect society in various social and economic ways which are worthy of study.

##### A. Objectives of the Parties<sup>9</sup>

A better understanding of the problems which may arise under bargaining on retirement plans is derived by reviewing the objectives which employers and unions desire fulfilled by a pension program.<sup>10</sup>

1. Mutual objectives.--Among the important objectives for both parties are the following:

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<sup>9</sup>Goldner, op. cit., pp. 5-6.

<sup>10</sup>Jay V. Strong, Employee Benefit Plans in Operation, (Washington; The Bureau of National Affairs, Inc., 1951), pp. 1-10.

- a. Provision of orderly retirement of super-annuated employees.
- b. Reduction of turnover of mature employees.
- c. Creation of opportunities for advancement and promotion for younger employees by re-tiring older ones from the labor force.
- d. Inducement in obtaining desirable employees.
- e. Provision of financial security for the employee and his family.
- f. Encouragement of harmonious labor-management relations.
- g. Maximization of benefits of the plan consistent with the special interests of each party.

2. Objectives of employers.--The company has additional objectives which reflect its position as employer, as follows:

- a. Fulfillment of social responsibilities to employees.
- b. Substitution of known costs with the definite obligations of a retirement plan for the unknown costs of informal commitments.
- c. Maintenance of better public relations.
- d. Minimization of costs consistent with its other objectives.

3. Objectives of unions.--The union, of course, has certain objectives in addition to those mentioned which are characteristic of its position as the representative of the workers, as follows:

- a. Provision in the plan for coverage of all union members.
- b. Assessment of costs exclusively on the employer.
- c. Maximization of income benefits to union members.
- d. Inclusion of provisions for vesting or alternative measures, such as industry-wide or area-wide plans.

4. Contrast of objectives.--An examination of the goals of employers and unions reveals several objectives which are common to both parties, at least to some extent, but brings out some objectives which indicate that a complete mutuality of interest does not prevail. Even among the mutual objectives, differences of interpretation and opinion may develop. Furthermore, possibilities for conflict between the parties over their separate goals is very real. Any agreement which comes out of negotiations is a product of the reconciliation of conflicts over goals and of adjustment by each party of its particular objectives to those of the other.

#### B. Negotiated Pension Plans<sup>11</sup>

Aside from working out the technical details of a retirement plan, the parties must negotiate other arrangements before giving effect to the plan. The content of the plan may not be much affected by some of these considerations. However, the parties may wish to agree upon such factors before reaching final settlement of the plan's details.

1. Inclusion in the bargaining agreement.--Although settlements of issues which arise in negotiations are normally included in the bargaining agreement, the parties may well ponder the advisability of incorporating the pension plan within that instrument. Several characteristics of retirement plans raise this question. For one thing, the program covers a much longer period than the usual bargaining agreement. It is in fact a long-term commit-

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<sup>11</sup>Goldner, op. cit., pp. 29-37.

ment, extending as many as thirty years or more into the future. For another thing, a great deal more difficulty is encountered in changing the terms of a pension plan than in revising wages and hours of work. An additional requirement for permanency of a pension plan is the necessity for continuity in its payment and interest accumulation functions. The Bureau of Labor Statistics has found that most plans are not outlined in the bargaining agreement.

The desirability of entering into a separate agreement to cover the pension plan appears sufficient to outweigh the complications and added cost of increasing the number of contracts. Of course this arrangement would be extremely difficult for those employers who are dealing with a number of separate bargaining units.

A strike situation points up advantages to be derived from separation of contracts. Since ordinarily continuous service is a requirement for accumulation of benefits, a break in service would mean that an employee must start over again. Although the National Labor Relations Board recognizes that men on strike do not lose the right to be considered employees, it does not follow that pension rights would receive similar protection. This ruling has been applied in the establishment of equitable procedures in rehiring at the termination of a strike. However, no definite principle has yet been established with regard to restoration of pension rights under these conditions, although on the surface it would appear that such rights would be protected as are rehiring rights.

Provisions can be made to cover such situations. The contract can make specific reference to conditions which would not be considered to interrupt service and those which would be termed breaks in service. Among the circumstances which might be considered are long illnesses, leaves of absence for educational purposes or for union business, labor disputes, and others. Specific terms in a separate agreement may obviate the necessity of carrying a conflict to the government and the courts and would help eliminate future controversy. At the same time, labor-management relations would be based upon the bargaining agreement. The retirement plan would not be placed in jeopardy if a work stoppage were to occur.

2. Implications as a wage equivalent.--Frequently a pension proposal is presented as a wage equivalent. The parties should be aware of the implications of this approach. Practical limitations are encountered in any attempt to purchase "so much worth" of a pension plan. A retirement system which is based upon a wage equivalent or package of "seven-cents worth" of pension will either discriminate in its benefits or fall short of the desired program. Such a package cannot be converted to benefits for all union members without discriminatory results. For instance, employees approaching retirement age may have to be left out of the program. Including all employees may mean accepting benefits not altogether adequate. Reference to the discussion of costs will suggest factors contributing to the difficulties outlined. A more realistic approach to the problem would be to work out the details of the benefit provisions through negotia-

tions and then estimate the cost. These estimates may be revised from year to year under operation of the plan.

A related difficulty is that a wage equivalent does not result in an "across-the-board" wage increase as implied by such an approach. So many "cents worth" of pension does not apply in the same amount to each person under the plan but results in a complexity of differentials when considered as a wage equivalent. These differentials arise from variations in costs for an equal amount of benefit for persons in differing circumstances. An obvious example is the fact that the cost to the pension fund of providing the same benefit coverage for a man forty-five years of age will be higher than for a man who is thirty years of age. The result is that the older man's wage equivalent is higher than the younger one's. The recommendations for using sound insurance principles still hold. But the parties should be aware that reference to differing costs and benefits in terms of a single wage equivalent is misleading.

3. Appropriate unit for bargaining.--The appropriate unit for bargaining on pensions may be expected to be the same as that for regular collective bargaining. Any disagreement is expected to be settled by the NLRB or state boards. However, problems may be presented by this issue. A larger unit may be desirable to provide optimum pooling of risks. But pertinent laws must be given consideration. Some groups, such as professionals and craft units, may have to vote for inclusion. Moreover, guards cannot be included under any circumstances. Finally, the coverage and benefits for salaried employees may be sufficiently

different that separate plans are to be preferred. Of course, with the possibility of differences of interest and representation, separation or amalgamation of units may occur. This situation might lead to jurisdictional strife. Such a condition may present many complications. The employer may find it desirable to negotiate plans with separate groups concurrently.

4. Basis of computation.--Problems may arise from the basis of computation which is specified in the pension agreement. Many agreements define the employer's obligation to remit to the fund on the basis of a stated number of cents per man-hour worked. Under such circumstances a reduction in the number of hours would result in smaller remittances to the pension fund. This problem must be considered in view of the long-term downward trend in the work week.

Related problems may be presented by situations in which employees are paid on a piece rate basis. If some proportion of the payroll is the method of computation to determine the contributions to the fund, some slight counteraction to the incentive aspect of piecework is interposed in the work situation. This is due to the fact that the worker with larger earnings because of greater productivity contributes more to the fund than a slower worker. Yet both kinds of employee would be subject to the same benefit level. One solution would be to provide a lump sum basis for all incentive workers regardless of earnings. Another would be to base contributions upon man-hours worked. This would involve the problems mentioned previously.

5. Grievance procedures.--Many decisions affecting individual members of a pension system are made in the course of administra-

tion of the plan. Protection against arbitrary decisions should be provided by the establishment of organized channels of appeal. One suggestion for proper functioning of these channels is that manuals of operation should be assembled and standardized as a guide in arriving at more consistent rulings.

Inevitably grievances will develop out of the operation of all these administrative procedures. The determination of eligibility particularly can be expected to present difficulties. Partiality, in favor of or against the interest of union members, is a possibility. Therefore an essential provision of a negotiated plan is an adequately designed grievance procedure. The question of using the regular grievance group should be decided.

