Pensions (1952)

Pension Plans Under Collective Bargaining

AMERICAN FEDERATION OF LABOR
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A Reference Guide for Trade Unions

AMERICAN FEDERATION OF LABOR

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Preface

One of the most conspicuous developments in recent collective bargaining history has been the rapid spread of negotiated retirement plans. A Bureau of Labor Statistics study shows that, as of mid-1950, about 5,000,000 organized workers were covered by contractual pension plans—a threefold increase since 1948. The number has continued to grow since those figures were compiled.

On the surface, this seems to represent a very substantial amount of progress toward overcoming the economic hazards of old age. Unfortunately, the figures are misleading. The restrictions and limitations of most of these plans are such that, out of the more than 5,000,000 workers described as being "covered," very few have any real assurance of ever actually receiving a pension.

The figures are, nevertheless, an indication of the manner in which unions are trying to meet the very real and human problems faced by their older members. Few union men can see their fellow workers tossed out of the shop on their Social Security—with poverty and dependence awaiting them as the end reward of a long, productive and dues-paying work life—without feeling that something should be done about it.

The Federal Social Security system, even after recent improvements, still remains pitifully inadequate. A private pension plan will therefore seem to many to provide a sound and logical solution to the financial problems of the aged. Older members will naturally favor the idea. Younger members who can see far enough ahead to consider the time when they will be in the same boat will also be inclined to approve.

At first glance, then, almost any kind of a paid retirement plan may look like a substantial improvement. Unfortunately, the issue is not that simple.

In its net effect upon a group of workers, an ill-considered or poorly-designed retirement plan is not necessarily better than none at all. Such a plan may impair other vital trade union aims and functions, while offering relatively little in return.

Whether or not a pension plan is actually a good idea, and the type of plan that ought to be set up, are questions with no single answer that would apply to all groups alike. The right answers can be found only after studying the issue in relation to other economic objectives; in relation to the existing level of wage rates and working conditions; in relation to the effect upon mobility and job tenure of the members; in relation to the characteristics and most pressing needs of the members of the particular group concerned.

The experience of another union does not necessarily offer a sound guide. A plan that has worked well for one union may give much difficulty and few benefits if transplanted to a different situation and a different set of circumstances.

A retirement plan should be tailor-made to conform to the needs, characteristics, and resources of the particular group of workers which it is to cover. Its structure, its cost, and its value to the members will depend upon factors which vary from one group to the next. It is therefore a mistake simply to take another union's plan and adopt it, in all its details and without modification, as a model for an entirely different group of workers.

Here, as in other areas of collective bargaining, a little care and forethought will be well repaid. A pension plan is a long-term proposition—offering benefits to most of the members only in the more or less distant and uncertain future. Nothing is to be gained and much can be lost through hasty action.

The planning of a pension program—in the normal situation where funds and bargaining opportunities are not without limit—presents a series of choices between alternative courses of action. Only the particular union concerned, knowing the needs and wishes of its members, is qualified to make these choices.

If it makes them with its eyes open and with an understanding of the basic principles involved, most of the pitfalls and defects which are commonly attributed to private pension plans can be avoided, or at least reduced to a minimum. If it goes into this field blindly, the plan may prove a burden rather than a benefit, an irritant rather than an asset.

The purpose of this handbook is not to lay down any single hard and fast course of action for unions to follow in meeting the pension issue. The purpose is only to provide some of the basic facts necessary to an informed decision, and to describe the alternatives in such a way as to assist union negotiators in making their own best choice.

Part I

NATURE AND PURPOSE OF PENSION PLANS

The subject of pension plans is not a simple one. If a careful and thorough job is to be done, the task of planning and operating a retirement program will require a lot of technical work on the details of cost and financing. Here the union official must rely to a large extent upon the "experts" who do that sort of work for a living. Up to a point, he will have to take their findings at face value.

While he should make sure that the persons who do this work are reliable, the union official should not waste his valuable time getting involved in a lot of purely technical questions. Preliminary estimates of cost can be finally verified only through experience under the plan in actual operation. Likewise, the best way to get to know all of the finer points involved in the administration of a pension plan is through actual experience in administering the plan.

The union negotiator should, however, know something about the general principles behind the figures relating to costs and methods of financing if he is to do an effective job at the bargaining table. Some of these principles are discussed in the following chapters.

But first of all, he should have a clear idea of the fundamental nature of a pension plan—what it can and cannot do, and how it fits in with all the other interests and aims of the union. He should know what the primary objectives of the plan ought to be, how those objectives rank in the order of priority, and how they can best be carried out. He should know what provisions are needed in order to provide the greatest possible degree of protection to the rights of the membership as a whole. This he cannot leave to the outside "expert".

Pensions Are Earned, Not Given

The paternalistic type of employer usually regards a pension as a gift or gratuity granted as an act of benevolence, or moral duty, to his "old and faithful" employees—in other words, as a bone for Old Dog Tray. This is a view which labor cannot accept, for it runs directly counter to the basic principles of the trade union movement.

Unions do not bargain for gifts or gratuities; they bargain for wages and conditions of employment. The negotiation of the labor contract is a transaction between equal parties in which equal values are exchanged—not a petition to a benefactor for charity towards a group of old retainers.

When a pension plan is brought within the scope of the agreement, both parties thereby acknowledge that it is in fact a part of the hire which the workers are to receive *in exchange for* their labor. It is not "free" and they do not get "something for nothing", as an act of grace on the part of the employer. They earn it and pay the employer for it by doing the work which constitutes their end of the contract.

A pension plan is not, therefore, a conditional or discretionary gift by the employer, but a *deferred wage* earned by current labor services, and required by the terms of the contract.

To many, the fact that a retirement plan is a form of compensation may seem too obvious to require further argument. Nevertheless, it is a point which ought to be kept clearly in mind. It has a very important bearing upon many questions which are bound to arise with regards to the form of the plan, the manner in which it is to be administered, and the rights of the members under the plan.

It means, first, that the workers' interest in the pension fund is not established solely by reason of advanced age and "long and faithful" service with an employer. That interest is established by reason of the work performed by all the members during the term of the contract.

The performance of that work is all the employer has a right to expect in return for his contributions to the pension fund. The amounts contributed by the employer to the fund, to finance the pension credits accumulated by the group during the term of the contract, should therefore be an irrevocable payment which the employer cannot withhold or recapture, just as he cannot withhold or recapture cash wage payments.

The workers' interest in the negotiated plan is equally strong regardless of whether the fund is set up formally on a so-called "contributory" or on a "non-contributory" basis. In the sense that the contributions paid in by the employer have been earned by the workers, they actually pay the full amount of the cost in either case.

Likewise, the workers covered by the plan are properly entitled, through their union representatives, to a forceful voice in the control and management of the fund. This right is just as clear in the case of a negotiated plan as it would be in the case of a fund which the workers might set up entirely through their own resources—outside the shop and without employer interference—with money which they might elect to set aside out of their cash wages.

As a matter of fact, one of the practical alternatives to the negotiation of a union-management plan, based on employer contributions, is the negotiation of an equivalent amount as an increase in current cash pay, and the use of that amount—through an increase in dues or special assessments—to set up a strictly intra-union fund. About the only advantages to bargaining on pensions, where all the terms of the plan depend upon employer agreement, lie in considerations of administrative convenience, plus the fact that employer contributions to a pension fund are not currently taxable to workers as income, as they would be if taken in the form of cash pay.

Pensions Versus Other Economic Gains

Pensions are a labor cost item, like all of the other economic terms of the working agreement. Viewed solely from this standpoint, it should make little real difference to the employer whether that cost is incurred in the form of contributions to a pension fund, or in the form of higher wages, paid vacations, a health insurance plan, or a reduction in standard working hours.

A union's ability to negotiate a pension plan will depend largely upon its ability to bring enough argument and pressure to bear to induce the employer to accept a higher labor price. Under ordinary circumstances then, a union that is able to persuade an employer to pay into a pension fund should be just as able to take that economic gain in some form other than pensions if it elected to do so.

The negotiation of a pension plan therefore involves the sacrifice or deferment of some other alternative objective to which the union could have devoted its collective bargaining energies. In its simplest terms, this presents the union with the question of a choice between current wages and deferred wages—of whether or not it would be wiser to take the cash and let the pension credits go.

Of course, there are other factors which may at one time or another make it easier or more desirable to negotiate a retirement plan than to secure an equivalent increase in cash wages or other benefits. Among these factors may be certain tax advantages for the employer, and precedents in other parts of the trade or in other trades—not to mention the wage stabilization situation.

Since their effects from the standpoint of inflation are entirely different, as well as for practical administrative reasons, the Wage Stabilization Board has quite properly placed wages and pension plans under separate sets of rules. The Board may accordingly permit the establishment of a pension plan where it would not approve a straight wage increase.

Under normal conditions, however, most unions must eventually decide whether the interests of the members would be better served by going after a pension plan or by concentrating on the task of improving the wage scale. This is a decision which each union must make for itself, in the light of its own particular circumstances.

Faced with the choice, one union may properly decide that a pension plan would be a desirable immediate objective. Another may feel that its members cannot at present afford to divert any part of their potential wage gains into a pension fund.

Pension Funds Limited in Use

In considering this issue, certain facts should be borne in mind. Pension funds are designed to serve but a single major purpose: to help meet the need for an assured income after a person's working life is over. Depending upon the person's present age, that particular contingency may be relatively remote as compared with other more pressing ones.

In contrast, a wage increase can be used for any number of purposes. It may be added to savings or used to provide an immediate higher standard of living. As liquid savings it will be available for other urgent needs as well as that of old age—the education of one's children, medical expenses, living expenses during unemployment, payments on a house, or anything else that chance or choice might require.

These are economic problems which most workers must face long before they reach old age. A pension fund in which their equity is frozen until retirement will not help to meet them. Only cash wages can do that.

This being the case, the priority which a union will assign to a pension plan in its negotiations may depend upon the extent of its present old age problem, in relation to the extent to which its members are presently able to meet other pressing economic needs.

In extreme cases, the answer should be fairly obvious. Where the wage scale of a particular group of workers is at or near the bare subsistence level—or too low to provide decent food, clothing, housing or medical care—wage increases should be the first order of business.

Even though the problems of the aging in such a group are very serious, to sacrifice a possible wage increase in order to set up an expensive private pension plan would leave that group "insurance poor". This is one of the many reasons why private retirement plans can never meet the broad national problem of old age insecurity. The Federal Social Security system is the only practical means of solving that larger problem.

Pensions a Sound Objective for Many Groups

While limited to one main function, a well-constructed pension plan performs that particular function very well. There are many groups, therefore, that may derive substantial advantages from the negotiation of a sound retirement plan.

This might be true, for example, in the case of a union whose members enjoy a scale of wages high enough to provide a margin of economic safety after immediate needs have been met. For such a group, social security alone—plus what they may have been able to set aside individually—may mean too sharp a drop in their accustomed standard of living after retirement. They may well decide that the negotiation of a pension plan should take precedence over other considerations.

While a good pension plan is certainly not one of the cheaper things in life, the benefits which the individual member stands to get out of a group plan are much higher than he could possibly provide for himself if he were to set aside his pro-rated share of the cost of the plan in the form of individual savings. Of course, in return for this chance of higher benefits, he runs the chance of never getting anything back out of the fund at all.

Like a lottery or a baseball pool, some of the participants must lose out, if others are to get more out of it than they put in. A member pays for the assurance that if he does live until retirement, and meets any other qualifications that might be written into the plan, he will receive a guaranteed income for the rest of his life.

The relatively high benefits, in relation to the per capita cost, of a pension plan are made possible through tax savings and interest earnings on the funds held in reserve, and through the operation of the law of averages which will apply where the plan covers a substantial number of members. These aspects of the pension issue are discussed in greater detail in Part III.

By negotiating these plans through collective bargaining, workers can pool their respective risks and resources so as to take advantage of the law of averages and the economies of group participation, to provide those who qualify under the plan with a higher retirement income, at a lower cost, than they could otherwise obtain. They can spread this cost in a systematic and relatively convenient way over the span of their working and earning lives. In short, they can obtain benefits as a group which would be beyond their reach as individuals.

While the older men who are near retirement will get the most direct benefit from a pension plan, there are certain definite advantages for the younger workers also. In addition to having the promise of a future pension their present job security may be enhanced.

As the older men retire, new job opportunities are opened up. In slack times, the retirement of older workers may save the jobs of younger men who would otherwise be laid off. The retirement problem is therefore related to the broader problem of keeping involuntary unemployment at a minimum.

Part II

PENSION PLANS AND THE LAW

It is now firmly established that pension plans fall within the legal definition of "wages" and "conditions of employment", so that an employer cannot refuse to bargain collectively on the subject.

The National Labor Relations Board has ruled that "wages" include "emoluments of value, like pension and insurance benefits, which may accrue to employees out of their employment relationship", and that an employer's contribution to a plan "constitutes an economic enhancement of the employee's wages". This ruling has been upheld in the courts.

Taft-Hartley Restrictions

The Taft-Hartley Act places certain restrictions upon employer payments to union pension and welfare funds. Section 302 of the Act requires that:

(1) A written agreement must be made with the employer detailing the basis upon which payments are to be made.

(2) Employer contributions to union pension and welfare funds must be made to a trust fund, with provision for equal representation by management and labor in the administration of the fund, together with a neutral party or umpire to settle disputes. If the neutral party cannot be agreed upon, he is to be named by the United States district court.

(3) The agreement must provide for an annual audit, and public posting of the results.

(4) Pension funds must be kept in a separate trust and used only for pensions or annuities.

These restrictions do not apply to funds established by collective bargaining prior to January 1, 1946, nor do they apply where pension or welfare funds are controlled solely by management, or where they are supported solely by workers' contributions or dues payments.

Tax Regulations

Under the regulations of the Bureau of Internal Revenue, employer contributions to a pension fund are not counted as a part of the employee's wages for purposes of the withholding or income tax at the time these contributions are made. The employee does not have to pay any income tax on these amounts until he actually retires and begins to receive the pension.

At that time, the portion of his actual pension which is derived from employer contributions is counted as income and taxed accordingly. However, the employee will not have to pay a tax on his pension unless his total income, including the pension, after retirement is high enough to put him in a taxable bracket.

Provided the plan is approved by the Bureau of Internal Revenue, the employer derives a substantial tax benefit from his contributions to a pension fund. These contributions are regarded as a cost of doing business and the employer may deduct the full amount from his taxable income, even though these contributions to the fund are in excess of the amount actually being currently paid out of the fund in the form of pensions. The interest income earned by an approved fund through the investment of its reserve is likewise exempt from taxation.

In order to qualify for tax exemption, a pension plan must meet certain requirements set forth in Section 165 (*a*) of the Internal Revenue Code. The chief requirements are as follows:

(1) The pension plan must be "permanent." It can be terminated only by reason of "business necessity" and then only after the advance approval of the Bureau of Internal Revenue has been secured. Otherwise heavy retroactive tax penalties may be incurred.

The Bureau of Internal Revenue has ruled that a pension plan which is part of a union-management agreement can be regarded as "permanent" within the meaning of this provision even though the agreement has a specific termination date—inasmuch as it is the intention of the parties to maintain the plan as a permanent feature.

(2) The plan must be established through a trust, contract or other legally binding arrangement.

(3) The pension fund must be for the exclusive benefit of the employees and their beneficiaries.

(4) Unless and until all liabilities under the plan have been satisfied, the principle or income of the pension trust cannot be diverted to purposes other than employee benefits. This rule operates to prevent the employer from receiving back any money paid into the trust, even if the payment is an overpayment.

However, he can get rebates in the form of "experience" credits which he can apply to reduce his future contributions or premium payments. In this way, overpayments or so-called "actuarial gains" may be taken out of the plan by the employer, as a reduction in his future costs, rather than left in to increase benefits to employees.

(5) The plan must cover either a certain minimum percentage of all employees, or a group of employees determined in such a way as not to discriminate in favor of officers, stockholders, supervisors ,or highly-paid employees. The Bureau has two alternative rules for administering this provision—the so-called "Arbitrary" rule, and the "Discretionary" rule.

Under the Arbitrary rule the employer may exclude certain short-service and part-time employees. Out of the remainder, 70 percent must be eligible for coverage under the plan. Out of those eligible, at least 80 percent must actually join the plan in order for it to qualify.