6. Provisions for reopening.--Changes in the relationships which affect the pension plan inevitably develop. In a dynamic program such as a retirement plan, these developments may cause one party or the other, or both, to desire revision of the plan. For example, contributions to the fund may prove inadequate according to latest actuarial evaluation of the plan. Originally adequate levels of benefits may no longer be realistic in view of price and income levels which prevail in some future period of inflation or deflation. A workable pension agreement will anticipate such changes and demands for revision by provision of a reopening clause for their consideration. The parties should give consideration to keeping this clause separate from other contract provisions as well as to defining quite clearly the factors which will be sufficient cause for reopening.

7. Possibility of termination.--Dissolution of a pension plan is expected to be farthest from the minds of the parties involved

in negotiations. Circumstances may arise which make it necessary to terminate the plan. Unions have been known to dissolve. The mortality rate of businesses is rather notorious. Pension funds may be wiped out by a singularly severe depression. Unemployment may have adverse effects upon eligibility prior to retirement age for various groups. The government may legislate away private plans and absorb them in one of its own. Protection of the interest of the parties requires that provision be made for termination and that rights to the money in the plan and other interests be spelled out in case of liquidation of the fund.

### C. Technical Problems of Pension Plans

One of the major technical problems which must be agreed upon during collective bargaining is the manner of financing the negotiated pension plan. The employer normally would desire to find a retirement program in order to reduce its cost. Contributions which are segregated into a pension fund under qualifying conditions which were discussed previously are income deductions for tax purposes. Such funds ordinarily earn interest which is also tax free. One estimate is that a tax-approved pension fund results in a reduction of the cost of each pension dollar to approximately 48 cents. Non-qualifying plans or reserves set up on the employer's books do not result in a tax reduction.

If the plan is contributory, the employee's contribution is a fixed amount. If it is non-contributory, the employer's contribution is a variable factor which usually changes with changes in the interest rate and other business conditions. The

pension plan may integrate its benefits with the Social Security program or provide for an offset. If it does provide for a Social Security offset and makes up the difference, up to some specified amount, the employer's contribution may be greatly modified by increases in benefits of the Federal system. Management will consider these possible changes, but will meanwhile find it advantageous to follow an orderly procedure of financing which will avoid abnormal fluctuations in this income statements.<sup>12</sup>

1. Trusteed plans.--Under the trust method, the employer creates an irrevocable trust by executing a deed of trust. Trustees are selected to administer the trust. Contributions are deposited in the trust fund as required by the plan or union agreement. The deed of trust provides the basis for payment of benefits which are limited to the extent of available funds. This limitation may result, if funds are insufficient, in a proration of the beneficial interests. Consequently, a great deal of flexibility is permitted by this method.

Advocates of the trust method claim for it several advantages. The funding of the pension liabilities becomes primarily an investment problem rather than an insurance question. The trusteed plan is expected to result in lower costs. It qualifies for tax deduction purposes. Administration costs are less than the expense loading under insurance plans. More latitude is permitted for higher income investments, such as common stocks.

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<sup>12</sup>Chamber of Commerce of the State of New York, op. cit., pp. 30-31.

The flexibility is considered an advantage. Membership can be quite inclusive. Adjustments in contributions can be more easily arranged. The plan can be amended more quickly. Administrative changes can be introduced more smoothly. Adaption to benefits and eligibility provisions may be accomplished more readily. Provisions for beneficiaries can be made more useful under this method. This plan also is well adapted to integration with the Federal system. Adjustment of contributions and benefits can readily be made in connection with Social Security offset.

The trustee plan has disadvantages which require consideration. Trust funds, particularly small funds, do not have the investment spread which is obtainable by insurance companies. Many good investments are not available to the trustees or are considered unsuitable. Flexibility itself has some measure of danger in financing through the trust method. The parties may feel encouraged to adopt actuarial assumptions which are not sufficiently conservative to assure a sound plan. One result would be to promise benefits for which the costs are not adequately estimated. The temptation to postpone funding is present. Under the pressure of negotiations, unsound practices may be adopted.

The trust method does not provide a ceiling on costs. The benefits are administered on a "first come, first served" basis. At a later date some promises may not be kept, or will be fulfilled by unforeseen contributions to the fund. Changes in business conditions may offset the employer's ability to pay. Also

companies may go out of business. Others may find it necessary or desirable to convert to some other plan. Under these circumstances the trustee plan clearly has its disadvantages.<sup>13</sup>

2. Insurance plans.--Three general insurance methods are available. The one most frequently used is regular group annuity contract. The contract between the employer and the insurance company provides for the purchase of annuities for each employee covered by the contract. The contributions are used to purchase each year by a single premium deferred annuity which commences at normal retirement age. Once a specific unit of annuity is purchased, the employer cannot be required to provide additional funds for satisfaction of any obligation which that unit represents. The contract specifies the premium rates which are usually guaranteed for a period of five years. The plan can be qualified for tax purposes.

A less well known method is the deposit administration contract. It is somewhat similar to a trustee plan. Instead of the trustee, an insurance company administers the funds. The contributions are deposited with it. The agreement sets the maximum amount of the deposit. The amount of annuities purchased govern the annuity liabilities. Contributions to the fund are tax deductions. The amount of deposits establish the cost ceiling for the most part.

Another method which is sometimes used is the insurance program of individual contracts. This method is adaptable to

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<sup>13</sup>Ibid., pp. 32, 35-38.

small groups and is used here most frequently. A trust is used as depository for the policies to prevent their control by the members prior to their effective date. Since this method involves individual contracts, individual premium rates apply. The policy also provides some benefits to survivors. For these reasons, the cost of this method is higher than others. Since this method and the deposit administration method are not as widely used, the group annuity plan will be discussed as most representative of the insurance plans.

The group annuity insurance method is considered to have many advantages of its own. The plan permits the employer to place the pension liability on a paid-up basis. The employee can turn investment responsibilities over to the insurance company, who has a broader investment spread. Insurance companies operate conservatively and can be expected, if anything, to outlive the plan. An insurance company introduces a rigidity in the pension relationship between the employer and his employees, or their representatives which should minimize conflict over differences. The insurance company is probably in a better position to locate ex-members, participants or beneficiaries, and is likely to invoke more confidence in the plan's members.

The insurance method is not without its disadvantages. For one thing, the insurance company has control of the funds which include a reasonable margin of safety for contingencies. It would hold back reserves of the employer without his consent. The employer could not obtain relief except by discontinuing the contract. He would suffer penalties due to this if the annuities

were not fully vested. He would have to protect himself by a contract provision. Of course if the employer could benefit from excess premiums of prior years, in the event a surplus developed, many employers would be more interested in this type of pension financing.<sup>14</sup>

3. Pay-as-you-go plans.--The employer administers the pay-as-you-go method of financing a pension plan. Upon retirement of an employee, the payroll would continue to carry him, but at a reduced rate of pay. Usually no reserves were provided. If reserves were established but should become depleted, the pensions would be met from operating income, just as they are in most of these plans. The ability of the company to meet pension liabilities is dependent upon its ability to obtain the required cash.<sup>15</sup>

The pay-as you-go plan has the advantage of lower costs in the earlier years. It covers only those participants who are retired and receiving pensions. Other plans provide not only for payment to retired employees but also for reserves for future pensioners.

This lower initial cost gives an erroneous impression of total cost. More employees retire each year and the total pensioners continue to increase until the number of deaths equal the number of retirements. The upward trends in wage payments induces larger pensions. As a result of these factors, the pay-as-

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<sup>14</sup>Ibid., pp. 32-34, 38-41.

<sup>15</sup>Ibid., p. 32.

you-go plan begins low but ends high. The higher obligations may occur in years which find the employer in a poor position to meet them.<sup>16</sup>

4. Book reserve plans.--Under a book reserve plan, the employer establishes and maintains book reserves on the company's books of account. A charge to surplus, or to profit and loss if it does not distort the income position, may be made to set up a book reserve. Similar charges can be regularly made to build the reserve to a desired level or keep it there. The book reserve may be maintained on some actuarial basis by adjustment of these additions, either in amount of the charge or in its timing.