Actually, few plans come in under this rule. Most of them qualify under the Discretionary provision, which permits the Commissioner of Internal Revenue to approve any classification of eligible employees if it does not discriminate in favor of employees who are officers, stockholders, supervisory employees, or high-paid employees. Under this rule, many plans which are limited to far less than the number required by the Arbitrary rule have been approved, including plans which covered as few as 10 percent of the employees.

(6) The actual benefits specified under the plan must not discriminate in favor of employees who are officers, stockholders, supervisory personnel or highly-paid employees.

Pension Plans Under Wage Stabilization

The Defense Production Act specifically includes pension and welfare plans in its definition of "wages, salaries and other compensation" which the Act subjects to stabilization controls. However, the Act does not require that these plans be controlled in the same manner or by the same set of rules as are cash wages, or that their cost be offset against any permissible increases in cash wages.

On the contrary, there are many valid and compelling practical reasons why they should not be—as the Wage Stabilization Board finally came to recognize after attempting to write a formula under which pension costs would be offset against wage increases. Some of these reasons were set forth in a letter sent to the Board by Eric Johnston during his term of office as Economic Stabilization Administrator. Johnston pointed out that:

> "Health, welfare and pension benefits in general do not constitute payments which in fact compensate for increases in the cost-of-living. Nor do they add to the purchasing power of workers and thus to inflationary pressures.
>
> "These benefits are a form of saving and to that degree are non-inflationary. Furthermore, it is difficult to evaluate the cost of these plans accurately in terms of dollars and cents. Such an attempt would only result in confusion.
>
> "For these reasons, I request the Board to prepare regulations that, within approved limits, would exclude health, welfare and pension plans from the adjustments permissible under the ten per cent allowance. The Board should then set up standards under which it would consider the approval of such plans as may be submitted to it."

The current policy of the Wage Stabilization Board is embodied in General Wage Regulation No. 21, adopted February 22, 1952.

It places no specific limits on the amounts of benefits which may be provided upon retirement or in case of total and permanent disability before retirement, nor upon the amounts which employers may contribute to a pension fund. Unions and employers are free to adopt any type of benefit formula, or method of determining the amount of pension to be paid to retiring members, that they desire. The only stated restrictions to which they must conform in order to obtain "automatic" approval for a plan are the following:

(1) The normal retirement age for full benefits must be at least age 65. (The Board will approve age 60 for women). Benefits paid to workers who retire before age 65 must be reduced to the extent necessary to take account of the shorter period of service before retirement (except in the case of unit benefit per year of service plans whose formulas accomplish this automatically). Except in the case of early retirement for disability, they must also be reduced to take account of the longer period of life expectancy during which the pension is to be paid, and other "actuarial" factors.

(2) Payment of benefits, except death benefits, must be spread over the lifetime of the employee. They may not be paid in a cash lump sum.

(3) The plan may not provide for the payment of cash benefits, derived from employer contributions, to workers who sever their employment before retirement. However, "vesting" rights, whereby a worker receives a paid-up annuity or permanent equity in the pension fund which will pay off when he does reach age 65, may be provided.

Before a plan can be put into effect, a report of its details must be filed jointly by the union and employer. This report should be sent directly to the national Wage Stabilization Board in Washington. A special form is available for this purpose, and may be obtained at the nearest office of the Wage and Hour and Public Contracts Division of the U. S. Department of Labor.

The Board will acknowledge receipt of this report, and unless the parties are notified to the contrary within 30 days after the date of the letter of acknowledgement, they may put their plan into operation as of the effective date provided for in the terms of the plan.

Reports of plans which do not conform to the restrictions described above, or which the Board feels may be "unstabilizing" on other grounds, will be treated as petitions for approval, and the unions and employers will be so notified. Such plans cannot be put into effect until the parties receive specific notice that the Board has approved them.

The regulation further requires that a plan must eventually obtain Bureau of Internal Revenue approval for tax exemption before it will be regarded by the Board as "finally" approved. However, unions and employers do not have to wait for Internal Revenue approval before putting the plan into effect. The plan may be placed in operation as soon as the 30-day review period is up or, if it does not meet the requirements for automatic approval, as soon as a ruling is received from the Board.

Regulation No. 21 does not govern pension funds set up to cover building trades workers whose wages are controlled by the Construction Industry Stabilization Commission. In the case of these workers, new employer contributions to a pension fund must be offset against any wage adjustments allowable under the Commission's stabilization policy for 1952. This policy provides for the case-by-case approval by the Commission of wage increases up to 15c per hour in excess of the rate approvable under the old 10-percent formula. The Commission has made separate provision for "health and welfare" funds, for which a 7½ cent maximum allowance—over and above any allowable wage adjustments—has been adopted.

Part III

PENSION COST FACTORS

Cost determination is probably the most difficult single question involved in the establishment of a pension plan. Only a reliable actuary is qualified to make a firm estimate as to how much a given level of benefits for a particular group of workers may cost—or how much in the way of benefits a given level of contributions can safely provide—and even his estimate is likely to be little more than an educated safe guess.

While the union negotiator should not undertake the functions of an actuary, he should know something about the principles upon which cost estimates are based, so as to be able to make intelligent use of these figures at the bargaining table, and in the administration of the plan.

Cost Equals Benefits Less Interest Plus Expenses

The actual operating costs of a retirement plan will be determined by:

(1) the amount of benefits paid to each retiring worker;

(2) how many workers qualify for benefits;

(3) how long retired workers live to receive benefits;

(4) the rate of interest earned through the investment of the money held in the pension fund;

(5) the expenses incurred in administering the pension system (clerical expenses, legal, actuarial and accountant's charges, etc.).

The real cost is equal to the total benefits paid out, less the interest earned, plus the operating expenses.

Obviously, none of these several factors can be relied upon to remain fixed and uniform in amount at all times. Each factor may and will move up or down from time to time while the plan is in operation.

How much a plan will be costing at any one future *moment* in time cannot, therefore, be accurately predicted long in advance. However, over an extended period of time, the temporary up and down movements of these variable factors will tend to balance out.

If this is the case, the long-term average cost of the plan will tend to be uniform and can be estimated. This estimate can then be used as a basis for computing a uniform rate of contributions which will be needed to finance a given schedule of benefits.

To aid him in making this estimate, the actuary has certain facts, records, and tables of statistics available. These records and tables show what past experience with regards to the factors affecting pension costs has been. They enable him to determine the rate of interest pension funds have been earning from their investments; the average death and survival rates for persons at given ages; employee turnover rates; prevailing levels of administrative expense.

The actuary arrives at his preliminary cost estimate by assuming that past experience with regards to these various factors will—on the average—continue to hold true in the future, and that the particular group under study will have the same experience. If this group of workers is large enough to enable the "law of averages" to work out as expected; if the group has no peculiar characteristics which might cause a variation from the general experience on which the assumptions were based; and if the actuary takes proper account of each of the factors which affect the cost of the plan; then the actual cost should—over the long run—turn out to be reasonably close to his preliminary estimate.

Actually, however, there is a considerable area of disagreement, even among professional actuaries, as to the manner and degree in which account should be taken of certain factors in particular situations in computing preliminary estimates of cost. There is still a wide area in which individual judgement must play a part. Since actuaries are human, they too can be wrong in their judgements.

For this and for other reasons, most professional actuaries will prefer to err on the conservative side, by using cautious assumptions which leave a substantial margin of safety. This will result in a more or less deliberate overstatement of probable costs.

There are other causes which may lead to substantial deviations between estimated costs and actual costs. A system whereby cost estimates are based on certain past averages cannot anticipate long-term upward or downward trends which may cause these averages to be no longer valid in the future. If average interest rates were to show a long-term decline in the future, for example, the actual cost of a pension plan will exceed an estimated cost based on past average interest rates.

Furthermore, there is no practical way in which actuaries can take accurate account, in advance, of extraordinary events such as wars and depressions, which may have a profound influence on the factors affecting costs, but which cannot be actuarially predicted.

For these reasons, the actual cost experience of a plan should be surveyed from time to time by an actuary as a check to see whether or not the initial cost estimates are being borne out by experience, and what adjustments are needed, if any. If the actual cost is less than anticipated, an "actuarial gain" is said to have occurred, and it may be possible to either reduce contributions or increase benefits. If the actual operating cost is greater than anticipated, an "actuarial loss" results, and it may be necessary to either increase contributions or decrease benefits.

How to Get Technical Assistance

Generally speaking, there are two ways in which unions and employers can get outside actuarial assistance in setting up a pension plan. They can either engage a professional consultant on a fee basis or they can call in an insurance company representative and ask him to submit cost estimates for a proposed plan. Some banks and trust companies that make a business of administering pension funds also offer consulting services.

The services of independent actuaries and consultants do not come cheaply. While it may be possible to negotiate a flat overall fee, their charges are usually based upon the man-hours of work required to perform the services.

The total amount of the fee will therefore depend upon the size of the group, the character and complexity of the plan, the ease with which the necessary data can be gathered and reduced to usable form, and other factors which may affect the amount of time spent on the job.

An insurance company will supply cost estimates "free" of any direct charge to the union or employer, in hopes of selling its particular insurance product to the parties. However, all of the insurance company's expenses, including sales commissions, and profits, are included in its premium charges—so none of its services are actually "free" of charge.

Aside from the question of expense, there are certain advantages in hiring an independent actuary rather than relying on an insurance agent. The professional consultant will not be interested in selling any particular product or type of plan as against some other plan which might be better adapted to the needs and desires of the group. He will be on hand for consultation, to answer technical questions and to give advice if needed, at the time it is needed.

The technical services of an insurance company, on the other hand, are more likely to be a remote-control proposition. Insurance sales agents are seldom very well-informed on the technical details of pension plans, and will have to refer most questions to their home office for an answer.

A good professional actuary can figure costs much more closely than insurance companies are willing to do. He can adjust for certain factors—such as employee turnover—which insurance companies do not ordinarily include in their calculations or premium rate schedules. Cost estimates submitted by insurance companies will be considerably higher than those that will be worked out by a competent independent actuary who takes careful account of all the probabilities.

Local unions that are about to negotiate a retirement plan should consider the possibility of an arrangement with the employer whereby they might jointly engage an impartial actuary to provide the necessary cost estimates, and to whom technical questions might be referred by both parties.

If relations with the employer are such as to make this possible, it would certainly be the most economical approach, since it would eliminate duplication of effort and expense. It would also facilitate collective bargaining by helping to eliminate one area of possible disagreement. Negotiations could then be devoted to questions of policy without getting bogged down in actuarial details.

If this is done, care should of course be taken in the selection of the actuarial consultant. Private consulting firms have generally in the past derived most of their revenue from employer business, and many—if not most—of them are well saturated with the employer point of view. However, there are a number of consultants that do a good bit of trade union as well as employer business and are equipped to provide thorough, fair and impartial service.

Data Needed in Computing Costs

Before the cost of financing a particular plan can be estimated, the actuary or insurance company must have certain data on the workers who are to be covered by the plan. The union should collect this information before the experts are called in.

The following facts on each individual worker in the group to be covered by the plan should be collected:

(1) Rate of pay (if the benefits of the plan are to be related to earnings)

(2) Age

(3) Sex

(4) Seniority or past service (if the benefits of the plan are to be related to service)

Local unions should, in most cases, be able to get this data from the employer, who will probably have it readily available in his files. While there have as yet been no NLRB cases on this specific matter, principles established in rulings in which employers have been required to furnish other types of data needed by the union for informed collective bargaining indicate that the employer is under a legal obligation to furnish this information.

If, for any reason, this information cannot be obtained through the employer, the union can make up cards with blanks for the members to fill in with the data needed. These cards should be distributed among the members, and gathered up after they have been filled in. The figures derived from this work force "census" should then be tabulated in some logical order—preferably by order of age—for handy reference and use.

With these figures, the actuary can then proceed to translate the benefits scheduled to be paid under the proposed plan into terms of the probable approximate cost, or vice-versa—to translate the level of contributions into the amount of benefits which they can safely provide.

In the former case, he will determine for each worker (or each group of workers that are identical with respect to age, service, and sex) the amount of benefits which will be payable upon retirement. He will then perform a series of computations to determine (1) how much money must be in the fund when the worker retires to guarantee him a pension for life, and (2) how much money has to be contributed to the fund during each year of his working life before retirement in order to make sure that the necessary amount is there when he retires.

Size of Fund Required to Guarantee a Pension

To figure out how much money must be in the pension fund when a worker reaches retirement age in order to guarantee his pension for life, the actuary makes an initial assumption as to how long the worker is likely to live after retirement. To guide him in making this assumption, he has at hand a mortality table which shows the average future life expectancy of an individual at all the various ages.

One table in common use at the present time is the so-called 1937 Standard Annuity Mortality Table. This is a relatively conservative table. Its use will yield a higher cost estimate than would be the case if other tables—such as the general Census tables—showing a shorter life expectancy, were used.

According to this table, the average male at age 65 can expect to live 14.4 years longer. The average female at age 65 can expect to live 17.55 years longer.

Experience has shown that a woman has about the same life expectancy as a man 5 years younger. Since a pension for life will have to be paid for a longer time, it costs a good bit more to provide the same amount of monthly pension for a woman than for a man.

That is why the cost of a given pension plan, providing the same level of benefits, will be higher for a group that contains a substantial number of women than for a group that contains few women; and that is why the actuary must know how many women there are in the work force before he can make a reliable cost estimate.

If the retirement age is 65, then the average male worker reaching retirement can expect to collect his pension for 14.4 years, and there must be enough money in the fund when he retires to pay the specified rate of benefits for that length of time. Some workers will, of course, live longer than this, but the additional cost of paying them a pension for longer than 14.4 years will be offset by the money left over from the funds set up for workers who live less than 14.4 years after retirement.

If the rate of pension for which a worker qualifies at age 65 is $1,000 per year, the fund must be large enough to provide him with a total of $14,400 in income from the time of retirement until his death, when the pension will cease. This does not mean, however, that the pension fund need contain this full amount at the time he reaches age 65.

As previously mentioned, the actual cost equals benefits paid *less interest.* A portion of the pension will be paid out of interest earned by the residual part of the fund during the period of his retirement. These earnings can be estimated in advance and taken into account in calculating the amount of money that must actually be in the fund when he retires. This is known as "discounting for interest".

In taking account of interest earnings after retirement, the actuary will assume a certain rate of interest—usually somewhere between 2% and 3%. The rate used will make quite a bit of difference in his estimate as to how much money the fund should contain at retirement.

If interest is earned at the rate of 2%, for example, then a fund of about $12,400 will be needed to pay a pension of $1,000 a year beginning at age 65. If the rate is 3%, the same job can be done with about $11,550. About $11,970 would be needed at an interest rate of 2½%.

Annual Contribution Needed to Build Fund

Having determined the amount needed to provide a pension of $1000 a year starting at age 65—let us say $11,970 at the 2½% interest rate—the next task is to estimate how much will have to be put into the fund, before retirement, in any one year in order to pay for that portion of his total retirement benefit that the worker earns in that year.

Let us assume that $1000 per year is the maximum pension allowable, with 25 years as the minimum period of service required in order to qualify for the full amount, and with the pension amount reduced proportionately for years of service less than 25. Under such a plan, workers of age 40 and over will earn a pension of 1/25 of $1000 a year—or $40 a year—for each year of service before retirement.

Workers below age 40, under such a plan, can—for financing purposes—be regarded as excluded from the plan altogether until they reach age 40. If, however, they are included in the financing arrangements, the pension credits earned by each year of their service before retirement will be considerably lower, since the $1000 a year maximum will be spread over more years of service.

Under this second approach, for example, a man aged 30 would accumulate pension rights at the rate of 1/35 of $1000 a year—or $28.57—for each year of service to age 65, as compared with $40 a year for workers aged 40 and over.

Let us assume that the first approach is followed and workers under age 40 are, for financing purposes, excluded from the plan. The amount that must be in the fund at retirement to guarantee the pension earned by one year of service on the part of the workers covered (the age 40 and over group) must be 1/25 of $11,970, or about $480. The annual contributions to the fund should be sufficient to assure that workers reaching retirement will have this much in the fund for each year of their credited service.

This does not mean, however, that the employer must contribute the full amount of $480 for each worker each year. There are a number of factors which serve to reduce further the current cost of financing the plan. In determining the actual annual contribution that must be made on behalf of each worker covered by the plan, the actuary will apply a "discount" for each of these factors.

The factors for which discounts are commonly taken are mortality before retirement, severance, and interest. Mortality and severance serve to reduce the number of persons who will actually qualify for retirement rights under the plan. Interest earned on the fund as it accumulates will meet part of the cost of providing those who do qualify with a pension.