This method provides assets which may be invested in plant and equipment. However, the charges are at present not considered tax deductions. As in pay-as-you-go plans, the only tax deductions would be regular payments to pensioners. In order to use this method, the company would have to keep practically two sets of books, one for its own use and the other for tax purposes.

The book reserve method has the advantage of conserving the cash of the employer. He can retain it in his business. These reserves are considered a partial hedge against inflation. They avoid the possibility of irrevocable over-funding which is present in other plans. The employer may desire to withhold some of the funds which are needed in a trust program or insurance plan and carry a book reserve to absorb the balance. The reserve could be adjusted upward or downward as necessary by proper en-

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<sup>16</sup>Fleming Bomar, et al., Handbook for Pension Planning, (Washington: The Bureau of National Affairs, Inc., 1949), pp. 47-48.

tries to profit and loss. The need would be determined by actuarial revaluation.

Of course this plan has the one great disadvantage that it exists only during the life of the company. The tax problem must also be considered. The plan may also present problems in negotiations with a union.<sup>17</sup>

The book reserve plan, according to the suggestion above, could be used in combination with other plans. The parties may desire to use various combinations of these different plans. The plan or the combination of plans which is agreed upon should be selected only after careful study of the technical aspects as well as the advantages and disadvantages.

5. Social Security integration. The Federal program provides some benefits to an employee which the parties must take into consideration in adoption of a pension program. The degree with which the private plan is tied in with the Social Security program has a direct and possibly substantial effect upon the funding requirements. If the parties do agree to some tie in, they will have to determine if the plans are to be integrated, or if some offset is to be provided.

An integrated plan consists of some formula which relates benefits to wages earned. A lower percentage benefit is calculated on wage earnings up to the Social Security cut-off level which is now \$3600. Above this level the formula provides a higher percentage benefit on earnings. This plan is designed

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<sup>17</sup>Chamber of Commerce of the State of New York, op. cit., pp. 34,41.

to provide employees in the higher brackets with larger pensions than is approved by the Bureau of Internal Revenue for tax purposes. Employees have to be provided pension benefits in proportion to their earnings to qualify the plan for tax exemptions.

The integrated formula is based upon the existing Social Security program. Any changes in the latter are not reflected in the integrated plan. It must be revised after the change in the Federal program has been made. Another disadvantage is that the majority of employees, who are in the lower income levels, do not receive any particular advantage from this plan. The employer, however, will find this plan easier to explain than the offset method. The contractual pension is remitted without any deduction for the Social Security primary benefit which has to be explained over and over again to pensioners.<sup>18</sup>

6. Social Security offset.--Some private pension plans specify that their benefits will provide an offset to the Social Security benefits to bring the total benefits up to some stipulated amount. The employer agrees to provide payment of the difference between the amount prescribed in the pension contract and the amount paid under Social Security. Some plans provide that only one-half of the Social Security benefit is deducted from the total pension on the assumption that the employer is justified in deducting that portion to which he contributed. The offset plan is unlike the integrated plan mentioned above in that it automatically compensates for future changes in the Social Security provisions.

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<sup>18</sup>American Federation of Labor, Pension Plans Under Collective Bargaining, A Reference Guide for Trade Unions, Washington, American Federation of Labor (1952), pp. 80-81.

The offset plan has no real benefit for the employee. He will receive the contractual amount of pension regardless of the amount of the offset involved. If the private plan should fail, offset would be meaningless to him anyway. The company stands to gain if the Old Age and Survivors Insurance benefits are increased in the future. Of course both the employee and the employer will very likely have to contribute more to the Federal system. However the decrease in the amount of offset will reduce the employer's obligations and will result in a corresponding drop in his costs which will more than make up for his higher Social Security taxes.

Unless the union obtains a clause in contract pertaining to it, any improvement in the Social Security program will not improve the benefits to participants of a private plan with the offset feature. This disadvantage would be most objectionable to them in inflationary periods. The increased Federal benefits would not compensate them for increased living costs. The actual result in such period would be a reduction of the real value of their benefits, inasmuch as the total amount of their pension would be the same. Employees can be expected to resent terms which permit an employer to gain reduced costs from an improved Federal program rather than to provide an increase in total benefits.

The employer may feel that he could have found better use for the money which was diverted to the pension fund but was not needed because of the improved Federal program. On the other hand, the employees may consider that their interests would have

been better served if the segregated funds had been used, in part at least, for a cash wage increase. A change in OASI benefits may also discourage them from seeking a higher level of private pension benefits which might be at the expense of a future wage increase. The employer can expect the union to make insistent demands for wage boosts or a new and substantially higher level of contractual pension benefits if the Social Security benefits should be increased to equal the former level of total benefits.

The offset plan means that some control of the manner in which the plan is to be operated is removed from the hands of the parties who are directly concerned. Its terms then are dependent upon some action of a third party away from the scene of negotiations. The parties, particularly the union, may feel that changes in the terms of a negotiated plan should be the result of collective bargaining rather than the product of developments elsewhere. Without the offset feature the parties can make their decision after they have received pertinent data in an area over which they have direct control.<sup>19</sup>

#### D. Difficulties and Disagreements in Negotiations

Factors inherent in the pension plan and aspects related to the plan frequently cause difficulties and disagreements to occur in the bargaining process. Disagreement could arise over any of the details of the plan or any of the terms of the agreement which were made in negotiations on the program. Many im-

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<sup>19</sup>Ibid., pp. 81-86.

portant ones have been discussed above. Some are reserved until later and considered as problem areas. The ones reviewed in the following are among those frequently mentioned as troublesome or considered areas of sharp conflict. Certainly no pronounced line of demarcation between categories is the basis for the difference in treatment of these issues.

1. Complexity of pension plans.--The technical details of a pension plan cover so many variables and involve so many issues that its very complexity presents a source of conflict. An employer, suddenly confronted by a pension demand, may exert pressure to postpone consideration until he has had a chance to study it. Obvious reasons for this decision, of course are the complex nature of the pension field and the possibility that a hastily adopted plan may incur obligations which create a high-cost, unsound system. Management may desire to utilize outside specialists.<sup>20</sup> Here the chances for conflict are reduced if it is a joint union-management study.

The union may ease the tension by agreeing to accept a promise to study the issue thoroughly. It may consider, as a practical matter, that such a commitment is a foot-in-the-door device. Also management has appeared to be on record as interested in the program. Of course, the employer may be using the device to postpone indefinitely any action on a retirement system, or may change sufficiently to preclude its adoption. The possibilities of conflict are therefore significant.

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<sup>20</sup>Chamber of Commerce of the State of New York, op. cit., pp. 51-52.

Introduction of third parties, the outside specialists, is not without its implications.<sup>21</sup> The role that these experts play in pension negotiations is a possible area of controversy. Some employers and unions believe strongly that such specialists should be advisory only and should not actively participate in negotiations. Even then one party is not likely to accept the recommendations of the other's experts, and will prefer to let his own analyze them. Moreover, if one highly complex and technical plan is countered with another equally complex and technical, the possibilities of early and peaceful agreement are lessened.

Due to the complexity of a pension plan and the difficulty of agreement upon the technical details, negotiations may be prolonged over a rather extended period. Meanwhile, the collective bargaining agreement is delayed. It may include new wage increases, for example. Union members may grow restive. The result may be union pressure for immediate conclusion of negotiations which might preclude the careful consideration of the plan that is warranted. The only solution may be to provide a clause in the bargaining contract that consideration of a proposed pension plan will be taken up separately and will be concluded within a certain, specified time. This would permit agreement on the regular contract to be reached without undue delay and would present a final date for adoption or rejection of some negotiated pension plan.

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<sup>21</sup>Clark Kerr, Social and Economic Implications of Private Pension Plans, Reprint No. 16, Institute of Industrial Relations, University of California, Berkeley, (1949), p. 4.

2. Contributory, or non-contributory plans.--Many, many words have been written and spoken about the superiority of contributory plans over non-contributory plans and vice versa. The debate rages on ad infinitum. Out of the shouting and tumult comes very little that is conclusive. The expected cliches appear in varied form. For these reasons, any list of arguments used must be incomplete.