Discounting for Mortality

In estimating how much it will cost to guarantee that every worker who lives until retirement will receive a lifetime pension of $40 a year for each year of his credited service, the actuary will first make an estimate as to how many workers out of the group can, on the average, be expected to live until retirement. He can derive this estimate from the same mortality table he used in finding the average life expectancy after retirement.

The 1937 Standard Annuity Table, for example, will show that 73 percent of all male workers now at age 40 will live to age 65; that 77.2 percent of those at age 50 will live to 65; and that 89 percent of those now at age 60 will live to 65. A person's chances of living to a given age, of course, increase as he approaches that age.

The following table shows how this "discount for mortality" may be applied to reduce the amount of money that must be contributed each year to the pension fund in order to provide the necessary amount at retirement:

TABLE I

First Step—Discounting for Mortality

Age of Worker	Fund Needed at 65 to Pay $40 a Year for Life		Percent Living to Age 65		Current Annual Cost after Mortality Discount Only
40	$480	x	73%	=	$350
50	480	x	77.2%	=	370
60	480	x	89%	=	427

As can be seen from this table, the current annual cost of financing a pension for a given worker will increase each year as the worker grows older and closer to retirement. By the same token, the overall cost of financing a pension plan will be higher for a group of workers which includes a high proportion of older men, than for a group which includes a relatively low proportion of older men.

The full mortality discount can only be taken in the case of a plan which makes no provision for the payment of any portion of the accumulated pension fund to a worker's family in case of his death. If a death benefit is provided, then the cost of funding a plan will go up because the mortality discount will decrease or disappear, depending upon how large a portion of the fund behind a worker's pension credits are to be paid to his survivors if he dies.

Discounting for Severance

There is another factor besides mortality that may prevent some of the workers from ever qualifying for retirement benefits. That factor is severance—or the loss of pension rights by workers who quit or are fired from the unit before they reach retirement age.

This factor will operate to reduce the cost only under plans which make no provision for "vesting" (the retention by a worker of accrued pension rights earned by previous service) if a worker leaves the unit covered by the plan. If partial or limited vesting rights are provided—such as where certain minimum age and/or service requirements must be met—then the severance factor will operate to reduce the cost only to a limited degree, depending upon how tight the limits on vesting are.

The actuary will study the turnover experience of the particular group, if that type of information is available, in order to get some idea of how many workers are likely to leave the unit before they reach retirement age. Or he may base his turnover estimates on the recorded past experience of some other group.

This is an area which calls for a considerable amount of judgment and discretion on the part of the actuary. His estimates will tend to be on the safe or conservative side, since the turnover factor is more variable, and cannot be predicted as closely as such factors as mortality and the interest rate.

The rate of separations is normally much higher among younger, short-service workers than among older workers with more seniority. Consequently, in the plan under consideration, many actuaries would prefer to assume that the bulk of the turnover experience of the group takes place among workers in the below-40 age brackets, who are—for financing purposes—excluded from coverage under the plan. They will therefore take no discount for severance in computing the contributions needed to finance the plan, but will assume that all workers over age 40 who do not die will continue under the plan until they retire.

Insurance companies do not take account of turnover in computing their premium rates, even if the plan does cover younger groups in which the turnover is likely to be high. Instead of adjusting for this factor in advance, they will allow the employer a refund which he can apply against his future premium payments.

If the past history of the particular group indicates that some of the workers covered by the plan will quit or get laid off and find other jobs before they reach retirement age, the actuary will be justified in taking a discount against the cost for this factor. He will assume that the closer the worker gets to retirement, the less are his chances of abandoning his pension rights and leaving the work force before retirement. Therefore, the severance discount will—like the mortality discount—be greater in the case of the age 40 group than the age 50 and 60 group.

To follow this through, he may assume that 10 percent of the age 40 group, 4 percent of the age 50 group, and none of the age 60 group will sever their employment before retiring. He will apply this additional "discount for severance" so as to further reduce the amount of current annual contributions required to finance the stipulated pension, as shown in the following table:

TABLE II

Second Step—Discounting for Severance

Age of Worker	Current Cost after Mortality Discount (from Table I)		Percent Remaining in Work Force to Retirement		Current Cost After Mortality and Severance Discounts
40	$350	x	90%	=	$315
50	370	x	96%	=	355
60	427	x	100%	=	427

Discounting for Interest Earnings

The discounts for mortality and severance are based upon the fact that no funds at all will be needed for some of the workers in the group. The interest discount takes into consideration the fact that some of the funds that will be needed will be provided, not by employer contributions, but by interest accumulations.

From a set of pre-computed interest tables, the actuary can find out what fraction of a dollar has to be paid into the pension fund, at a worker's present age, in order that this amount plus accumulated interest will equal one dollar by the time he reaches retirement age. For example, in the case of a worker age 40, about 54¢ invested now at 2½ percent interest will equal $1.00 by the time he retires, 25 years in the future.

By applying this figure to the last preliminary cost estimate, derived in Table II, the actuary "discounts for interest"—that is, he reduces the current cost estimate still further in recognition of the fact that a part of the fund needed at retirement will be provided by the compound interest which the money contributed this year will earn by the time the worker actually retires.

This final step is shown in the following table, assuming that interest is earned at the rate of 2½ percent:

TABLE III

Third Step—Discounting for Interest

Age of Worker	Cost Estimate before Interest Discount (from Table II)		Amount Needed Now to Provide $1.00 at age 65, at 2½% Compound Interest		Final Cost Estimate
40	$315	x	$ .54	=	$170
50	355	x	.69	=	245
60	427	x	.88	=	378

Thus, the final estimate as to the current annual cost of funding a pension of $40 a year for each year of service to age 65 will be as follows: $170 each for workers in the age 40 group; $245 each for the workers in the age 50 group; and $378 for the workers in the age 60 group.

As can be seen from the above figures, the shorter term during which interest is able to accumulate before retirement also serves to increase the cost of an identical benefit for an older worker as compared with the younger worker.

Pro-Rating the Cost

If, for purposes of easy illustration, the entire group covered by the plan is composed of 30 workers aged 40, 20 workers aged 50, and 10 workers aged 60, the total annual contribution required to finance the pension credits earned by one year of current service will work out as shown in the following table:

TABLE IV
Total Current Annual Cost

Age of Workers	Number of Workers		Estimated Cost Per Worker for One Year's Credit		Total Cost of One Year's Credits for Group
40	30	x	$170	=	$5100
50	20	x	245	=	4900
60	10	x	378	=	3780
					$13,780

If an 8 percent charge for administrative expenses and "contingencies" is now added, the final annual current service cost for the unit as a whole would come to $14,882. The *average* annual cost per *covered* worker will be $14,882 divided by 60, or about $248 per man-year.

This does not include the workers in the below-40 age groups who, as previously indicated, are not technically covered by the plan. If these workers are counted in so as to obtain a figure showing what the actual pro-rated cost per worker covered by the collective bargaining agreement will be, the average cost figure will be substantially reduced.

For example, if we assume that there are in the unit, in addition to the 60 workers aged 40 and over, an additional 40 workers who are below age 40, the average cost per worker for the unit as a whole will be about $149 a year.

Reducing this to cents-per-hour, on the basis of 2080 man-hours of work per year, the estimated cost of fully financing the pension benefit rights accruing each year after the plan is set up would be about 7.2¢ per man-hour.

Financing the Past Service Cost

But the figures presented above are only part of the total cost picture. In addition to the annual contributions required to finance the benefit credits which accrue with each current year of service—or "future service credits" as they are called—there is a heavy initial financial obligation involved in the establishment of a pension plan. This obligation stems from the so-called "past service" credits—the benefit rights earned by the workers covered by the plan as a result of their previous years of service before the date the plan was established.

Take, for example, the case of a worker who is now 60 years of age and has 20 years of past service in the unit. A pension plan providing a benefit of $40 a year for each year of service at age 65 is introduced. Unless he receives some credit under the plan for his past service, he will be able to accumulate only 5 years of benefit rights by the time he reaches 65. This will entitle him to an annual pension of $40 times 5, or only $200 a year.

To give him additional pension credits in recognition of his past service—and as a matter of practice this is invariably done—additional money will have to be paid into the pension fund, over and above the amounts paid in to finance the annual future service credits.

In working out a means of paying off this initial liability, the actuary will figure out how much it would cost to pay it off in full by making an immediate lump sum payment into the fund. He then works out an estimate as to how much it would cost if spread over a number of years with an annual installment to be made each year, until this past service is paid (or "amortized") in full.

The manner in which the past service cost is handled is probably the most flexible single feature of pension plan financing. It may be paid off over a period of anywhere from ten to thirty years, or it may not be paid off at all, but simply "frozen"—the term used for a system under which the employer pays interest on the amount of the past service obligation into the fund each year, but makes no payments to reduce the principle amount of the obligation.

A program whereby the obligation is paid off over a ten-year period is known as "maximum funding" since this is the most that the Bureau of Internal Revenue will approve for tax exemption. The system of "freezing" the past service obligation and paying interest, but no portion of the actual debt, into the fund is known as "minimum funding", since no lesser amount of contributions is regarded as "actuarially sound".

Thus the annual cost of the same plan can vary widely, depending upon how the past service liability is handled. As an example, for one particular plan covering several hundred workers, it was estimated that the annual cost under a program of "maximum funding" would be about $210,000. After past service was paid off, the annual cost would be about $90,000. Under a program of "minimum funding", on the other hand, the cost would be fixed at about $120,000 a year.

When this past service cost is finally paid off, the cost of maintaining the plan will drop sharply, and from then on the only continuing cost will be the future service cost. Under the hypothetical plan under consideration on preceding pages, for example, the cost might start off, under a program of maximum funding at about 14¢ an hour. After the 10-year period during which the past service liability is paid off, the cost will drop to the 7.2¢ an hour estimate worked out for future service costs.

Other Methods of Computing Costs

The procedure for estimating costs outlined in the various steps set forth above is only one of several methods of determining and allocating the contributions needed to finance, or "fund" a plan. It is essentially the so-called "single premium" method of funding, under which each year's contributions are sufficient to make full payment for a unit of pension benefits earned by the service performed by each worker in that particular year. Each unit of benefits ($40 a year for life beginning at 65) is fully purchased in that year, and next year's contributions will go to pay for another additional unit of benefits.

Under this method, the annual contributions made on behalf of any one particular person in the group will increase each year, since the cost of a unit of benefits will increase as the worker grows older and closer to retirement. However, the average cost for the group as a whole will remain approximately the same each year, if the age distribution of the group remains about the same—that is, if younger workers come into the group in sufficient numbers to offset the effect on the group average of the aging of workers presently in the group.

Another common method of funding costs is the so-called "level annual premium" method. Under this method the cost of providing the total benefit which a particular worker will have earned by the time he reaches retirement is computed and spread over the years he has remaining until retirement in such a way that a uniform level contribution is made each year on his behalf, instead of a contribution which increases each year as he grows older.

Thus, during his early years, a contribution made to provide the same unit of benefits for an individual worker under the level premium method will be greater than that which would be required under the single premium method. The level premium contribution will, however, become smaller than the single premium contribution would be during his later years before retirement.

This method of funding will make no separation between past and future service costs, but will combine them together and spread the total over the period between the worker's present age and his retirement.

A third method is the so-called "aggregate funding method". Under this approach, unit costs are not worked out for each individual covered and then totaled. Instead, the present value of all future benefit payments is determined, and the aggregate cost is spread over the future on some appropriate basis, usually by reducing the cost to terms of a certain percentage of covered payroll, which is paid into the fund each year.

Effect of Different Retirement Ages

Another factor which has a very important bearing upon the cost experience of a retirement plan is the age at which workers actually retire. The pension plan will specify a certain "normal retirement age", usually age 65, at which workers become eligible to begin receiving their full earned retirement benefits. In estimating the annual contributions that will be required to fund a plan, the actuary will ordinarily assume that all of the workers covered will elect to retire when they reach the normal retirement age.

However, unless the plan makes retirement compulsory at that age, the chances are that relatively few of the workers will choose to retire as soon as they become eligible. Many will prefer to continue working as long as they feel they can.

Instead of age 65, the actual average retirement age is likely to be closer to 67 or 68, and may be even higher, depending upon such matters as labor market conditions, living costs, character of the work, etc. During World War II, for instance, Social Security records showed that the average age at retirement was almost 70.

If not accounted for in advance, this factor of "deferred retirements" will serve to reduce the actual cost of the plan considerably below the level of the initial cost estimate—resulting in an "actuarial gain" for the fund.

The cost will be reduced by from 8 to 10% for every year that actual retirement is deferred beyond the normal retirement age. If the actual average retirement age experience of the plan is age 68, the cost will be about one-fourth less than the cost estimated on the basis of age 65. A plan that is estimated to cost 7¢ an hour, if everyone retires on schedule at age 65, may in practice cost about 5¢ an hour if the average worker defers retirement until age 68.

By the same token, a reduction in the normal retirement age would bring a proportionate increase in the cost of funding a given level of benefits. A plan that permits "optional early retirement" before the normal retirement age will therefore usually require an "actuarial reduction" in the benefit payable to the worker who elects to retire early.

However, a normal retirement age of 60 rather than 65 would probably not increase the cost nearly as much as an assumption that all will actually retire at 60 would indicate. A high proportion of those eligible would undoubtedly elect to remain at work, at full wages, to 65 or beyond, particularly in view of the fact that their Federal Social Security payments would not begin until 65.

The point is that the actual cost will be determined by the average age at which the workers actually *do* retire—not the "normal" age set up for purposes of determining eligibility.

Part IV

METHODS OF FINANCING

Basically, there are three alternative systems of budgeting and financing the cost of a retirement plan. These are (1) a so-called "pay-as-you-go" approach; (2) a system of "terminal funding"; and (3) "full funding". They are by no means equally safe, equally economical, or equally beneficial to the workers covered by the plan.

The choice which unions and employers make, as between these three basic alternatives, is a very important one. It may well make or break the plan.

Pay-As-You-Go-Plans

The only purpose in describing the "pay-as-you-go" type of plan here is to enable unions to recognize and beware of it.

A so-called "pay-as-you-go" plan is really not a "plan" at all. It is little more than an unsupported promise that if enough money happens to be available at the time a worker retires then he will start getting a pension. Whether or not he continues to get a pension thereafter will depend upon whether or not there happens to be enough money available thereafter.

Under this approach, the pensions that are promised to workers in the future are not regarded as a present liability. The pension bills that will eventually fall due are not reduced to terms of an estimated current cost and allocated to the present through a system of uniform, regular installment payments into a fund over the period prior to retirement, as they are in the case of a "funded" plan.

If, for example, four workers retire this year, and the "plan" promises them $100 a month at retirement, the employer—having made no advance provision for the payment of these benefits—will have to dig down into his pocket at the time and pull out $400 for a month's pension payments. If it just isn't there, then the employer will either find himself faced with a serious financial problem, or the workers will not receive their pensions and the employer will find himself faced with an equally serious "labor relations" problem. And if he happens to have the $400 this month, there is no assurance that he will have it next month or next year or two years from now.

The term "pay-as-you-go" as applied to a pension arrangement of this type is a complete misnomer. It assumes that pensions become a cost item to the employer only at the time a pension benefit payment has to be made. Under every sound theory, the cost obligation is actually incurred at the time workers perform the services which entitle them to a certain amount of credit toward a future pension.

The service a worker performs each year before retirement should establish his right to a proportionate share of his final pension. That share should be fully financed in the year in which it is earned, so that payment will be guaranteed, regardless of what happens to the employer's subsequent fortunes.

Earned pension credits are bills for services rendered in the present—even though the workers may not be able to collect on those bills until sometime in the future. An employer is not really "paying-as-he-goes" unless he sets aside, out of his own reach, enough money to cover those bills as they accumulate. Otherwise he will face a large number of accumulated unpaid bills all at once at some time in the future when his financial resources may not be adequate to meet the obligation.

In other words, the so-called "pay-as-you-go" method is really an "owe-as-you-go, pay-if-you-can" system. The worker who is serving under such a system is working for promises, not for money. He has no real rights in the plan, for no funds are being accumulated to back up those rights.

From the standpoint of comparative costs, there are three angles to consider. One is the fact that the total outlay by the employer will be greater under a "pay-as-you-go" approach, if he actually meets all his pension obligations, than it would be under a funded plan.

Under the latter system, compound interest will be earned by the regular, periodic payments made into a fund which is in turn invested in interest-bearing securities. These interest accumulations will pay a part of the pension costs which would otherwise have to be paid directly by the employer.

In answer to this, some employers may argue that they can earn a greater rate of return, in the form of company profits, by keeping money that would otherwise go into a pension fund in the business, mingled with all of the other assets and working capital of the company. They may compare the company's, say, 8% profit on invested capital with the 3% or 4% interest earnings of a pension fund.

This may be all very well if the cost of a pension plan is regarded as "the company's money" until such time as a pensioner actually receives some of it in cold cash. But it is not the company's money any more—or at least it should not be—after the workers have earned their pension service credits. It is the workers' money and they would be better off if it were more safely distributed than tied up in one particular company, whose failure would wipe out the fund completely.

Furthermore, if the pension money is held by the company without being separated from its other assets, there is no assurance that the profits earned with that money will actually enhance the pension fund. The pension program will have to compete with all the other claimants on the assets and earnings of the company.

If the company pays out all its profits in the form of dividends to stockholders, or bonuses to executives, every year, for example, then no interest is being accumulated by the pension money, in the form of company profits or anything else. In such a case, the pension money is actually being used to subsidize the dividends and bonuses of stockholders and executives.

Another factor affecting the relative cost of pay-as-you-go and funded plans is the tax question (see Part II). Approved funded plans are tax-exempt and contributions are fully deductible even if they currently exceed the total of benefits being paid out of the fund. Thus, if the contributions required to finance a funded plan amount to 10¢ per man-hour worked, the actual effective cost to a company in the 82% excess profits tax bracket would be 1.8¢ per hour. The interest earnings of the fund are also tax-exempt.

The payments actually made to pensioners under a pay-as-you-go system are deductible as a business expense in the year in which they are actually paid. The only difference from the tax standpoint, therefore, between the contributions under a funded system and the pension payments made under a pay-as-you-go system lies in the difference between the contributions and the actual pension payments.

During the initial years of a funded plan, the contributions paid into the fund will exceed the pension benefits actually paid out, since contributions are being made on behalf of all the workers covered by the plan but pensions are being paid only to the first few who have actually retired. In a plan costing $100,000 a year and actually paying out current benefits of $10,000 a year in pensions from the fund, the full $100,000 may be deducted from the company's income for tax purposes. In an unfunded plan, however, only $10,000 would be deductible.

Over the years, on the other hand, the current benefit liabilities under the pay-as-you-go plan would climb steadily until they are well above the level of contributions required by a funded plan. In those later years, the tax deductions would be greater under the unfunded plan.

The question as to which type of plan would be most economical from the standpoint of tax savings alone, therefore, would depend upon whether the company's earnings, and the corporation income tax rate, are likely to be higher or lower twenty years from now than they are today.

This is something which cannot, of course, be accurately predicted. The chances are, however, that an employer will realize the maximum in tax savings under a fully funded plan. If he pays off the heavy initial past service liability as rapidly as possible, he can take full advantage of the exemption of such payments from excess-profits as well as normal corporation income taxes.

The third, and probably the most significant, contrast between funded and unfunded plans from the cost standpoint is the budgeting aspect of the problem. It is here that the relative disadvantages of the pay-as-you-go approach are most obvious and most serious.

A fully funded pension plan is based upon a more-or-less constant and uniform level of contributions. The costs are known, at least roughly, and can be adapted to the resources available and normal expectations. The highest single element of the cost (past service cost) is anticipated and usually disposed of during the early years of the plan's operation. The regular expense of the pension plan can therefore be fitted into a stable pattern along with all of the other normal operating costs of the company.

A pay-as-you-go plan, on the other hand, is a relatively unknown factor. The costs are likely to fluctuate widely from year to year. The only thing that is reasonably certain about them is that the net effect will be like pushing a snowball up a hill. The amount will steadily accumulate and become harder to handle until the point of maximum cost is reached.

How this will work out can easily be seen from a simplified example. Suppose an unfunded plan is put into effect this year and ten men retire on a pension of $1000 a year. This year's cost will be $10,000. Next year ten more men retire on the same amount. Twenty men will then be on the retirement rolls, so that the annual cost will become $20,000. The third year, 10 more men retire and the annual cost becomes $30,000, assuming no deaths, since the twenty men who retired the first and second years will still be drawing a pension.

If the rate of retirement remains the same, and if the average life expectancy after retirement of 14.4 years is realized, the cost will continue to snowball until 144 men are on the retirement rolls drawing $1000 each per year, or a total cost of $144,000 a year. After that, the cost may tend to stabilize if the death rate equalizes the rate at which new pensioners go on the retirement rolls.

At no time is there a reserve. Since the full amount of the cost is currently being paid out to pensioners, there are no interest earnings to reduce the payments required of the employer. The average direct cost of the total pension paid to each retired worker is $14,400.

This is, of course, an over-simplified example, solely for purposes of illustration. In actual fact, the number retiring each year will vary, some will die before 14.4 years after retirement, while others will stay alive and on the rolls longer than that. Nevertheless, it properly illustrates the general cost trend that will be experienced by plans of this type.

About the only possible advantage to the employer of an unfunded system, as against all of its disadvantages, lies in the fact that, under the tax laws, it can be much more easily terminated or abandoned than can a funded plan. This in itself should be sufficient to cause a union to suspect the motives of an employer who insists upon a pay-as-you-go basis for a plan.

Terminal Funding

The "terminal funding" method of financing a pension plan lies about halfway between the pay-as-you-go approach and full funding. Under this method, a fund for each retiring worker is created at the time he retires, but not before. The employer puts up, on the day a worker retires, the amount necessary to pay that worker's pension for as long as he lives. This may be done by buying him a life annuity from an insurance company at that time, or by depositing the amount required to pay the pension to his account in a trust fund.

This approach is an improvement over the pay-as-you-go approach, but—from the trade union point of view—not much of one. While a pay-as-you-go plan implies that the worker has no right whatsoever to any guarantees with regards to his pension payments, even after he retires, the terminal funding system implies that he has no rights whatsoever under the plan until he actually retires.

This approach gives a great deal more security to the worker after he goes on the retirement rolls than does a completely unfunded system. However, as far as the worker who has not yet reached retirement is concerned, all of the objections that might be raised against the pay-as-you-go approach can be made against the terminal funding approach.

About the only situation in which this approach—or something similar to it—can be considered possibly acceptable would be where it is used in conjunction with some other means of segregating funds for the ultimate payment of pensions, on a current basis. For instance, it might be used as a part of a system in which the members of an employers' association under contract with a union make periodic payments of a certain definite amount of money into a jointly-administered central fund.

The money accumulated in this fund is not specifically allocated to the individual worker until he retires. When he does retire, however, money is either set aside to his individual account, through self-insurance by the fund, or is used to purchase a life annuity for him from an insurance company, so that his pension is guaranteed for life. In such a case, this terminal funding approach is used as a means of separating the future fortunes of the retired workers from those of the general fund, thereby assuring him a greater degree of security.

The example described above is not, strictly speaking, a terminal funding system unless all of the money paid into the fund by the various employers is used each year to guarantee the full pensions of workers currently retiring. If the contributions are large enough to permit the building up of a reserve against obligations for future pensioners, then the plan takes on the aspects of a funded system. If the contributions are large enough to permit the building up of a reserve that is "actuarially" sufficient to provide for all of the future pension rights that have accrued and are currently accruing, then it becomes a "fully-funded" system.

The cost of a terminal funding system will tend toward a greater degree of uniformity than that of a pay-as-you-go system. It will still fluctuate considerably from year to year, depending upon how many workers retire each year, but it will not "snowball" in the way that an unfunded system will. The initial cost will be higher, but the overall operating cost should be lower, because of the interest earnings of the funds set aside at retirement.

The total direct cost for each retired worker under the terminal funding approach, after discounting for interest at the rate of 2½%, would be about $12,000. The employer will put up this amount at the time the worker retires and thereafter make no further payments on his behalf. This compares with an average cost per retired worker of $14,400 under a pay-as-you-go system.

Full Advance Funding

Enough has been said about funded systems so far, including the description in Part III of how the costs are computed, to indicate their nature. Briefly stated, a system is said to be fully funded in advance if money is being currently contributed to the pension fund in an amount sufficient to pay for all of the "future service" credits that are currently accruing, plus a portion of the total "past service" liability.

The money put into the fund for each pensioner under a fully funded system would be considerably less than under the terminal funded sytem, because this money will accumulate interest prior to retirement as well as after. If annual contributions are made with the first payment beginning when the worker is age 40 and the last when he reaches retirement age, interest will pay about 25% of the cost of the sum needed at retirement, assuming a 2½% interest rate.

The actual cost of one full life pension of $1,000 a year will be about $9,000, as compared with $12,000 under the terminal funding system and $14,400 under the pay-as-you-go plan. Of course, there will be an additional cost during the beginning years of the funded system in the form of amortization payments on the past service obligation, but these figures will give some idea of the comparative long-run "normal" costs of the three systems.

Part V

METHODS OF ADMINISTERING

There are a number of alternative methods by which a funded plan may be set up and administered. Basically, however, these alternatives boil down into a choice between two agencies—an insurance company or a self-administered trust fund.

Self-Administered Trusteed Plans

A trusteed plan—often referred to as a self-administered or self-insured plan—is one in which the employer deposits with an outside agency, other than an insurance company, the money needed to fund the pension benefits called for by the terms of a contractual plan.

The outside agency is entrusted with the management and investment of the money, but does not take responsibility for or guarantee that the money coming in will be sufficient to pay the benefits set forth in the plan. It may be a bank or trust company, or a joint or tripartite Board of Trustees, designated by the union and employer and charged with the investment of the funds as well as the administration of the terms of the plan.

In order to determine the basis upon which contributions and benefits are to be paid, the parties may engage an actuary. The actuary makes a survey of the work force covered by the plan, studies the experience data available, and makes a calculation as to the amount of contributions that will be required in order to provide the scale of benefits set forth in the plan. Or, if the contract calls for a fixed and definite periodic contribution by the employer or employers covered by the plan and leaves the amount of benefits open for later determination, the actuary will calculate how much in the way of benefits those contributions will provide.

The contributions will be invested in such a way as to yield (presumably) the maximum return consistent with safety and prudence, and the benefits called for by the plan or determined by the actuary to be appropriate to the funds available are paid out of the accumulations of the fund.

The Board of Trustees or special Pension Committee set up to administer the terms of the plan will establish the rules, direct the payment of benefits, and make the day-to-day decisions necessary to the operation of the plan, within the framework of the pension agreement. The bank or trust company, if such agencies are used, will manage the investments of the fund and make payments as directed, but will not administer the plan.

The trust agreement may set forth certain restrictions on the manner in which the fund is to be invested, such as a restriction against investment in the securities of the company or companies that are party to the agreement. It may also set forth voting rules and arbitration procedure for the resolution of questions on which union and employer representatives on the Board or Pension Committee cannot agree. It may also give the Board or Committee members the right to engage, at the expense of the fund or of the parties, the services of professional consultants such as actuaries, lawyers and accountants.

The plan should be periodically rechecked by an actuary to make sure that benefits still bear an appropriate relation to contributions, and that the assumptions used in estimating the cost of the scheduled benefits—mortality and interest rates, severance, deferred retirements, etc.—are still valid in the light of the experience of the fund. If they are not, then either the contributions or the benefits may have to be adjusted up or down accordingly.

Unless it is conservatively financed, with an adequate margin of safety, a trusteed plan is not the safest approach for a small group. The fewer the number of workers covered by the plan, the less reliable, over the short run, are the actuarial estimates on which the contributions and benefits are based and the wider is the degree to which the actual operating experience of the plan may depart from these estimates. The risk of depletion of the fund in some year in which benefit claims turn out to be particularly heavy is therefore greater than is the case with a large group.

The small group, where it cannot join with other groups to establish a broader membership base, is better advised to have its plan underwritten by an established insurance company. The insurance company bears the risks (protecting itself by including a margin of safety in its premiums) and handles all the actuarial and clerical work required.

The question is frequently raised as to whether a given level of benefits will "cost more" under an insured plan or under a trusteed plan. In operation over a period of time, there should be no great difference between them, from the standpoint of comparative "real" costs. As previously pointed out, the real cost of a plan is equal to the benefits paid out less the interest earned plus the administrative expenses. Therefore, assuming the same level of benefits, the only way in which one system could cost more than the other would be through lower interest earnings or higher administrative expenses.

The rate of return on investments has an important bearing on the cost of a plan. As shown in Part III, a fraction of a percent of change in the rate of interest can bring about a sharp change in the net cost.

The following table shows the results of a recent study of investments of a group of "typical" pension trust funds, and the investments of all U. S. life insurance companies:

Distribution of Investments

Type of Investment	Pension Trusts (% of all investments)	Insurance Companies (% of all investments)
Corporation bonds	30%	36%
Government bonds	33%	25%
Preferred stocks	7%	3%
Common stocks	23%	3%
Mortgages, real estate, etc.	7%	36%
	100%	100%

Insurance companies are closely limited by law as to the extent to which they can invest in corporate stocks, and generally place a commensurately higher proportion of their investments in mortgages and real estate than do pension trust funds. Since they have somewhat greater flexibility as to types of investments, it is possible for a well-managed trust fund to yield a higher rate of interest than can be obtained through the average insurance company. In the case of the average bank-managed trust fund, however, the difference is not likely to very great.

A return of about 3% is the most that can be expected from an insurance company. One large union pension fund, by comparison, earned a return of 4.17% on its investments last year.

The profitability of an investment is determined by (a) the rate of interest or dividends earned on the investment, and (b) the increase or decrease in the market value of the investment. The basic problem is to achieve a proper balance between the desire for a maximum return, and concern over the safety and security of the value of the fund. In the investment of pension funds, particularly, safety is a dominant consideration, since they are designed primarily to guarantee a measure of security to their beneficiaries.

The small group may be able to do just about as well as it can, consistent with the over-riding consideration of safety, through an insurance company, since a small fund is more limited in the range of its safe investment opportunities.

The effective rate provided through an insurance company will be determined by the earnings realized by the insurance company on *all* of its investments. A trust fund, on the other hand, is self-sufficient. It can earn more, but will bear the full brunt of any losses.

As far as expenses are concerned, both methods involve certain necessary charges. A trusteed plan will have to bear the cost of actuarial, legal, accounting, and clerical services, as well as a management fee to the bank or trust company, if any. The cost of the same types of services is included in the premiums fixed by the insurance company.

These premiums also include certain other expenses of the insurance company which a trust fund may avoid. Among these are commissions paid to agents, state premium taxes, promotional expenses, surrender charges, etc.—besides the fact that insurance companies are not in business for their health and expect to cover all their costs and still take a profit out of their operations.

These expenses, plus a margin for "contingencies", are reflected in the "load" factor—usually 8%—which the insurance company will add to its estimates of the contributions required to fund the benefits in arriving at the total premium rate for group annuities. Generally, about 3 or 4% of this is pure administrative expenses and the rest is for a contingency reserve fund.

A trust fund, if it is large enough, may be able to avoid certain expenses and control the expenses it does incur in such a way as to keep pure administrative costs below what would be possible under an insured plan, but the difference is not likely to come to any very large amount. Expenses will probably run in the neighborhood of 3% or so. A small group would probably do just about as well from the standpoint of administrative expenses through an insured plan, since the smaller the group the higher are the actuarial, clerical and other expenses likely to be as a proportion of the total income from contributions.

To sum up, the potential cost advantages of trust fund administration, over insurance company administration, are more apt to be realized where a large group of workers is involved, than in the case of a small group.

Insured Plans

One reason why many are led to believe that insurance company plans are likely to be much more costly per unit of benefit than trusteed plans is to be found in the difference in *initial* cost estimates—as distinguished from the real long-run cost—that may be found when the two are compared.

The cost estimates on which the contributions and benefits of a trusteed plan are based can be as conservative or as closely-figured as the actuary and the parties desire. Full account can be taken, in advance, of all of the probabilities. Full discounts can be taken for such factors as turnover and deferred retirements, and more liberal assumptions can be made—if the circumstances and characteristics of the group covered appear to justify it—as regards mortality and life expectancy.

Under insured plans, on the other hand, no discount is taken for turnover and deferred retirement in the computations on which the premiums are based. Conservative mortality tables and interest rate assumptions are used. If, for example, the 1937 Standard Annuity Table is used to figure the mortality rate among workers in a particularly hazardous occupation—such as coal mining—where the mortality rate is likely to be substantially higher and the life expectancy lower than set forth in that table—the cost will be overstated.