The arguments presented by the Fact Finding Board in the Steel Case are indicative of those used in favor of non-contributory pension plans.

1. Non-contributory plans cover all workers instead of making the pension program a voluntary and employee selected benefit. All workers need the security of the pension plan but the voluntary, contributory plan might tempt some workers to remain out of the plan in order not to forego any part of their current income.
2. A non-contributory pension plan as an added benefit does not reduce the worker's take-home pay and avoids another payroll deduction.
3. Stability is promoted by the non-contributory plan because pension costs can be better integrated into the labor cost structure of the company.
4. Taxwise, more insurance can be bought for a given number of dollars of employee compensation than if the employee paid his withholding tax and later made a payment toward his pension.

The steel companies offered in rebuttal several arguments in favor of contributory pension plans. These typify many used by other proponents of contributory plans.

1. The contributory plan implies that the worker participates voluntarily in his pension program. This right of self-determination and self-help is a part of his freedom and dignity as an American citizen.

2. Psychologically the contributory pension plan is better because the employees know they are paying for their own security. This makes them more dependable and responsible and employee morale is better.
3. The cost of pensions which is already becoming unbearable in some companies will probably not increase too fast in the contributory plan. Workers will not demand increases in pensions too frequently if they are paying a part of the pension costs, and they realize that increases in employer contributions should be accompanied by increases in their own contributions.
4. As late as August of 1949, a few weeks before the strike, the Ways and Means Committee of the House of Representatives in a report to the House on the subject of the extension of the Federal Securities Act stated: "The time has come to re-affirm the basic principle that a contributory system of social insurance in which workers share directly in meeting the cost of the protection afforded is the most satisfactory way of preventing dependency." The steel companies took the position that this committee better reflected the opinion of the public than did the Fact Finding Board.
5. And finally, the steel companies insisted that the contributory pension plan would be able to offer the steel workers larger pensions than could be provided under a non-contributory plan.<sup>22</sup>

Other arguments for both types could also be included.<sup>23</sup> These are enough to show the wide variance in viewpoint.

Many lists present the argument that contributory plans encourage individual thrift.<sup>24</sup> This was omitted since it did not stand up under closer examination. Prudent persons are likely to

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<sup>22</sup>John F. Mee, Personnel Handbook, (New York: The Ronald Press Company, 1951), pp. 529-530.

<sup>23</sup>Harold W. Davey, Contemporary Collective Bargaining, (New York: Prentice-Hall, Inc., 1951), pp. 215-217.

<sup>24</sup>Strong, op. cit., pp. 67-71.

continue their habits of saving. Imprudent persons are unlikely to change their habits. In addition, consumption schedules indicate that consumption rises nearly as rapidly as income up to a point about the \$5000 level. Savings are not too significant until this point is passed.<sup>25</sup>

The psychological effect of a contributory pension plan may in reality be fictitious. If the employees are granted a raise in pay equal to their contributions to the plan, the result for all practical purposes is the same, except for tax differences, as if the employer had withheld the raise and settled for a non-contributory plan. In any event, the total wages which include any employee contributions plus the employer's contributions are included in total payroll costs to the employer. If the union demands are based upon comparative considerations, these costs are likely to be as much as if the plan were non-contributory. In any case, the union can be expected to try to shift the burden of the pension plan over onto the employer in future negotiations so that the take-home pay will be comparable to that in the locality or industry.

Since the cost may be shifted onto the employer anyway, a contributory plan may be somewhat unrealistic in view of the present tax laws. The present income tax laws do not favor contributory plans. Besides giving this fact consideration the employer should also be interested in providing for retirement of all employees at a given age. However in some companies, economic necessity may preclude a non-contributory plan at its incep-

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<sup>25</sup>Hansen, op. cit., p. 150.

ception. Significantly, the great majority of plans negotiated in 1949 and 1950 were of the non-contributory type.<sup>26</sup>

3. Vesting of interest.--During the collective bargaining process the parties must agree upon the question of vesting. The union probably will seek a provision which grants a vested interest to the employee in the employer's contributions which are made in his behalf. The employer is likely to favor postponement of vesting until the employee reaches a retirement date. The problem does not arise over employees' contributions, if any, since these are usually returned directly or indirectly with or without interest upon death or termination of employment. However, if negotiations may have been conducted under the impression that the employer's contributions are deferred compensation, the employees may rightly or strongly feel that such compensation is due them, or beneficiaries in case of death, upon termination of employment at any time. Some of the arguments advanced for vesting are among those presented by Jay V. Strong, as follows:

1. Vesting increases employee interest in and appreciation of the pension plan. He feels that he is a partner in the plan and that he will benefit therefrom regardless of whether he remains with the company or leaves it.

2. Many employers provide some form of severance pay. An immediate full vested interest may be used for this.

3. Employees are more willing to contribute to a plan with a reasonable vesting provision. Their contributions can help to offset the additional cost of the vesting provision.

4. Vesting enables the employer to dismiss inefficient or uncooperative employees, even long service ones, without being accused of trying to prevent their drawing retirement benefits.

5. Moderate vesting tends to hold the better employees because they appreciate the company's consideration for them

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<sup>26</sup>Davey, op. cit., p. 219.

and realize that their vested interests increase with their years of service.

6. Vesting may be conducive to better industrial relations and more harmonious contacts between management and labor. First, vesting is in accord with the deferred wage concept of the employer's contributions held by the union. Second, it reduces the tending of private retirement plans to restrict the mobility of workers.

Some employers are against liberal vesting and present, among others, the following arguments reported by Mr. Strong.

1. One of the aims of retirement plan is to reduce excessive turnover; but liberal vesting tends to increase this turnover.

2. A liberal vesting provision substantially increases the cost of a retirement plan without producing benefits to the employer that justify this expense. If employer contributions for employees who terminate employment revert to the pension fund, part of the cost of the pensions for the remaining employees can be met from such reversions.

3. Additional administrative expense and difficulties are encountered if a vesting provision results in paid-up retirement benefits. Insurance companies and/or trust companies must keep the owners' accounts open until the final payments are made at the retirement age--and even thereafter.

4. If a plan is non-contributory, the employer should not be obligated to vest any of its benefits.<sup>27</sup>

Measurement of these advantages and disadvantages is virtually impossible. The additional cost may be estimated fairly closely, but is not necessarily the decisive factor. The employer normally will seek a workable compromise between the extreme positions presented above. Some conditions appear to indicate a trend toward viewing employer contributions as deferred compensation in the form of paid-up retirement benefits for employees who have been members of a plan for a considerable period of time. In one survey, about three-fourths of the plans represented such a compromise, with vesting based upon such qualifications as length of service, length of membership time, disability and others.<sup>28</sup>

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<sup>27</sup>Strong, op. cit., pp. 57-59.

<sup>28</sup>Goldner, op. cit., pp. 20-21.

Union advocacy of vesting will probably reinforce this trend. Meanwhile, vesting apparently continues to be an extremely controversial issue with most employers successfully resisting union proposals for vesting.<sup>29</sup>

4. Death, disability, sickness, leave, and discharge.--Many circumstances arise to terminate or interrupt the employment of employees besides voluntary quits. Consequently a considerable area exists for disagreement between the parties. The union will be interested in protecting the rights which it considers that the employees have acquired in deferred compensation, as was the case in vesting. The employer may hesitate to obligate the pension plan with other benefits. Some feel that the sole purpose of a retirement plan is to retire superannuated employees. Others believe they are not prepared to assume additional obligations.

The problem of death benefits is very similar to that of vesting. The unions argue that employers' contributions are deferred compensation and that the beneficiaries of the employees should participate in the benefits. The employers contend that the additional expense is not outweighed by the advantages. Whatever the inclination of the parties, it is a problem they have to thresh out in negotiations. If they do agree to some death benefits, the parties should give consideration to their effect upon their group life insurance, if such a program exists.

Disability has implications not too different from those involved in the death of an employee. The parties must answer

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<sup>29</sup>Davey, op. cit., p. 219.

the question as to whether the disabled employee has acquired any interest in the employer's contributions. Many executives display a keen interest in coverage for total and permanent disability. The unions have concentrated upon securing a pension plan and have not pressed such provisions as death and disability benefits as much. The problem is expected to become more acute when more and more workers become aware of the prospects of a large loss in pension equity due to such conditions.<sup>30</sup>

The discriminatory effects of work hazards and occupational disabilities have been noted and published. Distribution of such information will accentuate the awareness of this aspect by workers and their unions. These conditions are sources of discrimination which hamper the expectation of a worker to achieve his retirement program. The percentages of death and disability are higher than average for some occupations. Here we have strong indication of the possible effects of occupational exposure. Consideration of this should be given by the parties when bargaining on a pension plan.<sup>31</sup>

Illness may interrupt an employee's tenure. The employee may also be required to take military leave. Some employees arrange to take leave of absences for personal reasons, such as educational leave, leave to perform union duties or offices, and other purposes. The parties need to spell out the terms which govern an interruption in service insofar as the pension program

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<sup>30</sup>Strong, op. cit., pp. 59-67.

<sup>31</sup>William Goldner, Trade Union Structure and Private Pension Plans, Reprint No. 36, Institute of Industrial Relations, University of California, Berkeley, (1952), pp. 69-70.

is concerned. The agreement should stipulate the conditions that apply to the plan during an absence. It may provide that contributions continue and length of service be accumulated. Some absences may result in an actual break in service under the plan.

Since discharge is an involuntary separation, the unions are quite concerned that members' rights are adequately protected. They will desire to have management's ability to separate involuntarily employees from the work force narrowly limited. This restriction gains importance where a pension plan is involved. Discharge will then have more serious consequences to the individual. He will fight harder for retention and will enlist the aid of his union. The union probably will attempt to incorporate such restrictions upon the employer within the agreement.<sup>32</sup>

5. Eligibility and coverage.--The formulation of a retirement plan requires the selection and definition of the group of employees to be covered. When the group is selected, the parties must then prescribe the requirements to be met by individuals before they are entitled to membership in the plan. The parties are not likely to have the same interests regarding the group covered. The employer probably will seek stricter requirements for membership than the union will consider equitable.

Traditionally, employers have shown a primary interest in providing a retirement program for executives, followed by a secondary interest in developing a pension system for salaried employees, particularly for those earning more than \$3000 or

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<sup>32</sup>Fleming Bomar, et al., Handbook for Pension Planning, (Washington: The Bureau of National Affairs, Inc., 1949), p. 64.

thereabouts. In contrast, the unions have been primarily concerned with bargaining retirement plans for their own members. Since the unions have no direct interest in the establishment of plans for the management groups, negotiated plans are quite likely to cover a large proportion of the unions' members. The actions of the company in regard to coverage of its other employees may not deeply concern the union.

The employer may have had a plan covering salaried employees and therefore desires to cover all employees under any plan that results from negotiations with a union. He may have had no program, but feels that any gains now for its members by a union should be granted to the rest of the employees. However, the agreement with the union will normally specify only its members. The employer may have to enter into separate agreements, as indicated earlier, with craft unions and arrange to provide coverage for professional employees, guards, and salaried employees outside of the union contract.<sup>33</sup>

Most pension plans require that employees complete a certain amount of full-time service prior to participation in the program. This requirement is designed to exclude those employees who remain with the company only a short time and to cut down on costs. In addition a minimum age may be specified for membership. Since the rate of turnover of young employees is high, these two requirements are designed to exclude them until they demonstrate some degree of permanency. In connection with this, it should

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<sup>33</sup>Strong, op. cit., pp. 204-205.

be noted that most part-time employees are excluded, which indicates again the emphasis on permanency. The union can be expected to strive for limitation of these restrictions in order to cover as many of its members as possible.

Some plans specify a maximum age. This excludes those employees who have attained retirement age or are closely approaching it. A related restriction is the exclusion of employees who have attained a certain maximum age, after 45 or 50, at the time of employment. The chances for disagreement over these issues are extensive, especially among some of the craft unions with members in the older age groups.<sup>34</sup>

6. Flexible retirement and normal retirement age.--Closely allied with terms for coverage and requirements for participation are the eligibility requirements for receipt of pensions. Certain conditions will have to be fulfilled before a participant is entitled to receive full retirement benefits. Entitlement is based upon attainment of a specified age, or completion of a certain number of years of full-time employment, or some combination of these two requirements. A part of the problem, then, is selection of the normal retirement age. This is usually 65 since it meshes with provisions of the Social Security Act. The length of service may range from as many as 15 to 30 years.<sup>35</sup>

At the present time, most unions are opposed to a fixed retirement age. They argue that the individual be given the choice between retiring at the normal retirement age or working

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<sup>34</sup>Chamber of Commerce of the State of New York, op. cit., pp. 53-54.

<sup>35</sup>Ibid. pp. 54-56.

past it. Age 65 is an arbitrary selection of chronological age which does not necessarily indicate the physiological age accurately enough for retirement purposes. Some workers are quite capable of performing their duties past the age of 65. Others suffer a substantial decline in efficiency prior to this time. Since physiological age is so difficult to determine, employers have been hesitant to use any other criteria but chronological age. They do not want to be accused of arbitrary action.<sup>36</sup>

The union's interest in optional postponement of retirement may be only a reflection of the times. In less prosperous periods when jobs are scarce, unions may request retirement of employees as they reach some specified age. They might even advocate retirement ages with unreduced pension benefits.<sup>37</sup>

Many plans provide optional retirement ages. The employee, with the consent of the employer, is permitted to retire at an earlier age than normal at a reduced pension. Although some provide for later retirement than the normal, several plans call for compulsory retirement at the normal age.<sup>38</sup> At present the age when retirement should take place is a very controversial subject.

7. Administration of plan.--The employer feels that he should retain complete control over administration of the plan. He now may share administration of the fund under terms of the Taft-Hartley Law. This part of the law was supposedly directed at the Coal Pension and Welfare Fund. Anyway, this plan is used as the

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<sup>36</sup>Strong, op. cit., pp. 27-36.      <sup>37</sup>Ibid., pp. 205-206.

<sup>38</sup>Davey, op. cit., p. 219.

horrible example in arguments for company administration of the retirement system. A few other plans under union control are considered unfortunate examples.<sup>39</sup> Actually administration of the plan and of the fund has been largely in the control of the company. Much resistance to employee participation in a plan's administration stems from a fear that a precedent may be set for further invasions of management perogatives and for this reason, the question is very often decided on factors not always pertinent to the real problem.<sup>40</sup>

The union urges that it be represented on any committee administering the plan. They argue that the direct interest of the employees is best served by appointment of representatives to serve on any such board. The members' own appointees could then participate in the plans' operations. They would have less cause to challenge the competence with which the plan has been administered. The majority of recently negotiated plans provide for joint administration.<sup>41</sup>

#### E. Economic Implications of Negotiated Plans

Heretofore the discussion has been concentrated upon internal problems of pension plans and difficulties encountered in negotiations. Many rather important industries and unions are involved. Many of the effects are far reaching. For these rea-

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<sup>39</sup>Chamber of Commerce of the State of New York, op. cit., pp. 52-53.

<sup>40</sup>Bomar, op. cit., pp. 279-280.

<sup>41</sup>Davey, op. cit., pp. 219.

sons, a great deal of attention should also be given to the external economic problems which arise from the widespread adoption of privately negotiated pension plans. These external problems are concerned with the probable effects of pension plans.

1. Adequacy of funding.--One of the most compelling appeals to the employee which rises from a pension plan is its promise of security in his old age. But a promise of security followed by a failure to provide it is perhaps worse than no promise at all. The participants of many plans may be confronted with such a failure. Many plans are considered quite unsound. Unions have accepted plans to make a quick showing while the companies have agreed to them to hold down the additional costs involved. Such plans appear destined for eventual insolvency. In fact there is no certainty that bargained pensions can provide old age security even for those covered.<sup>42</sup>

More than likely, in the words of a "New York Times" editorial, April 9, 1949, many bargained pensions will find "that the first major economic collapse will send them toppling with attendant disillusionments and hardships to those who counted on them for security."