In addition to using conservative assumptions, the insurance company will make some additional provision for "contingencies" or possible adverse experience. Since it bears the risks (whereas a bank or trust company does not) the insurance company will thus deliberately overstate the cost probabilities, thereby assuring that it will have more than enough on hand out of the premium payments to take care of its obligations.

If, for example, in working up cost estimates for a trusteed plan, the actuary assumes that the average worker will elect to retire at age 67, instead of 65, the cost estimate will be about 85% of the comparable insurance company premium rate based on retirement at age 65. A turnover discount might make it, say, 75%. A different assumption as regards mortality could bring it down to 60%.

A group that sought cost advice from an actuary and premium quotations from an insurance company might conceivably, therefore, get a figure from one that would be about 60% of that submitted by the other. Nevertheless, over a period of years, the cost experience may be roughly about the same.

The difference would be made up of dividends or rate credits paid back by the insurance company, which would not be realized from the trust fund set up on the basis of the actuary's estimates. For example, the insurance company will, instead of discounting for turnover in computing its premiums, take care of separations by refunding to the employer a "cash surrender value" of about 96% of the contributions he has made on behalf of the terminated employee. The employer will get additional dividends—which he can apply as payment on subsequent premiums—if the mortality rate turns out to be higher and the life expectancy after retirement lower than the rates used in computing the premium. He will also get credit for deferred retirements, and if the earned interest rate is higher than was assumed.

The premium costs quoted by an insurance company will not necessarily, therefore, give an accurate indication of what the actual cost of an insured plan is likely to be. The figures submitted by an insurance company will consequently be of limited value when costs are discussed in collective bargaining, unless they are interpreted and modified in the light of all the probabilities.

This is an important point to bear in mind in the course of negotiations—particularly in a situation where an employer indicates his willingness to guarantee a level of benefits which, according to insurance company premium rates, will cost X cents an hour, but is not willing to commit himself to a fixed contribution of X cents per hour to a fund from which he could get no rebates.

If, on the other hand, the employer is willing to commit himself to a certain fixed X cents per hour contribution to finance a pension plan with such benefits as that amount of money will provide, then another choice emerges. That fund can be used to pay premiums under an insurance company plan, if a very conservative system of funding is desired, or it can be used to set up a self-administered plan with the benefits based on a consulting actuary's computations, which may be as conservative or as liberal as desired.

If used to set up an insured plan, the initial level of benefits will be about the minimum obtainable, but may be increased later as the fund realizes dividends and rate credits which can be used to purchase additional benefits. Under the self-administered plan, the initial level of benefits may be as conservative or as liberal as desired, within the limits of "actuarial soundness".

The basic difference between the two methods lies in the *timing* of cost experience. Under a trusteed plan, the manner of funding and the timing of adjustments for actuarial gains are under the control of the union and the employer. Under an insured plan, these important matters are within the discretion of the insurance company, rather than the parties themselves.

As a matter of fact, the dividend record of most insurance companies has not been good. Even where experience has been favorable enough to justify the repayment of the actuarial surplus, they have been slow to do so. They have not shown the same reluctance, however, where an increase in premium rates was involved.

Group Annuity Plans

The group annuity is probably the most common type of insured pension plan. Under such a plan, a master contract covering the entire group is entered into with an insurance company. The group annuity cannot ordinarily be used to cover groups of less than 50 members (25 in some states). Enrollment of employees into the plan is done on a group basis and no medical examination is required.

Plans of this type are designed chiefly to provide straight pension benefits at a relatively low cost. Since death benefits are usually not provided as a part of the pension plan, the full mortality discount can be taken in computing the cost.

There is no advance discount for severance, but a rebate of from 92% to 96% of the premiums paid on behalf of the individual who leaves the group is allowed. The difference between the rebate and the full premium is a "surrender charge" which the insurance company retains as an allocation of a portion of its administrative expenses.

Since severance is not discounted in advance, the inclusion of a "vesting" clause in the agreement, whereby workers who quit or get fired would keep the paid up annuities purchased for them up to the time of separation, would involve no increase in the original premium charge. It would only be reflected in the reduction or elimination of the 96% rebates which the employer would otherwise get back from the insurance company, and which he could use to reduce his future premium payments.

Group annuities are usually funded by the "single premium" method (see Part III). Under this method, there is purchased annually for each employee a unit of deferred annuity benefits to cover the pension rights attributable to the employee's service for that year. Each year's purchase of units of annuity coverage is a completed transaction, and upon retirement the sum of all the separately purchased units of deferred annuity will equal the total amount of pension payable to that employee.

Since each year's premium is a completed transaction for the unit of benefits earned in that year, the per-unit premium for an individual in the group will increase annually by reason of his age change. Whether the general group average cost will increase or decrease from year to year (other than through a general change in premium rates) will depend upon the average age of the group and the distribution of ages within the group.

The premium rates applicable to the various age brackets are usually guaranteed for the first five years that the plan is in operation, but thereafter the insurance company may change them from year to year. If rates are increased, the new rates will apply on additional annuity units purchased for all workers covered including the original members of the plan as well as new entrants.

The most common type of benefit formula found in group annuity plans—because it works in well with the single-premium, unit-purchase method of funding—is one in which the benefit is a certain percentage of pay for each year of service. For instance, the formula may be 1% of average pay for each year of service at age 65. A worker entering the plan at age 30 will, under such a formula, earn a total pension of 35% of his career average pay by the time he retires. The group annuity can, however, be used just as readily with a formula providing a flat dollar amount of pension benefit for each year of service to retirement.

The group annuity plan will usually give the retiring worker the option of taking his pension in one of several forms. Among the forms he may chose is a "joint and survivors" annuity, under which a pension, lower than that which he would otherwise have received, is paid during the retired worker's lifetime and the subsequent lifetime of a beneficiary designated by him, if the beneficiary survives him.

Deposit Administration Plans

Deposit administration plans are a combination of certain features of trusteed plans and group annuity plans. They were developed by insurance companies in an effort to meet the criticism, as to inflexibility and high initial premiums, frequently directed against insured plans.

If the funds accumulated under a trusteed plan were used to purchase paid-up life annuities for workers covered by the plan when they retired, (a practice known as "terminal reinsurance"), all the essential characteristics of a deposit administration plan will be present in such an arrangement. The main difference is that the insurance company acts as the trustee of the funds being accumulated before annuity purchases are made, instead of a bank, trust company or Board of Trustees.

The insurance company will guarantee a certain modest minimum rate of interest on the fund, but will assume no further risks and offer no guarantees as regards the actuarial soundness of the fund or its ability to meet the benefit requirements of the pension plan. It will offer these guarantees only with respect to the annuities actually purchased from the fund when an employee retires.

Under a deposit administration plan, the employer makes his payments to the insurance company. The insurance company holds the money at a guaranteed rate of interest, plus any additional interest which may be warranted, in the view of the insurance company, by the profitability of its investments. The money is not used at the time it is paid in to purchase units of paid-up deferred annuities as in the case of a group annuity plan, but is kept in a single unallocated fund.

As each employee retires, enough money is taken out of the fund to buy him a paid-up life annuity in the full amount of the pension benefit he has coming to him under the plan. The premium rate paid for this annuity at retirement is the same as the rate applicable to the unit purchased for a worker at age 65 under a routine group annuity plan. The insurance company assumes the obligations of an insurer only with respect to the annuities finally purchased.

This arrangement makes possible greater flexibility in the choice of benefit formulas and other provisions of the plan and in the computation and handling of the contributions required to finance the plan. Since the insurance company assumes no risks with regards to the amount deposited and held before annuities are purchased, cost estimates and contributions to the fund can be on as conservative or liberal a basis as may be desired, within such minimum and maximum limits as may be set by the insurance company.

The insurance company assumes none of the risks until employees actually retire. If the amount in the fund is not sufficient to purchase annuities in the amount required by the benefit terms of the plan, the employer will have to make up the difference.

Deposit administration plans are available only to large groups of workers, the minimum being about 500.

Individual Policy Plans

Where the group is too small to permit the use of a group annuity plan, the only means by which a pension plan can be insured—unless the group combines with other groups for that purpose—is through a system of individual annuity policies. This method is also adaptable, though costly, to any group where substantial subsidiary benefits—such as death, severance and survivors benefits are desired.

Under group annuity and self-administered plans, death benefits, where provided, are usually handled separately from the funding of the pension program, through a group term life insurance program set up apart from the pension plan. Under individual policy plans, however, death benefits are provided as an integral part of the funding of the pension plan.

One or more separate policies are purchased for each employee covered by the plan. The total amount of the policies held for each employee is based on the pension to which it is expected that the employee will be entitled when he reaches retirement age. A minimum number of employees in the group is not required.

Individual policies are funded on a level annual premium basis—that is, each year's premium is the same as the first premium, from the beginning until retirement (see Part III). It does not change yearly with changes in age, as in the single-premium approach used in group annuities. The cost is not discounted in advance either for mortality before retirement, as in a group plan, or for severance. This makes possible the payment of substantial death and severance benefits within the scope of the high initial premium cost.

Under a straight individual annuity, the death benefit is limited to a return of all the premiums paid on the worker's behalf, to his beneficiary. However, insurance companies frequently require that a certain amount of life insurance be carried in conjunction with this. Under most of these plans, therefore, a worker is usually eligible for a $1,000 face amount of life insurance benefit in case of death before retirement for each $10 of scheduled monthly retirement income.

Since considerably more than $1,000 must be accumulated by age 60 or 65 in order to purchase $10 monthly for life, the cash value will exceed the face amount of the insurance in the later years of the life of the policy. In this case, the cash value is payable in the event of death, instead of the face amount.

For administrative purposes, a pension trust is usually used in connection with individual annuity plans, the individual policies being held by the trustees. This type of plan is therefore commonly called an individual policy pension trust.

One drawback to the individual policy system is that the insurance company will usually require some evidence that the employees to be covered are insurable, and may call for complete medical examinations before agreeing to underwrite the life insurance part of the program. The company reserves the right to reject those who fail to meet the health requirements.

For workers who cannot pass the medical, the company offers a straight retirement annuity contract, under which the death benefit is limited to a return of the accumulated reserve. Some insurance companies also will not offer life insurance benefits to employees in hazardous occupations.

The form of death benefits after retirement under the plan will vary from one company to the next, but each company will usually offer only one standard form of payment. The most common practice is to guarantee payment of the pension for 10 years even though the retired employee dies within that period, and for life thereafter. In case of death after retirement but before the 10 years have passed, the monthly pension is paid to the beneficiary for the balance of the 10 year period, or the value of the remaining installments is paid in a lump sum.

Another common form is the "modified refund" annuity. Here, if death occurs after retirement, the monthly payment is continued to the beneficiary until the total payments equal what the cash value was at the time of retirement.

The rebate that employers stand to receive under a nonvested plan in the event of employee withdrawals is considerably less than in the case of group annuities. As compared to the 96% return under a group annuity system, the employer may only stand to recover from 25% to 50% of the premiums paid under an individual policy plan. Since the employer can recover relatively little in cash surrender values under these plans, most individual policy plans contain comparatively liberal vesting provisions, under which employees retain their accrued pension rights when and if they leave the group.

From the cost standpoint, for a given amount of pension benefits, individual policy pension plans are much more expensive than group annuities. The reasons for this should be fairly obvious from a comparision of the terms and different methods of funding of the two types of plans. Individual policy plans usually provide much more in the way of subsidiary, non-pension benefits—all of which, naturally, costs more. The level premium method of funding, with no discount for mortality, results in a much higher initial premium cost than the single-premium method used in group annuity systems.

In addition, insurance agents get a much higher commission for the sale of individual policy plans than they do in the case of group annuities. The load factor for administrative expenses and contingencies is also substantially higher. Of course, as in the case of group annuities, some of the amounts charged for contingencies will be returned if experience is sufficiently favorable, in the eyes of the insurance company, to warrant it.

Once the premium rates are established for a given policy, they are fixed and guaranteed by the insurance company against any future increase (the main reason for the higher load factor for contingencies). Higher premium rates may be charged for additional policies purchased in the future, however.

Part VI

BENEFIT PROVISIONS

The benefit schedule of a plan—together with the provisions as to eligibility, service, etc., which condition those benefits—will determine the manner in which the values of the plan are distributed among the various workers in the unit "covered" by it. The formulation of this benefit schedule presents a union with another of the many basic choices involved in the consideration, negotiation and establishment of a pension plan—the choice as to who gets what, when and how much.

Types of Benefit Schedules

There is no such thing as a "typical" or "standard" pension plan benefit formula. Almost every plan will have some variation of its own, designed to serve some purpose peculiar to the particular situation involved. It is not possible to point to some union's plan and describe the benefit provisions as "representative" of what is being done in industry today.

These wide variations are found in both collective bargaining plans and in "unilateral" plans. Actual practice reflects the virtually limitless nature of the possible combinations and variations.

In their bare essentials, however, most of them are modifications of one of the following four broad types:

(1) Benefits related to both earnings and service (Example: 1½% of pay for each year of service from entrance to retirement).

(2) Benefits related to service, but not to earnings (Example: total pension equals $3.00 per month for each year of service to retirement).

(3) Benefits related to earnings, but not to service (Example: 50% of pay upon retirement).

(4) Flat benefits with no relation to either earnings or service (Example: $100 a month upon retirement, regardless of earnings or service).

Of these four broad possibilities, variations on the first two types are by far the most common. However, relatively few plans will fall entirely within one particular category—though the main features of a formula may be along the lines of one of these types, it will frequently include certain aspects of another. For example, the basic formula of a plan may be related to both earnings and service, but this formula may be modified by the inclusion of a minimum pension provision based on service but not earnings, or based on neither service nor earnings.

Or, the pension benefit may reflect earnings and/or service, but only up to a certain point, after which additional earnings and/or service cease to have any effect upon the amount of the pension. Whether recognition should be given to earnings or service; the extent, if any, to which they should be recognized; and the consideration that is to be given to minimum needs are all within the control of the parties. The formula can be constructed and adjusted in any number of ways to compensate for these factors.

Percent of Pay Versus Flat Money Benefits

A number of arguments are commonly heard in favor of a system which ties benefits directly to earnings. It is said that a worker will tend to judge the adequacy of his pension in relation to what he had been earning before retirement and what he would have been able to earn if he continued at work. If retirement is to be encouraged or made relatively easy, therefore, the benefits should bear some reasonable relation to his normal earnings.

Also it is held that higher-paid workers have become accustomed to a higher standard of living, and that they should not be required to reduce their scale of living too far below what they have become used to. Thus, a $100 pension might be all right for a worker earning $150 a month, but completely inadequate for a worker earning $400 a month.

On the other hand, the diversion of funds to provide a higher pension for higher income workers will leave less available for the pensions of low-paid workers. Since another dollar is of greater value to the man who has few dollars than the man who already has many, the loss suffered by the low-income worker will be much greater than the added value of the higher benefit to the high-income worker.

The lower-paid groups are already close to the bare subsistence margin. To reduce their living standards still further would involve a greater proportionate amount of hardship than it would in the case of the high-paid worker, whose scale of living is not limited to the bare necessities. Furthermore, the higher-paid worker will have been better able to set something aside out of his pay before retirement with which to supplement his pension.

It is only where a fairly wide range exists between the wage rates paid for different categories of work within a group that this question really becomes much of a problem. Where rates are roughly uniform, everybody that qualifies in all other respects will get about the same amount in pensions, regardless of whether a pay-related formula or a flat dollar formula is used.

It would also work out about the same in a situation in which it could be assumed that all of the low-paid workers are in the younger age brackets and that their pay will steadily increase as they grow older—so that their average pay over the years would wind up at about the same level.

In cases such as these, however, no real purpose is served by using a pay-related formula. It would be much simpler to use a flat-dollar amount schedule, since the same end result would be achieved either way. Record-keeping would be much simpler and less expensive, and the actuarial service required would probably be less elaborate.

In other cases, where some recognition of higher pay is desired if it can be accomplished without too much hardship for the lower-paid worker, a compromise approach can be worked out with very little difficulty. A minimum benefit provision, guaranteeing that the pension will not be less than a certain flat dollar amount, may be included as a part of a pay-related formula. Or the formula may use a sliding scale, so as to provide low-paid workers with a higher percentage of pay than the high-paid workers.

The amount available from Social Security might have a bearing on the selection of a percent of pay formula. Since the Social Security program provides a higher percentage benefit to lower-paid workers, a private pension formula providing a more or less uniform percentage of pay would, when received on top of the Social Security benefit (and not offset against it), result in a total percentage benefit which would be scaled upward for the lower-paid groups.

A percentage of pay approach is not the only way in which a worker's past earnings can be recognized. It can also be done under a flat-dollar-amount formula, by simply including an additional factor to compensate—to any desired extent—for higher earnings. For instance, a flat benefit formula used by one plan provides a pension of $60 a month after 20 years of service, regardless of earnings. Up to $5 may be added to this amount for workers whose earnings exceed a certain level.

Career Average Earnings Versus Final Earnings

In drawing up any plan in which the benefit formula is related to the worker's earnings during his working life, a question arises as to the level of earnings to be used as the base for computing the amount of retirement benefits. In some plans, the benefits are expressed as a percentage of annual average pay received by the worker during all the years of his participation in the plan ("career average" base). In others, the benefits are based on the worker's annual pay during the final years of his participation in the plan.

In the latter case, the period used as the base is usually the 5 or 10 years just prior to retirement. Sometimes this is expressed as the average of the 5 highest paid years in the 10 years before retirement. In other cases it is expressed as the highest single year before 5 years prior to retirement. A number of variations are possible.

Generally speaking, a benefit formula which uses the final years before retirement as a base is preferable. The same percentage formula will yield a higher benefit if based on final earnings than on a career average—since (a) higher seniority, skill, and experience will tend to move workers to higher-rated jobs in the course of time, and (b) wage scales generally are higher now than they were 15 or 20 years ago, and will be still higher in the future.

Furthermore, it provides a much more logical base, from the standpoint of the purpose of using a pay-related formula in the first place, since it will be more closely related to the level of pay and the cost of living to which the worker has become accustomed at the time he begins drawing his pension. A plan which provides a pension of 50% of average career earnings after 25 years of service may actually mean for most of the workers a pension of only about 35% or less of what they were making at the time of retirement.

Of course, under a plan which bases the pension on final earnings, the employer should be watched rather carefully to make sure that he does not, by some pretext, seek to demote, or transfer to lower-paying jobs, workers who are approaching retirement, in order to reduce the formula base and thereby his costs. A "highest 5 of the last 10 years" average would overcome this possible objection, in most cases.

In computing the cost of a percentage formula plan based on final earnings, the actuary may make an assumption as to what the future course of wage levels in the plant will be, in order to determine how much in the way of benefits will have to be currently funded. Or, he may use current pay scales and take account of later changes through later adjustments, when the actuarial experience of the plan is rechecked. In the latter case, the increased cost deriving from higher wage levels may be more than off-set by actuarial gains resulting from mortality, interest, deferred retirement or severance experience more favorable than that which was assumed—in which event no adjustments in contributions may be necessary.

Even in plans where future service credits are based on career average earnings, the past service formula is nearly always based on earnings during the year before the date the plan was set up—to avoid the necessity of having to check back through pay records, covering a period of 30 years or more, which may no longer be in existence.

Service and Eligibility Provisions

The service and eligibility requirements of a pension plan are just as important as the benefit formula itself in determining how the benefits are to be distributed among the members of the work force covered. They should always be considered in relation to each other, as parts of a whole. A liberal benefit accrual formula can be greatly offset by a provision which limits the number of years of service that can be counted.

These restrictions can be imposed by putting a direct limit on the number of years of service which can be credited toward retirement (for instance, where the formula provides a percentage of pay for each year of service up to a maximum of 30 years). Or they can be imposed through age and service restrictions upon eligibility (for instance, a plan which requires the attainment of age 30 and 5 years service as a condition of eligibility).

Obviously, a plan which has both an age and a service condition is more restrictive than one which has just one or the other. For example, a 20-year-old worker would have to have 10 years of service before qualifying under an age-30-with-5-years-service plan; and a new worker aged 30, could not qualify until he reached age 35, under the same plan.

There is no real difference between a plan which places a specific limit of, say, 25 years upon the accrual of benefits, and a plan which places no specific maximum limit on pre-retirement service credits, but which requires the attainment of age 40 as a condition of eligibility for coverage.

These restrictions are frequently imposed as an indirect means of discounting the cost of the plan for withdrawals, or severance—it being assumed that most of the withdrawals will take place among the age and service groups excluded from the plan.

Where the funds available for the establishment of a plan—or the employer's willingness to pay—are limited, restrictions of this type may be used as a means of providing short-service workers, and older workers presently on the verge of retirement, with higher immediate benefits than would be possible if the available funds were spread over a wider area, so as to make earlier coverage and higher benefits available to young and long-service workers.

This might involve a choice between, say, a 2% per year plan with a 25 year limit, and a 1-5/8% per year plan with no limit on credited service. The older, short-service worker will make out much better under the former plan. The latter would make higher benefits available to younger and longer-service workers.

This is a practical problem which unions negotiating a retirement plan are very likely to encounter. If the union starts out with a proposal for a 2% per year plan with no limit on service accruals, for instance, and negotiations reach the point where some modifications on the original proposal must be made, the question arises as to just where it would be best to trim. Should the percentage amount be trimmed down, or should the percentage be retained and the cost-trimming accomplished by agreeing to a maximum limit on the amount of service that can be credited under the formula?

The cost of the two alternatives might work out about the same. It cannot be said flatly that one approach is necessarily any better than the other, except in relation to the particular needs and desires of the group of workers concerned with the choice. One approach might be more desirable for an older, established group. The other might be better for a relatively young group employed in a new plant, where most of the workers are a long way from retirement and few have much in the way of past service to their credit.

The union should, however, clearly recognize the different benefit effects of these variations, and should know what it is doing when it makes a choice between them. The final formula should be the product of a conscious election, seeking to make the best use of the available funds, in the light of the major benefit needs of the group involved.

Any eligibility and service limits should be designed to serve this union purpose and not put over as an employer gimmick to undercut the benefits of all. Many employers have used this device in connection with unilateral plans as a way to buy a high percentage formula at a low price, so as to create a cheap illusion of liberality.

The benefit schedules of most plans make no distinction between past and future service credits. However, some percent-per-year type plans do make such a distinction—either by applying a lower percentage to past service credits, or by limiting the number of years of past service that can be credited.

The arguments commonly advanced in defense of this approach are (1) it serves to reduce the heavy initial burden of the past service liability, makes more funds available for future service benefits, and makes it easier to set up a plan, particularly in the case of an older group; and (2) the past service formula is based on the previous year's earnings, even under plans that base the future service formula on career average earnings, so that a lower percentage would yield an equivalent benefit.

In considering the question of past service treatment, unions should bear in mind the fact that the men who will retire over the next ten years or so will have to derive the larger part of their benefits from their past service credits. Consequently, over the course of the near future it will be the past service rather than the future service formula (where the plan makes a distinction between them) which will determine how well the plan pays off in actual practice.

Defining "Service"

Unless great care is taken in writing the agreement provision covering this point, many retiring workers may find their pensions to be considerably less than they had expected, owing to a narrow definition of the term "service" in plans which relate the amount of benefits to length of service. Particularly in plans which make no provision for the retention of vested rights by the worker in case of lay-off, quits or discharge, a loosely-worded clause governing "credited service" may put a potential whip in the hands of the employer, or enable him to reduce his cost obligations at the expense of the benefits anticipated under the plan.

Under most single-employer plans, service credited toward retirement benefits is required to be "continuous" from the date of membership in the plan to the date of retirement. If broken, only the last continuous period of service under the plan counts, unless some further provision for the retention of vested rights is included.

In the typical negotiated plan, continuous service is not considered to be broken by leaves of absence, sickness and accidents, military service, lay-offs, dismissal followed by subsequent reinstatement, strikes or lockouts. In most cases, however, absences for these causes in excess of stated periods, while not considered a break in continuous service so as to involve the retroactive loss of service credits already accumulated, are deducted in computing the total length of service.

Provisions governing non-work time counted as credited service are usually geared to the seniority clause in the collective agreement. Under such an arrangement, continuous service, for retirement plan purposes, accumulates in the same manner as seniority does under the agreement and service credits are retained as long as seniority rights are.

Part VII

RELATING BENEFITS AND COSTS

Either the level of benefits or the cost of financing that level of benefits will be subject to variation. To say, at the time a plan is set up, that X cents per man-hour worked will finance benefits equal to Y dollars a month after 25 years of service means only that it would probably be safe enough to start out with such a schedule of benefits until experience gives a clearer picture of what the actual cost is going to be.

Either Benefits or Costs Will Vary

It would be a very rare coincidence if the actual cost as revealed by operating experience were to turn out to be exactly equal to the advance estimate of cost. Nor will cost experience over a given period of time necessarily be the same as the cost experience of the plan over a later period of time.

As previously discussed, the cost of a given level of benefits, and the amount of benefits that can be provided with a given contribution will depend upon: (1) age and sex distribution of the work force; (2) mortality experience; (3) interest earnings; (4) severance or turnover (where vesting is not provided); (5) age at which workers elect to retire; (6) wage rates (where benefits are related to earnings).

A change in any of these factors will alter the cost of maintaining a given benefit schedule. And each of these factors is variable. If the average age of the work force increases, the cost of funding the plan will go up; if more workers stay on the job beyond the normal retirement age, the cost will go down; if interest earnings are greater than expected, the cost will go down; and so on.

Accordingly, if the contributions turn out, over the course of time, to be too low in relation to the benefit schedule established, then the union will either have to accept a reduction in benefit payments or it will have to make another trip to the well and negotiate an increase in employer contributions. If, on the other hand, the employer guarantees the benefits but not the amount of his contributions, then an "actuarial loss" will automatically require him to increase his payments. "Actuarial gains" may yield him substantial savings or rate credits which will serve to reduce his contributions well below the level of his initial outlays.

Thus, under a plan in which the benefit schedule is fixed and guaranteed for an extended period of time, some allowance must be made for variations on the cost end. Where the employer agrees to a fixed and guaranteed contribution, but does not guarantee the benefits, some margin of flexibility with respect to benefit payments must be provided for, if these contributions are to be fully employed for funding purposes.

This does not mean that you cannot set up a plan that is fixed and guaranteed at both ends, at least for the duration of the agreement. It just means that you should be very careful in doing so.

If the plan undertakes to guarantee both the contributions and a certain schedule of benefits, then the benefit schedule or the cost calculations should be such that some money will be left over apart from that required for the routine funding of the plan. This can be done either by using over-conservative actuarial assumptions in determining the relation between cost and benefits, so as to deliberately over-fund. Or it can be done by using reasonable actuarial assumptions and by adding to that a certain extra provision for contingencies.

It should be noted that insurance companies—who will guarantee a certain benefit schedule at a certain level of premiums, for the first five years, at least—use both of these safety precautions. They use hyper-cautious actuarial assumptions, and they also make provision for contingencies, through the "load factor." In other words, they wear a belt and suspenders too.

Fixed Contribution Versus Fixed Benefit Plans

Most existing industrial plans—particularly if unilateral plans are included—established in a single-company or single-plant situation are of the so-called "definite-benefit" type. That is, the employer guarantees a certain amount of benefits, determined by the particular formula or schedule set forth in the plan, but makes no commitment as to the exact amount of his contributions.

The employer simply guarantees to pay whatever the cost of the plan turns out to be. How much he pays and the method in which he pays it is determined by the funding system used and the amount of the dividends and rate credits he gets back from the insurance company or through actuarial checks on the fund. He gets the benefit of all actuarial gains and must make up the difference in case of any actuarial losses.

Many single-employer plans and practically all multi-employer plans, on the other hand, are based primarily upon a fixed and guaranteed rate of employer contribution payments into a pension fund. This approach is inherent in the nature of collective bargaining situations in which a number of employers are party to a single master agreement with a union, inasmuch as it is necessary if the uniformity of wage scales and other conditions established by such an agreement is to be maintained. A fixed-benefit basis in such a case could mean wide variations in the cost of a given level of benefits among the different employers, due to variations in average age, etc.

Under these fixed-cost plans, negotiations are conducted on the basis of how much the employer is to pay into the fund. Once the amount is agreed upon and set forth in the contract, the benefit structure is decided upon, on the basis of what the funds available can provide. Usually some provision for the modification or adjustment of benefit schedules in accordance with experience is included, either by giving the Trustees some area of discretion in this respect, or by calling for renegotiation of the provisions of the plan, or some other arrangement.

An agreement calling for a fixed contribution to a pension fund does not, of course, rule out the possibility of funding the plan through an insurance company. This is, in fact, sometimes done in such plans. A trust fund may be set up as an agency for the collection of the contributions. The Trustees may then "reinsure" the plan by using the money to pay insurance premiums on a current basis, or it may invest the money and use the services of an insurance company only when a worker actually retires, through "terminal reinsurance"—that is, by taking money out of the fund and buying the worker an immediate life annuity at the time he retires.

Where the situation is such that either a definite-benefit or a fixed-cost approach can be used with equal facility, a union should give careful consideration to all the pros and cons of both before coming to a decision.

Under the definite-benefit approach, the union has fewer administrative worries and is not directly answerable as to the adequacy of the funds. If it commits the employer to the principle and practice of full advance funding, it has the assurance that the benefit structure will be maintained unimpaired, even if cost experience should be less favorable than anticipated.

The members will be able to tell pretty well what they are going to get when they retire, and will be sure of getting it *if* they meet the conditions. The emphasis is placed on benefits, which is the chief concern of the worker approaching retirement. The union can concentrate its collective bargaining energies on benefits without having to concern itself too much about the cost effects.

On the other hand, the benefit approach has certain serious drawbacks. Mapping out all of the details and provisions of a pension plan across a bargaining table can be a complicated and harrowing proposition, that can drag on for weeks and even months.

It can be even more difficult than the drafting of an original collective bargaining agreement after a plant is first organized, because it involves more technical details with which both company and union negotiators are less likely to be familiar. The "experts" get called in and the union finds itself up against a white-collar goon squad of company lawyers, accountants, actuaries, etc. Collective bargaining gets away from the control of the men who are going to have to live with the agreement that finally emerges.

In insisting upon an open-contribution, definite benefit type of plan, the employer is likely to observe that the benefits are the main thing and how much he puts into the plan or gets back from the insurance company is no proper concern of the workers. Nevertheless, the union will find that when it proposes some desirable modification of the terms of the plan or improvement in its benefits, the employer will be likely to say that it may be all very fine, but it costs too much.

Even though he may be unwilling to commit himself to any specific amount of contributions, the employer will tend to use the cost argument as his major crutch in negotiations. In other words, regardless of whether or not the plan is to be on a fixed cost or a definite benefit basis, negotiations will tend to center around the factor of costs.

The quality and character of the cost estimates then becomes a matter of real concern to the union negotiator. Here the employer has an advantage. In seeking authority to back up a deliberate and gross overstatement of what a particular benefit feature will be likely to cost him, he will find an army of actuaries and insurance agents at his beck and call—ready and eager to perform that service for him. Insofar as they are intimidated by such estimates, and are unable to effectively challenge them, union negotiations will suffer the disadvantages of the cost approach, and none of the advantages.

If the employer thereupon funds its plan at the same conservative cost rate as he used for bargaining purposes, he will, before too long, get back a substantial share of that cost—a share that might have gone for higher benefits—in the form of actuarial gains, dividends or rate credits.

Under a fixed-cost approach, the union will have to assume a greater degree of responsibility for the adequacy of the funds in relation to the benefits which those funds are to provide. The fund, rather than the employer, will have to bear the risk of adverse experience.

On the other hand, the pension fund itself, and not the employer, will realize the full benefit of all actuarial gains and will get any dividends, or rate credits. These can then be used to increase benefits for the members, rather than to reduce the employer's costs.

This is not a minor consideration. If a good many of the definite benefit plans that have been set up in recent years had been established on a fixed contribution basis, according to what the companies involved maintained it was going to cost them, they would be able to provide a lot more in benefits today than they now do. In some of these cases, the employer's actual operating costs have been much less than half of their original cost claims.

Fixed-Contribution Approach Simplifies Bargaining

From the standpoint of negotiations, the fixed-contribution approach simplifies the process of collective bargaining tremendously. No one has to be an expert to bargain on the straight question of how much money the employer is to pay; negotiations can proceed in pretty much the same fashion as though a straight cash wage increase were at issue.