If that should happen--and many people fear that it will --the calamity may have serious social consequences. The government, in order to avoid the unrest and possible consequences, may bail such plans out. Ample precedent has occurred under the Railroad retirement act. The railway pension system is supposed to pay for itself through payroll taxes but most authorities agree

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<sup>42</sup>Kerr, op. cit., p. 6.

that some of the cost has been met through general taxation and that the Federal treasury will be called upon for increasing contributions in the future. Thus the taxpayers are already supporting a pension system for a special group.<sup>43</sup>

2. Investment Limitations.--The accumulation of interest on invested funds was mentioned as a factor in reducing costs of a retirement plan. This assumption indicates that these funds are invested. The greater the amount of funds available for investment the more competition there will be with outlets available to insurance companies and other organizations with fiduciary capacities. With the tremendous funds that may become available, the problem of investment may become acute. Some estimates have been made that about \$4 to 5 billion of private pension funds may be seeking investment annually. When compared with the less than \$1 billion paid to life insurance companies for annuity premiums, the size of this potential investment emphasizes the gravity of the situation.

Even if the figures are grossly exaggerated, evidence persists that there would still arise an almost insatiable demand for riskless investment sources, if conservative programs of the past govern the investment of these funds. Some authorities have pointed out the possibility of negative interest under such pressures. A decline in the rate of interest, even if not this se-

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<sup>43</sup>Proceedings on Conferences, Pensions and Health and Welfare Plans in Collective Bargaining, A Conference Conducted in Los Angeles and San Francisco, April 13, 15, 1950, Institute of Industrial Relations, University of California, Berkeley, (1950), p. 17.

vere, will substantially reduce its beneficial effect on the fund and increase the cost of the pension fund.<sup>44</sup>

Perhaps restrictions might have to be lifted to permit expanded investment of such reserves in equities. This, it is claimed, would provide a much needed expansion in the flow of funds into risk securities. At present, possibly about a fifth of yearly contributions to trusted funds are invested in equities. Increased equity financing among trustee plans has been encouraged by a greater emphasis on income maximization and an awareness of the need for protection against the effects of inflation. Recognition of the probable pressure for liberalization of future pensions in line with a rise in the standard-of-living implements this tendency.

Another factor may operate to influence such trend to venture securities. The fact that a substantial amount of funds is extracted from the expenditures which otherwise would have been made may have its depressive effects upon the economy. The substantial savings which would result may react unfavorably upon the national income, particularly if investment is made primarily in conservative securities, such as government bonds. In the long run, however, a higher rate of saving may react favorably upon the economy. It might facilitate expansion of productive capacity. The flow of a good share of these funds into equities may provide the type of investment which would add such support to the economy. Even investment in government bonds may only

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<sup>44</sup>Chamber of Commerce of the State of New York, op. cit., pp. 7-8.

make this expansion more indirect. Much more attention should be given to this problem.<sup>45</sup>

3. Impact of Depressions.--The effects of a major economic collapse upon unsound plans has been pointed out. Even well-planned, actuarially sound systems are likely to encounter resentment and criticism. An effectively preserved fund has no meaning to the individual who loses his membership in the system. The pension programs under conditions of mass unemployment may reap a whirlwind of hostility no matter how well their funds have been protected. This very stability is likely to be a thorn in the side of those without hope of security. Demands can be expected for more lenient provisions, some of which will be for some sort of immediate participation of the unemployed to "tide them over a rough spot". Retention rights will be at a premium. Intraunion friction is not beyond the realm of possibility.

The employer must recognize that pension costs cannot be reduced in times of bad business, unless the plant shuts down rather completely. On the contrary costs are likely to increase during such times. Wage payments may stop but contributions normally continue to protect workers even during periods of temporary layoff. Many plans consider a layoff temporary usually up to two years. During lean economic times, more members of a plan at advanced age can be expected to request retirement, even if they have not reached retirement age. The latter will prefer to receive reduced pensions rather than risk unemployment with

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<sup>45</sup>National Planning Association, op. cit., pp. 51-52.

greater loss of income and a layoff which might result in loss of pension rights because of a break in service of too extended a length.<sup>46</sup>

Investment problems are aggravated by depressed periods. A quick reference to the late Great Depression recalls the great extent of idle capital. The increase in costs of a plan has already been pointed out in connection with funds not drawing interest.

4. Effect of Inflation.--A pension plan often provides for some stated amount. Most of the newer plans call for pensions of \$100 to \$125 per month. No worker could very well exist on such a sum at today's price level. Few are likely to argue that this sum does little more than meet the minimum requirements of an individual. If he has a dependent, it may not even do that. Yet it is axiomatic that a small rise in the price level each year would render most industrial pensions totally inadequate. The long-term national trend offers little hope that present plans will long be adequate.

Moderate inflation with its relatively high levels of employment and solid profit margins is generally considered a favorable condition. However, if the pinch becomes too tight, the steadily growing proportion of superannuated part of the population may join with other fixed-income groups to control inflation.<sup>47</sup>

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<sup>46</sup>Chamber of Commerce of the State of New York, op. cit., pp. 47-50.

<sup>47</sup>Davey, op. cit., pp. 220-222.

The employer may sincerely desire to offset the effects of inflation. However, experience has indicated that safe investments like government bonds have returned with interest an amount far from adequate to buy at today's dollars what could be purchased at the dollars of ten years ago. The invested fund will be adequate on the basis of the time the contributions were made to it. Consequently the employer will be in a position to render those benefits prescribed by the plan. He could adjust his contributions to the trends in the level of prices. But the increased payments would eventually become unbearable.<sup>48</sup>

Moreover, the unions will be faced with the problem of making greater and greater demands to keep up with the cost of living. What the outcome will be no one can really guess. The younger workers may feel quite strongly that they would like to have the cash in hand. The prospects here for rivalry within the union are very real. So it is that if the economy goes either direction--boom or bust--the union may be torn by factionalism.

5. Coverage of Working Population.--If every union were to secure bargaining agreements on pension plans, only a fraction of the working population would be covered. The majority (about three-fourths) of the work force would be dependent upon Social Security for some aid in old age, or other programs, if any. About one-fifth are exempt from Social Security. Of this group,

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<sup>48</sup>Chamber of Commerce of the State of New York, op. cit., pp. 26-28.

about one-half are covered by public programs, such as Federal or State plans.<sup>49</sup>

Unquestionably, the private pension plan is not the answer for the majority of the working people. Even if plans were available to those not organized in unions, it is hardly to be expected that as many as half of the gainfully employed could be provided with private pensions. In some industries labor turnover is unfeasible. In others the concentration of young employees would make such plans meaningless, or the bulk of workers so old as to make a program too costly.<sup>50</sup>

6. Effects on Worker Mobility.--At best, the labor force can hardly be considered as very mobile. Recent empirical studies do not support the conventional theory that the worker is actuated primarily by economic motives. Actual mobility is held to be confined to a not too large segment of the labor force. Workers' reasons for movement are not those of a purely economic man but involve many factors, of which wage considerations may be one and not necessarily the primary cause. After all, some movement may be desirable. Mobility means among other things, movement into steadier employment, transfer to more desirable jobs or jobs for which the individual is better qualified, acceptance of better paying jobs, movement to expanding industries, to healthier climate and to more congenial groups. One writer terms this trial and error "the balance wheel of the labor mar-

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<sup>49</sup>National Planning Association, op. cit., pp. 9-10.

<sup>50</sup>Arthur M. Ross, The New Industrial Pensions, Reprint No. 23, Institute of Industrial Relations, University of California, Berkeley, (1950), p. 136.

ket."<sup>51</sup> It can be seen that such mobility will result in better allocation of the labor force. However it may be deterred by the fact that the worker would lose his pension rights by quitting a covered job, as well as have to make the occupational adjustment. The factor of seniority may offer equally compelling or even greater pressure for immobility.

Naturally the employer is favorably disposed toward any plan that reduces turnover. Although firm conclusions concerning the effect of pension plans on mobility may be premature from the data available, many opinions have been expressed that such plans will further reduce labor mobility. The effect may not be significant but should be given consideration. Reduction in turnover affects directly the costs of the employer. The economy as a whole feels the cost of labor immobility. Imperfect allocation results in a net loss to the economy. The employer gains stability at some cost to society. Perhaps the problem should be met by providing a method by which workers can take benefits with them.

Transfer from one private plan to another would confound confusion. But before it could begin, such a scheme would have to overcome the tremendous resistance to vesting. Even if this were overcome, the problems of movement from one plan to another of differing provisions would be insurmountable. One suggestion for solution of this problem is the pooling of pension plans within a geographic area.<sup>52</sup> Some attempts have been made to do

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<sup>51</sup>Ibid., p. 137.

<sup>52</sup>Davey, op. cit., pp. 222-224.

this. They do present problems which have to be met.<sup>53</sup> Many objectives, also, have to be overcome.<sup>54</sup>

7. Employment of Older Workers.--Many employers with retirement plans will be reluctant to employ older workers. Here again worker mobility is reduced. The unemployed worker of over 40 or 45 is already limited in his opportunities for employment as compared to the younger worker. If the older worker remains unemployed or takes a lesser job, a misallocation of labor resources occurs.

Inclusion of the older worker in a pension plan would require high direct costs. Naturally most employers will avoid this as much as possible. Some who do hire older workers limit the benefits to some proportion of the regular pension based upon the shorter length of time in relation to the stated period. The result, obviously, is small pensions, sometimes so small that they are paid in lump sums. Some employees have derided such programs as "firing plans."<sup>55</sup>

8. Influences in Reference to the Federal Plan.-- Many pension plans are tied in with the Social Security Act benefits. The \$100 to \$125 monthly pension already mentioned is then based upon two parts--one portion is provided by the Social Security pension and the other by the pension system. It can readily be seen that as the Social Security provisions increase, the re-

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<sup>53</sup>William Goldner, "Area Pension Plans Under Collective Bargaining," Labor Law Journal, III (December, 1952).

<sup>54</sup>Strong, op. cit., pp. 220-222.

<sup>55</sup>Ibid., pp. 23-25.

quirements against the plan become less. A substantial increase in Social Security could reduce the obligation of the plan significantly and could entirely erase such obligation.

A significant reduction in the obligation of the retirement system destroys the fiction of the concept that employer's contributions to the plan were deferred compensation. The most that can be said is that such reduction might finally put many plans on an actuarially sound basis.

Inadequate coverage by private pension plans and inadequate pension benefits of Social Security may combine to create pressure for an expanded Federal Old Age and Survivors Insurance (OASI). Some authorities are not so sure but what one aspect of the big drive for private pensions was to engage employers' backing in demands for improved OASI benefits. Whether this is true, it is likely to have that effect.<sup>56</sup>

Many leading businessmen have publicly advocated an expanded OASI to provide real security and obviate the necessity of private pension plans. The "New York Times" (April 9, 1949), has editorially stated that the approach "is to make our governmental social security sufficiently comprehensive to reduce the need for the establishment of special programs through collective bargaining."<sup>57</sup>

Under an adequate OASI program, the private pension plans would become only incidental to the Federal retirement system. They would implement members' income from the OASI pension

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<sup>56</sup>Ross, op. cit., p. 134.

<sup>57</sup>Kerr, op. cit., pp. 8-10.

with an increment that could be used to provide some of the amenities of life. The private pension would then reward long service, which has been a major premise in adoption of private systems.

#### F. Social Impact of Negotiated Plans

The effects of negotiated pension plans extend into society itself. The benefits to the individuals covered by such plans have been fairly well publicized. In recent years, more attention has been directed at the social consequences than formerly. This is due to the fact that the impact of private plans may produce unfortunate consequences. It should be worthwhile to look into some of these undesirable possibilities.

1. Possibilities of internal conflict in unions.--A divergence of interests already exists between the younger and older workers. Much of this is only natural. Seniority has introduced an element which brings these interests into conflict. Under seniority provisions, preference is given to older men in both promotions and layoffs. Now pensions have been added as a factor to be considered. Younger persons cannot be expected to be as concerned with pensions as those older men nearing retirement age. Pensions, then, seem likely to widen the already existing schism between the younger and older workers. Such a cleavage can have an important bearing upon union demands and in internal union politics.

At one extreme, a union controlled by older workers could concentrate its demands on increased retirement benefits to such an extent that direct wage increases would be forced to

a minimum. Such a union may seek high benefits for the immediate future without regard for the fact that this may endanger benefits of the more distant future. At the other extreme, a union controlled by younger men may press demands for direct wage increases without regard to adequate funding of a pension plan. Such a union may even renegotiate pension payments downward in order to obtain immediate wage gains or other benefits. These conflicts, if they occurred, could present many fiscal problems and other headaches to management.<sup>58</sup>

2. Inter-union rivalry.--Private pensions add another issue to the intense rivalry that exists between some unions. After all their prestige might suffer if a rival union was able to obtain better terms in its pension program than another. When John L. Lewis won pensions for the miners, Philip Murray was challenged to do likewise for the steel workers. Pattern setting and following can determine the size and character of the pension as well as the size and character of the wage increase. Where the demands will stop may be anybody's guess.

It is well to remember that expanded contributions enter directly into the cost of production. The effects of inter-union rivalry are of considerable interest to the general public. Some individual firms could find their sales affected by a price conscious public. A general round of increases in employers' contributions could add its impact to inflationary pressures. Rivalry is a factor to be reckoned with.

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<sup>58</sup>Ibid., pp. 6-7.

An acute situation may develop if an employer faces several unions. Each one may seek better terms than the next. The employer invites disaster unless he treats them all uniformly. The difficulties in trying to deal with this and that union, perhaps all of them simultaneously, are numerous and endless. In his attempt to reach a coherent, sound pension system, the employer may find his operations interrupted by union conflict. The possibilities of interruption of service with hardship or inconvenience of the public are ever present.<sup>59</sup>

3. Conformity to discipline.--The influence of pension plans upon discipline are not clear. There is reason to believe that retirement systems may be a factor in inducing greater adherence to industrial discipline. Pension plans not only tend to reduce mobility but in addition can be used to gain greater disciplinary control over workers. Discharge by the company, of course, separates a man from his job and his stake in the retirement program. The union, if it discharges him through some membership rule, also deprives the worker of employment and pension rights. Too much conformity to discipline may be induced.

It was noted in the discussion of mobility that empirical evidence does not lead to anything conclusive. Such is the situation here. The greater subservience to the company which may result from a pension program could be relatively insignificant. Seniority is possibly a potent factor in producing greater conformity. Yet the middle and upper brackets in terms of age and

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<sup>59</sup>Ibid., pp. 2-3.

length of service usually do not voluntarily move from one job to another. Such workers are more amenable to discipline than the younger workers.

Although firm conclusions cannot now be drawn, some justification can be made for the assumption that pension plans introduce into the industrial situation greater rigidities and pressure for conformance.<sup>60</sup>

4. Enforced retirement.--So far, age 65 seems to have some connotation of magic. Up to that age, a worker is productive, but after it, he becomes ineffectual. The age 65 does not provide any magic formula to determine the retirement age. The Social Security Act set a pattern that has had far reaching effects which should be reconsidered.<sup>61</sup>

It was stated earlier that physiological age was a better criteria than chronological age. The government, employers, and unions should all work on this problem to devise better methods of determining a man's proper retirement age. Perhaps medical examinations which are reviewed by a board composed of joint or tripartite membership may be used to pass on retirement requests --from the companies, or for the employees.<sup>62</sup>

Retirement of the aged presents a tremendous problem relating to selection of an age alone. This problem becomes more acute when compulsory retirement is introduced in the situation. The size of the problem becomes a little more staggering when it is considered that more than 13 million people in the country

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<sup>60</sup>Ibid., pp. 4-5.    <sup>61</sup>Ibid., p. 9.