While it is advisable to have at hand at least a good rough estimate as to how much money will be needed for a certain level of benefits, all the technical details of the plan do not have to be hammered out across the bargaining table. No elaborate actuarial studies need be made in advance, and no expensive experts need be hired until the fund is set up —after which the fund, rather than the union treasury, can bear the expense.

Once agreement has been reached on the amount of the contribution, the construction of a benefit schedule and the other features of the plan should be much less difficult than in the case of a definite benefit plan. The union can then shop around for the best plan it can get that will fit the limits of the fund. Since administrative expenses are a part of the legitimate cost of the plan, an actuary can be retained at the expense of the fund, to draw up alternative propositions for consideration.

Since it cannot affect his costs, the employer should be less concerned about the details of the plan itself. Within the scope of the available funds the provisions can be tailored to the needs and desires of the members, rather than the employer's idea as to what would be good for the members if it didn't cost too much.

For its part, a union can afford to adopt a more conservative approach to the problems involved in the funding and benefit provisions of the plan when the contribution is definite and fixed. Since the money is there and since more favorable experience than that assumed in setting up the benefit schedule can serve only to increase the fund, making possible later increases in benefits, the conservative approach will involve no sacrifice of economic values by the membership.

Part VIII

BASIC FACTORS IN PENSION NEGOTIATIONS

The ideal pension plan is seldom, if ever, attainable in a single step. A union first must usually decide which features are most essential to its purpose, leaving the frills to the future. The construction of a plan that is satisfactory in every way is the product of time, experience and subsequent negotiations over the years following the initial establishment of the plan.

The first objective should be to develop a sound underlying structure upon which these later improvements can be built. The particular methods by which this objective can best be accomplished will, of course, depend upon the nature of the particular group and the possibilities of the individual situation. However, there are certain basic considerations where the course of enlightened trade union action is reasonably clear. Probably the most important of these are (1) funding; (2) administration; and (3) the extent to which a worker's equity in the plan is to be protected.

Plan Should Be Fully Funded

In negotiating the pension agreement, the union should make sure that the plan will be adequately funded. A provision binding the employer to the payment of certain pension benefits is not sufficient. In definite-benefit plans, no less than in fixed-contribution plans, there should be an additional provision setting forth clearly the manner in which those benefits are to be financed through current contributions to a trust fund or insurance company.

The most desirable provision is one which obligates the employer to maintain the plan on a full advance funded basis; that is, through current contributions sufficient to finance the full amount of all future service credits as they are earned, plus an installment on the past service liability, large enough to assure that the past service will eventually be paid off in full. Anything less than this should be strongly resisted.

A pension plan that is not adequately funded hardly deserves the name. It offers little, if any, real security to the workers concerned. Pension payments are contingent upon the continued profitable existence of the employing company. If the company fails, those who have not yet retired will lose all of their pension rights and those now drawing a pension will cease to do so.

An unfunded system may even be self-destructive. It depends entirely upon current income for the payment of obligations which have accrued in the past. A period of adverse business conditions could easily reduce the amounts available for pensions at the very time that pension requirements are at their maximum. The company may then be forced to the wall when, with a little more foresight and at even smaller net costs, it could easily have protected both itself and the rights of the workers involved.

Under a fully funded system, on the other hand, the company's obligations are stabilized and easily managed. It is free of the accumulated burden of past liabilities and need only concern itself with current ones. The pension fund itself is independent of the employing firm and does not depend upon the firm for its ability to meet all the claims that are entitled to recognition. If the firm goes out of business, the reserves on hand in the fund will still be sufficient to pay off all accrued pension rights in full.

Not only is funding essential to the plan's security and ability-to-pay—it is also a necessary condition precedent to the negotiation of a "vesting" provision, designed to protect the worker's earned pension rights against loss in case he quits or gets fired. Obviously, a worker can establish an equity, or vested right, in a pension system only to the extent that reserve funds have been set aside to cover his earned credits. An unfunded system can not provide vesting rights, because there is nothing there to vest.

Plan Should Be Jointly Administered

Unions should accept nothing less than an equal voice in the administration of the pension plan. This responsibility cannot safely be left to the employer. The rights and interests of the membership can only be given proper regard and protection where the union is in a position to exercise surveillance over the day-to-day operations of the plan.

Only through responsible participation in its administration can the union gain the insight and experience as to the details of the plan in operation which will be needed to determine where future modifications and improvements are required. The familiarity with the plan gained in this manner will provide the best preparation for subsequent negotiations on the pension agreement, and will make it possible for the union to carry out those negotiations in an informed and enlightened manner.

The way in which this participation can be made most effective will depend to a large extent upon the type and the scope of the plan, its area of coverage, whether it is set up on a fixed contribution or definite benefit basis, and whether it is to be funded through an insurance company or a trust fund.

If a board of trustees is set up to receive the funds, supervise their investment or negotiations with an insurance company, direct the payment of benefits and adopt the working rules of procedure within the framework of the pension agreement, the union should insist upon equal representation on the board, with an equal vote. Any third parties represented in the management and operation of the fund should not be selected solely by the employer but should be acceptable to the union as well. Provision should be made for the use of the services of outside consultants, acceptable to the union, upon the motion of either party, so that the adequacy of the funds in relation to benefits can be determined from time to time.

Under a definite-benefit insured plan the details of administration will be less complex than in the case of trusteed plans. Nevertheless, active participation on the part of the union is still a basic requisite. With insured plans this can probably best be carried out through a joint union-management pension committee, which acts as a specialized grievance committee, interpreting the pension agreement and handling all issues that arise in connection with the operation of the plan, such as questions of eligibility for retirement, years of service, etc.

In all cases, the agreement should stipulate that full and complete financial and actuarial information on the status and operation of the plan is to be made freely available to the union. This should include data on insurance premiums paid out, and insurance dividends or rate credits received by the fund or the employer from the insurance company. This will enable the union to keep close tabs on the actual cost of the plan in operation—which can vary considerably from the advance estimate of cost which may have been used in negotiating the plan, or the face amount of insurance premiums.

This will also make it possible for the union to enter subsequent negotiations with the same factual data at its fingertips as has the company. Any arguments over costs can then be disposed of by reference to facts equally available to both parties.

Plan Should Protect Workers' Earned Rights

Many—in fact, most—existing private pension plans are seriously deficient with respect to the protection they afford against the loss of earned pension credits in the event of lay-off, quits or discharge prior to a worker's actual retirement.

In all too many cases, the great majority of the workers who are ostensibly "covered" by a plan have little or no expectation of ever getting anything out of the plan, even if they live to the normal retirement age. In such cases, the only workers with a substantial chance of qualifying for any pension at all are those who have attained an advanced age after a "continuous" period of long and unbroken service with a single employer.

Where the scope of these plans is limited to individual establishments, and where workers have no vested rights in the funds contributed by the employer, broken service with different employers will deprive them of pension rights—even though they may have a long record of active membership in their union, and may spend their working lives in the trade or industry. While plans of this type may help to meet some of the immediate needs of a few of the older members of a union group, they offer little in the way of benefits to the majority of the members, and do little to help solve the broad national problem of economic insecurity and dependence among the aged.

Plans of this sort may fairly be said to serve more of a management purpose than a trade union purpose. They follow the pattern of the typical pre-collective bargaining unilateral "company" plan; set up as an instrument of, by, and for management—out of "efficiency" and "personnel relations" considerations.

They offer the employer a cheap means of getting rid of superannuated workers, with a specious show of generosity. They give the employer a sort of invisible chain with which to tie workers to their jobs with a particular company, and to prevent them from bettering themselves elsewhere, through the promise of a pension plan if they stay and the threat of its loss if they leave.

To the existing penalty of job loss if a worker gets fired, a non-vested plan adds another double penalty, by imposing upon a discharged worker, not only the loss of his present paying job, but the loss of all the pension credits he had earned—or thought he had earned—through work performed in the past. He is thus penalized not only presently, but retroactively. This obviously places a powerful instrument of coercion in the hands of the employer—an instrument which has been described as "pension slavery."

This is the feature of these plans that insurance companies and pension consultants will generally stress in their efforts to sell them to employers. They do not usually say, in plain terms, that a non-vested plan is a good way for the employer to keep the most valuable and experienced part of his work force tied to their jobs at lower wages than they would otherwise have to pay. They prefer to say that such a plan will "reduce employee turnover," and thereby involve savings to the employer which will outweigh the cost of the plan. In other words, the worker will, through lower wages, buy the chain that ties him to one job. It won't cost the employer anything in the long run.

The idea that seems to underlie this line of sales talk—that "lower employee turnover" is a good thing—is essentially a reversal of traditional American principles. In the past, in this country, the efforts of workers to better themselves by changing jobs when more attractive opportunities opened up have generally been regarded as something that should be encouraged rather than discouraged.

"Lower employee turnover" may be a good thing for an individual employer. But it is not good for workers, nor is it something that unions should be interested in promoting—for it will inevitably tend to have a depressing effect on wage levels. And it is not good for the economy of the country as a whole, which depends upon a high degree of mobility on the part of the labor force for maximum efficiency.

These plans may place a substantial degree of discretionary power in the hands of management, which seniority provisions and the union's ability to act in cases of discriminatory or unjustified discharge may or may not be able to counter effectively. Technological lay-offs, temporary shut-downs, slack periods, not to mention such devices as the provoking of quits or firing on trumped-up pretexts, may enable the employer to wipe out a large part of his financial obligations, and recapture much of his past outlay under a pension plan, and may cause workers—even those on the verge of retirement—to lose their pension rights.

Aside from the somewhat abstract question of the effect of a pension plan on the mobility of workers, there is a more direct consideration which argues against the type of plan which deprives a worker of his pension rights if he leaves a particular employer. That is the simple fact that the pension credits are properly his. He has paid for them through services performed, at a lower level of wages than he should have been able to obtain if the plan were not established—even where the plan was not deliberately negotiated in lieu of a direct wage increase.

It is the nature of pension plans as a form of deferred wage payment which argues most strongly in favor of the vesting of pension rights earned in the past. An employer cannot recapture any of the cash wages he has paid in the past to workers who quit or get fired. There is no reason why he should be able to recapture any of the deferred wages which workers may have earned in the form of funded pension credits up to the time of their severance. An employer who resists the inclusion of a vesting feature in the pension plan is looking for "something for nothing" in the form of the workers' full services at only partial wages.

The means by which the deferred wage principle can be most effectively established under a pension plan is through some provision for the protection of the members' rights in the plan in the event they are discharged, laid-off, or shift from one employer to another. The manner in which this can best be done will depend upon the type of plan and the characteristics of the trade or industry.

Multi-Employer Plans

In many cases, a substantial degree of protection can be provided through the establishment of central craft-wide, industry-wide, or area-wide retirement funds, into which all of the employers under contract with the union contribute. This system has the further advantage of making it much easier, safer, and less expensive for the small employer with but few employees to provide pension benefits than would otherwise be the case.

Under such arrangements, continuous coverage and continuous accumulation of pension service credits is guaranteed to the members as long as they remain employed in the industry, craft or area covered by the agreement, even though they may have broken service with a number of different individual employers. Of course, they may still lose their pension rights if they leave the industry, trade or area.

This type of plan is most effective in the skilled trades, such as building construction, where there is a high degree of mobility on the part of the members between employers within the trade, but where relatively few workers leave to enter other trades or industries. The greater the number of employers who contribute to the fund, the greater is the degree of protection for the members. A fund set up at the national level, with all union employers in the country paying in, would accordingly provide a greater degree of protection than a fund set up on the local level.

Unions affiliated with the American Federation of Labor have pioneered in the development of multi-employer pension systems, under which union membership or employment within the covered area of the trade or industry—rather than long and continuous service with an individual employer—is the basis upon which eligibility for benefits is determined. Examples of pension funds of this type are those negotiated by the International Ladies' Garment Workers' Union, AFL, with employers in the women's garment industry; by the International Brotherhood of Electrical Workers, AFL, with employers in the electrical contracting industry; and by the International Longshoremen's Association, AFL, with stevedoring contractors. Under these plans, all of the employers covered by the agreement with the union contribute a like amount into jointly-administered central funds, from which benefits are paid out to workers who qualify by reason of union membership and/or employment with one or more of the firms which contribute to the fund.

Single-Employer Plans

Where a plan is negotiated on a company or plant-wide basis, through a single employer, the workers' equity can be protected through the inclusion of a "vesting" provision in the pension agreement. Such a provision will enable the worker to take his accumulated pension rights with him when he moves from one job to another, in the form of paid-up annuities which will begin to pay off when he reaches retirement age, or a guaranteed credit to his account in the pension fund, through which he will begin to draw a pension proportionate to his service with the company upon reaching the retirement age.

This type of protection is most effective in employments in which workers are likely to remain with a particular establishment long enough to accumulate an appreciable amount of service credits, but where they frequently shift to other trades or industries when and if they leave the establishment.

In practice, vesting may include all of the retirement credits that have been accumulated by a worker, or it may be restricted at first to a part of the pension rights. Vesting may take place when the employee enters the plan, or it may be delayed until certain age or service qualifications have been met. After vesting takes place, a worker can leave the company without losing any vested part of his accumulated pension credits.

Obviously, the best plan is one which provides for full and immediate vesting. Particularly where the plan itself attaches certain age or service qualifications for membership in the plan, there is no legitimate excuse for any further restrictions upon the time at which vested rights are established.

If it is necessary, however, to compromise for the time being on the vesting provision, and accept a service condition, the next best bet is to work out a graduated vesting clause. There is very little logic and a lot of injustice in a clause under which a worker with, say, 5 years of service has full vested rights, while a worker with anything less than 5 years—even with 4 years and 11 months—has no vested rights.

If a service requirement is included, the agreement should provide that workers who leave their jobs before they have served the period required for full vesting will be entitled to proportionate vested rights. Under such a provision, if the service requirement is, say, 5 years, workers with 4 years of service will be entitled to 4/5 of their full pension credits, those with 3 years will be entitled to 3/5, etc.

In setting up their plans, unions should, wherever possible, adopt one of these methods—as may be most appropriate to their situation—so as to protect the equity of their members. While it is true that the operating cost of maintaining a given level of benefits will be greater—or the level of benefits which can be provided through a fixed employer contribution will be less—where this protection is embodied in the plan, a greater proportion of the membership will get these benefits.

The level of benefits can be improved through later negotiations, while the protection of earned pension-rights—through a vesting provision or through a multi-employer arrangement—can be more readily accomplished at the inception of the plan than at a later date after the plan has been set up on some other basis.

The effect of a vesting provision on costs may not be so simple and direct, however, as it is frequently made out to be. If the plan is trusteed and the actuary would normally take a discount for severance in computing costs, then a vesting provision would involve a direct increase in costs, since the severance discount would have to be eliminated.

However, the situation is somewhat different in the case of insured plans. Insurance premium rates do not include a discount for severance. Therefore, the inclusion of a vesting provision would not result in any increase in initial premium payments, or the initial level of employer contributions. The cost of the vesting feature will not be reflected in any increase in the beginning level of contributions, but in the absence of cash surrender values, resulting from employee withdrawals, which the employer would otherwise receive as a future rebate or retroactive rate credit to be applied to reduce future contributions.

Accordingly, an employer who quotes insurance company estimates in backing up his contention as to the cost of the premiums required to fund a proposed level of benefits, will be in no position to maintain that the inclusion of a vesting provision along with that level of benefits would add anything to those costs. Likewise, if the employer seeks to impose severe limits on eligibility or the amount of service that can be credited towards retirement, in order to take account of withdrawals, he cannot say that a vesting provision covering those who meet these requirements would add significantly to his costs.

Contributory Versus Non-Contributory Plans

According to the latest Bureau of Labor Statistics survey, about 80 percent of the workers covered by negotiated pension plans make no direct contributions to these plans. The predominant practice in collective bargaining has been to establish these plans on a basis which requires no further contributions by the workers over and above the amounts paid in by the employer.

Although a great deal of attention has been devoted to this issue in some quarters, actually the question, as to whether a plan should be contributory or non-contributory, cannot be regarded as a basic one. It is entirely possible to set up a plan which will prove reasonably satisfactory on either basis, provided the plan is sound in other more fundamental respects.

As far as any question of principle is concerned, there is no sound argument in favor of employee contributions to private negotiated plans. However, some employers are emotional on the subject, and, in such a situation, it might be possible to use it as a lever to get concessions that could not otherwise be obtained—on other more vital issues—by agreeing, in exchange, to go along with a contributory approach.