<sup>62</sup>Strong, op. cit., pp. 207-208.

are now 65 and over,<sup>63</sup> and that the prospects are very great that this number may nearly double in a quarter century.<sup>64</sup>

Many people would like to work past the retirement age. In order to avoid accusations of discrimination, management ordinarily seeks some definite retirement age for the worker. Employers are insisting on a compulsory retirement provision in most of the recent plans. They are relieved of any responsibility of determining who may work beyond the retirement age.<sup>65</sup>

With the ever-increasing proportion of aged in the population, the problem of supporting the superannuated segment of the population becomes very burdensome. Some of this burden could be relieved if a place could be found in industry for those workers past retirement age. The government, business, and unions should direct more energies toward solving this problem. The solution might go far to a better allocation of the labor force if many more of the older people could be effectively utilized beyond the present arbitrary retirement age.

5. Workers without coverage.--When the worker without coverage reaches an advanced age and his efficiency deteriorates, the employer is confronted with several possibilities. He could summarily dismiss the superannuated employee. However, this would create bad relationships in the community. In order to maintain his reputation as a fair employer, he might continue the worker on the payroll. The employee, used to his previous level

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<sup>63</sup>National Planning Association, op. cit., p. 1.

<sup>64</sup>Witte, op. cit.    <sup>65</sup>Davey, op. cit., p. 219.

of wages would deeply resent any attempt to cut his wages and would look on it as pensioning him on the job. If the old wage is retained, the employer's costs are high in comparison with the man's production. This cost becomes a part of the cost of production and is passed on to the consumer. Also, younger men are waiting to enter the company, or if in the company, are seeking advancement.

The employer may seek another method of adjusting the situation. He may provide, under informal arrangements, a pension to the individual to supplement any OASI benefits due the worker. Thus he adds a cost to production for which no preparation was made. In times of depression this practice may have serious repercussions, when he is forced to discontinue it.<sup>66</sup>

The large number of persons not covered by the OASI program or by private pensions means the possibility of a powerful pressure group demanding special legislation. They could very possibly get such legislation which would mean that their previous income, and that of their employers would not have been burdened by taxes to support the Federal plan or contributions to a private plan.<sup>67</sup>

6. Welfare implications.--The combined conditions of bargained pensions and inadequate OASI benefits have the danger of increasing the tendency of the government to solve the old age problem with assistance handouts. The abuses within the states hardly need recounted. Old age assistance (really poor relief) is based upon need which gives rise to opportunities for favoritism

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<sup>66</sup>Strong, op. cit., pp. 1-23.      <sup>67</sup>Witte, op. cit.

and for political manipulation. At best such assistance is little better than starvation. Since such a large segment of the population is not covered by either the private plans or the Federal system, the problem has grave implication which cannot be overlooked. There is no room for complacency over the fact that some parts of the population happen to be covered by either Federal or private pensions or both. The rest of the population surely deserves something better than disguised poor relief.<sup>68</sup>

One factor often overlooked is that pension plans themselves have welfare characteristics. They take the initiative for saving for old age out of the hands of the worker and place it in some formalized program, mainly the responsibility of the company. The basic purpose is commendable. However, this program means that a great deal of time, attention, and cost is devoted to the operation of the retirement system. It is questionable whether the company and union should spend this time, effort and money in social service work. Too large an area of a man's life can be taken up by welfare unionism and company paternalism. They might better concentrate in business pursuits and representation of the worker on the job.<sup>69</sup>

7. Government intervention.--Some of the possibilities of Government interference, pressure or participation in pension planning has been previously mentioned. For instance, the Fact Finding Board exerted considerable influence toward settlement of the Steel strike and the shape the pension program took. The section of the Taft-Hartley Law dealing with joint administration of the

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<sup>68</sup>Ibid.    <sup>69</sup>Kerr, op. cit., pp. 5-6.

pension fund was aimed directly at the United Mine Workers, from the publicity the plan received during passage of T.H. The government participates in the Railroad Retirement program, even to the extent of financial support which comes from general taxation.

The possibilities of other forms of intervention are numerous. The probability looms even greater since the big drive for bargained pension plans. If a key industry is involved, the government may step in again when a pension plan or its modification is at issue. The control and investment of huge sums by the plan's administrators may soon result in legislation specifying conditions of guaranteeing and investing these funds.<sup>70</sup>

It is entirely conceivable that the government may take over all private pension systems. There has been much talk of this already. A recent issue of "Labor," (November 29, 1952), the railroad workers' publication, headlines it as "U. S. Chamber Proposes to Merge All Pension Systems."

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<sup>70</sup>National Planning Association. op. cit., pp. 71-72.

## V. CONCLUSIONS

The complexity of private pension plans, the variety of problems of negotiations, the great number of areas of possible conflict, and the many possible implications for the employer, the union, and the worker, all point up sharply the necessity for considerable care and intensive study during the process of bargaining a pension program. The parties may not be adequately equipped to handle this process. They should give consideration to the possible advantages of assistance from specialists. They will recognize, of course, the limitations of third-party intervention. However, if an expert is required, he should be consulted from the beginning.

A Federal program of pensions and insurance may have welfare implications. The issue has been determined, however. The question now remains with regard to the adequacy of the present system. Obviously, the pressure for private plans indicates quite clearly that the Federal system is inadequate. Employers, for one side, should reevaluate their position with regard to the government program. They should find their own experience convincing evidence of the need for an expanded Federal system.

The unions should readily recognize that they are actually securing pension benefits for only a portion of their members. They would serve their memberships on a broader scale by working for adequate coverage under an expanded Federal program.

This would not mean that the unionists would forego any attempts to share in income through such devices as supplementary pension plans.

The public should reappraise the Federal system. The social and economic implications emphasize the importance of such reexamination. Through its legislators, additional study should be made of the program to determine the modifications and extensions, if any, which are desirable. The work of researchers is making an important contribution toward a better understanding of the subject of public and private retirement systems.

An integrated program has much to commend it. If a single Federal program could be adjusted to accommodate various public, railroad, private and other retirement systems, many of the problems of the present scene could be eliminated. Vesting would not be a problem since contributions would be credited to the worker's permanent retirement account. Inter-employment transfers could be handled easily which would ease restraints upon worker mobility. Each member of the working force could be guaranteed some adequate minimum pension which would have the backing of the Federal government. Upon a participant's death, any residual benefits could be extended to the dependents. A person's age would have no significance as far as pension costs to an employer were concerned, and should not be a barrier to employment for that reason.

Naturally not all problems will be solved by an expanded, integrated Federal system. Investment will remain a big item to

solve. One solution may be to invest such funds in construction or building projects, such as multi-purpose dams, government buildings and similar projects. Those projects which encourage utilization of productive capacity and which may produce revenue should be given first consideration. Such suggestions as this one should be carefully studied. The Federal system will always have some welfare implications. However, a general, contributory plan will do much toward minimizing this attitude.

The legislators may find it desirable to allow individual employers some flexibility in the Federal system. Perhaps this could be arranged by some optional basis. Selection of a particular contributory rate, combined employer-employee rate, would result in credits proportionately higher than the minimum. The summation of such credits at the time of retirement would result in a substantially higher monthly pension. Through this procedure the worker could acquire additional benefits in the system. The union would be in a position to negotiate pension provisions higher than the Federal guarantee. The employer could, when he desired or as a result of collective bargaining, increase his employees' credits in some profit sharing program or similar action. Such provision need not preclude the adoption of a supplementary program, apart from the Federal system.

The need for a thorough study of all pension and retirement plans is beyond question. Such study should be encouraged by all sections of society. The questions and problems which have been discussed above will have to be considered. Many more will be encountered. Their solution will have to be worked out.

The place in society of private pensions and retirement plans under collective bargaining is rather indeterminate, as of the moment. It may be permanent. However, the proof is rather conclusive that the country needs a greatly expanded and integrated Federal pension and retirement program.

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