Nevertheless, unless the employer makes it well worth the union's while, the contributory approach should not be adopted without giving careful consideration to all the angles. Inasmuch as it involves a direct reduction in the members' present cash pay, it is no small matter. This issue has probably been surrounded with more phoney arguments than any other single feature of retirement plans. A few observations on this point are, therefore, in order.

It has frequently been argued, in behalf of contributory plans, that the worker's right to participate, through his union, in the administration of the plan, and his right to a vested interest in the funds which support the plan, are contingent upon contributions on his part. These arguments conveniently overlook the large number of unilateral contributory plans that make no provision whatsoever for any employee voice in their control and which give employees no claim at all against the amounts contributed by the employer.

The member's right to share in the administration of the plan and his equity in the funds are established through *collective bargaining*—not through any additional contributions on his part. As pointed out on preceding pages, and has been made plain in NLRB and court decisions, employer payments to these plans actually are a form of wages, earned by the workers through the performance of the services called for in the working agreement.

The workers are, therefore, paying for their own pensions, regardless of whether the plan is technically "contributory" or "non-contributory". Insofar as any question of right or "principle" is involved, workers have the same right to participate in the administration of the plan, and to establish an equity in the fund, regardless of whether or not they contribute out of their cash wages.

In the absence of any defensible arguments in favor of employee contributions as a matter of "principle", the decision as to whether or not employee contributions should be provided for in the plan should be determined by practical, dollars-and-cents considerations.

It is true, of course, that—given a certain level of contributions negotiated from the employer—additional contributions from the workers will make possible an increased level of benefits over what would otherwise be obtainable. However, this is no more than to say that, given a certain amount in his pay envelope, if the worker adds to it out of his own pocket, he will wind up with more in his pay envelope. The decision boils down into a balancing of the desirability of a higher level of deferred benefits against the undesirability of the reduction in cash pay which employee contributions would involve.

In making this decision, unions should keep in mind the fact that employee contributions involve a large element of "economic waste" and that the dollar which the worker contributes is a more expensive one—and will buy less pension benefits—than the dollar which the employer contributes. This is true because of tax, actuarial and administrative considerations.

Employer contributions are deductible from the income that the employer reports for tax purposes. Consequently, if his marginal income puts him in the 82% excess profits tax bracket, the dollar which he contributes to the plan actually costs him only 18¢, since he would otherwise have had to pay 82¢ of it to the government in taxes. Furthermore, the worker is not required to pay income taxes on the money which an employer contributes to a pension fund on his behalf. He pays taxes on it only when he begins to receive a pension, and then only if it puts him in a taxable income bracket.

On the other hand, workers must pay income taxes on the money which they first receive as wages and subsequently contribute to the pension fund. If a worker's tax rate is around 20%, therefore, each dollar which he contributes to the fund from his wage costs him $1.20 as compared with the employer's cost of 18c on the dollar.

The full dollar of employer contributions can be used to provide pension benefits. On the other hand, since employee contributions are returned to his beneficiary in case of death, probably less than 70c of the worker's high cost dollar will go to increase the level of pension benefits provided by the plan. Employee contributions cannot be discounted for mortality or severance in determining how much pension benefits they will finance.

In other words, employee contributions are an individual savings program, not a group retirement plan. If a worker is in a position to save, he could do just as well with any money he can spare for that purpose by putting it in the bank or into government bonds. Most pension plans will only return him about 2% interest on the money he puts into it directly, so there is no particular advantage from the savings or investment standpoint.

The dollars-and-cents effect of these factors can be readily seen. Take a plan set up on the basis of an employer contribution of 10¢ an hour. If the employer is making excess profits, the plan actually costs him 1.8¢. If it is desired to increase the amount available for the funding of pensions to 14¢, through additional employee contributions, the worker would have to contribute about 6¢ an hour in order to accomplish this, since only between 60 and 70% of his contribution can actually be used to increase pension benefits. Furthermore, he will have to pay, say, 20% on that in income taxes—bringing the total cost of his contribution to 7.2¢, for a 4¢ increase in pensions.

Consequently, the total effective cost to both parties of the 14¢ an hour for pension benefits would be 9¢ an hour—1.8¢ to the employer and 7.2¢ to the employee. If the employer paid in the full 14c, on the other hand, the net effective cost would be only 2.5¢ an hour, at the 82% tax rate.

As a means of making possible increased pension benefits, therefore, direct employee contributions are highly inefficient and very costly to the workers.

Compulsory Retirement Should Be Resisted

Unions should make every effort to resist the inclusion in the plan of any provision making retirement compulsory at some fixed arbitrary age. This is one of the means through which pension plans are often used as a device of management rather than an instrument for the benefit of workers.

If the benefits are sufficient to enable a retired worker to live in relative comfort, dignity and security, most workers will voluntarily retire when the time comes that they can no longer work as well as they used to do. If they are not sufficient, workers should not be compelled to retire while they are still able and willing to perform useful and remunerative service.

As far as costs go, a plan which permits workers to retire at their own pleasure after reaching the retirement age will prove considerably less expensive per unit of benefit than one which enforces compulsory retirement. Each year that a worker remains on the job after reaching retirement age reduces the cost of eventually paying him a pension by from 8 to 10%, so that if he elects to retire at age 68, his pension payments will take about 25 or 30% less out of the pension fund than if he retired at 65.

Counteracting Age Discrimination in Hiring

Unions should also exercise their best efforts to assure that these plans do not react against the employment of older workers. Employers may undertake to keep their costs down, or avoid retiring short service older workers with little or no pension, by adopting a policy of hiring only workers below a certain low maximum age limit.

Multi-employer plans, which are based upon a fixed percent of pay or cents-per-hour employer contribution to a pension fund, remove this incentive to discriminate against older workers, since the age distribution of their employees will not affect the employers' cost obligations under the plan.

The wider adoption of vesting provisions in other types of plans would also help to eliminate this problem, since it would enable workers to carry their pension credits earned in the past with them in the form of paid-up annuities, as they move from one employer to another. The amount on which a worker would be able to retire would not then be dependent solely upon his length of service with his last employer—and that employer would not face the choice of assuming the cost of funding an adequate pension for him over a short period of time, or retiring him on a small pension or none at all.

Part IX

PRIVATE PENSION PLANS AND SOCIAL SECURITY

The benefit schedules of some plans have been constructed in such a way as to make certain allowances for benefits available under the Federal Old Age and Survivors Insurance program. Generally speaking, this has been done in one of two ways: either through the use of an "integrated" formula; or through a so-called "offset" formula.

Integrated Plans

An integrated formula is one which, in relating benefits to earnings, provides a higher percentage benefit on that portion of earnings which is in excess of the Social Security cut-off level (formerly $3,000, now $3,600 under the 1950 amendments) than it does on the portion below that level. For instance, the plan might contain a formula which calls for a benefit of 1% of earnings of up to $3,600 a year, plus 2% of all earnings in excess of $3,600, for each year of service from entrance until 65.

Formulas of this type are used as a means of providing higher-paid employees with a larger pension than would otherwise be possible under Bureau of Internal Revenue regulations. These regulations provide that no employee can receive a greater pension in proportion to his earnings than any lower paid employee, assuming identical periods of service and taking Social Security into account. Otherwise, employer contributions to the plan will not be tax exempt.

In other words, if Social Security provided the hourly-rated workers in a plant with a primary benefit of, say, 25 percent of pay, then the most that the company could provide in pensions to its executives and higher-salaried employees would be an "equivalent" percentage of their earnings in excess of $3,600.

If the company desires to pay its executives and high-salaried men a larger pension, then it will have to extend the plan to the lower paid workers as well, by supplementing their Social Security benefits in such a way as to maintain an equivalent relationship between the combined benefits available to both groups.

The integrated formula takes into account the Social Security program as it exists at the time the plan is set up. It does not "automatically" compensate or adjust itself to any subsequent *changes* in the Social Security laws. If account is to be taken of changes in the benefit structure of the Social Security program, the integrated formula of the private plan must be revised after the change goes into effect.

Integrated formulas offer no particular advantages as far as the majority of workers are concerned. On the contrary, their main purpose is to make possible the use of a private plan to pay high pension benefits to higher-bracket employees, while avoiding the cost of extending equally high benefits to all the other workers in the establishment. They thus serve to divert pension funds that could otherwise provide more nearly adequate benefits to those who need them most to the benefit of those who need them least.

In other words, as between a straight 1¼% per year plan and a 1%-2% per year formula integrated with a $3,600 a year cut-off level, most, if not all, of the hourly-rated workers in a plant would be better off with the former. The latter would be more beneficial only to the executives and high-salaried employees.

Offset Plans

Some plans take account of Social Security benefits through the use of a so-called automatic "offset" formula, wherein the benefit schedule of the plan is stated as a certain amount or percentage *inclusive* of the primary Social Security benefit. In other words, the employer promises to pay only the *difference between* what the worker gets in primary Social Security benefits and the amount the formula sets forth.

Unlike the "integrated" plans described above, "offset" plans are designed to compensate automatically for future changes in Social Security, rather than just to take account of the existing level of Social Security benefits. Any improvement in OASI benefits, regardless of whether or not employer contributions to OASI are increased, will, with the offset device, reduce the amount of benefits payable under the plan, and the employer's costs will drop accordingly.

Under some of these plans, the full amount of the primary OASI benefit is deducted in arriving at the amount paid by the employer. In others, one-half of the Social Security benefit is deducted—on the principle that the employer has a right to deduct only that portion of the OASI benefit which is derived from employer contributions to the Social Security system.

Under these offset plans, it makes a lot of difference in the resulting pension as to whether Social Security is deducted from the formula *before* the amount due from the private plan is calculated or *after,* where the length of service is less than the amount required for maximum benefits. As an example of how this works, take a plan that provides $125 a month at age 65 after 25 years of service, including Social Security, and scaled down proportionately for years of service less than 25. Take a worker retiring at 65 with only 20 years of service, with a primary OASI benefit of $60.

If the benefit is scaled down on a *gross prorata* basis—that is, before Social Security is deducted, his pension would be 4/5 of $125 or $100 a month. The employer would provide $40 and $60 would come from Social Security.

If, on the other hand, the benefit is scaled down on a *net prorata* basis—that is, after Social Security is deducted, his benefit from the private plan would be 4/5 of $65 ($125 less $60 Social Security), or $52. This would give him a combined benefit of $60 plus $52 or $112, as compared with $100 on the gross prorata basis.

Disadvantages of Offset Plans

The level of benefits available through Social Security will, of course, always have an implicit bearing upon the level of benefits which a union might desire to provide through a private negotiated plan, even though Social Security is not referred to in the terms of the plan. Obviously, a private pension of, say, $80 a month would be much less satisfactory to a union group if there were no underlying structure of Social Security benefits to which it might be added.

Also, inasmuch as the negotiation of a pension plan involves the segregation of a sum of money which could otherwise have been used for a cash wage increase, an increase in Social Security benefits may make it less desirable to sacrifice a future wage increase in order to add further to the level of private pension benefits.

Nevertheless, to express this relationship in the form of an automatic offset gimmick in the benefit formula is a very questionable practice. In the first place, it implies acceptance of the proposition that the level of combined benefits set forth in the plan is so nearly adequate that any increase in Social Security during the term of the agreement can be spared by the workers so as to be used to cut the employer's costs rather than to provide a higher level of benefits. Few plans now provide benefits high enough to justify this proposition.

Secondly, it removes a large degree of control over the manner in which the plan is to operate from the hands of the parties directly concerned, making its terms dependent upon developments outside the sphere of collective bargaining. Any change in the terms of a negotiated plan should be the product of collective bargaining, in the light of all the relevant factors and conditions, and should not result automatically from developments in one particular area, over which the parties have no direct control.

For instance, even if the level of combined benefits were high enough to be reasonably satisfactory, a sharp rise in the cost of living could change the picture completely. If Congress were then to increase Social Security benefits to compensate for increased living costs, the workers would get none of the benefit. They would suffer a sharp decline in the real value of their pension benefits, inasmuch as the total money amount would remain the same.

In deciding what the benefits available under the private plan should be—whether or not they should be adjusted in recognition of changes in Social Security—such additional factors and considerations as this would have a strong influence on a collective bargaining decision. Under the offset device, however, these other important factors do not enter into the picture. The offset gimmick assumes that changes in Social Security take place in a vacuum.

Third, the argument, advanced by some, that such provisions would induce employers to lend their support to, or cease to oppose, necessary improvements in the Social Security system has not been borne out by the facts, and is not likely to be.

Over the long run, the cost to the employer of a certain level of pensions, provided through a private plan which makes no provision for vesting—and which is loaded with so many maximum limits and restrictions on eligibility, credited service, etc., that relatively few workers can qualify for full benefits—is not likely to be substantially higher than his share of the contributions which would be necessary to fund the same level of pension benefits through the Social Security system. The Social Security system provides those benefits, not just to those few who manage to reach age 65 after long and unbroken service with a single employer, but to all workers who are employed anywhere within the range of the Social Security Act, regardless of how many times they change jobs.

Social Security, therefore, would provide the same benefits to many more workers. Pension benefits provided through Social Security would not give the employer the same power to hold workers, at lower wages than he would otherwise have to pay, that a non-vested, company-dominated private plan would.

Furthermore, a Social Security offset geared to benefits, even if it did induce an employer to favor changes in Social Security, would not necessarily induce him to favor the same type of changes that labor would endorse. If he were primarily concerned with the cost effects, for instance, he might lobby in favor of an increase in Social Security benefits, but oppose the additional employer contributions to Social Security that would be required to maintain the increased benefits on a sound basis. Or he might exercise his influence in behalf of the elimination of employer contributions to Social Security altogether, in an effort to shift the entire direct cost load to workers.

The prospect of employer support is a very poor reed for labor to lean on in its efforts to secure genuine and necessary improvements in the Social Security program. The type of support that employer groups would be likely to give would be a very dubious asset at best—for the superficial improvements that might result from the standpoint of present benefits might also involve, under employer auspices, other changes which could have the effect of undermining the soundness of the basic structure of the program.

What would seem more likely to ease employer opposition to further improvements in the Federal Social Security system would be the prospect that unions might otherwise press for the wider adoption of collective bargaining plans that provide the same type of protections and the same continuity of coverage as does Social Security—through liberal vesting provisions and industry, area and craft-wide programs. Plans of this type would be more costly to the employers involved, per unit of benefit, than would an improved Federal system, and would thus offer a very substantial inducement to employers to avoid such a development by supporting a liberalized Federal system—regardless of whether or not an "offset" device is employed.

This would appear to be a more constructive and fruitful way for unions to use their collective bargaining energies to promote improvements in Social Security than through the offset device—and more in line with trade union principles.

Fourthly, since employer contributions to retirement plans are a form of deferred wages, any provision which permits the employer to automatically recapture a portion of his contributions amounts to a sort of built-in wage cut. If the level of benefits stemming from the private plan is to be reduced in any way, the union should make sure that it will have the opportunity to convert the reduction in employer contributions—and the loss of deferred wages—into a commensurate increase in cash wages. A re-opening clause, calling for further negotiations in the event of a change in Social Security, is the most to which a union should commit itself in advance on this question in drawing up the agreement.

Not a Substitute For Social Security

As a final word, unions should clearly recognize that these privately negotiated plans do not diminish the need for an adequate governmental Social Security system. Their negotiation should not be permitted to divert unions from the more important basic objective of promoting the improvement and expansion of the Federal old-age insurance program.

The Social Security system accomplishes the aims of vesting, continuity of coverage, adequate guarantees, and equity of treatment much more economically, effectively, and efficiently than is possible through a system of scattered, fragmentary, limited and unrelated private pension systems. A private plan should be regarded only as a supplement to the Social Security program. It is not, and never can be, a substitute for it.

Appendix

APPENDIX A

TEXT OF GENERAL WAGE REGULATION NO. 21

GWR 21—PENSION PLANS AND PROFIT-SHARING OF A DEFERRED COMPENSATION TYPE

Statement of Considerations

The Wage Stabilization Board has adopted this regulation to govern the establishment of new pension plans (section 2), and profit-sharing plans of a deferred-compensation type (section 3), and the amendment of existing plans. This regulation sets up a limited number of requirements which plans must meet, and it permits a wide area within which employers, or employers and unions, may determine for themselves the provisions of new or amended plans.

Parties desiring to establish or amend plans covered by this regulation are to file a report, on a prescribed form, with the Board. The report will be acknowledged, and, unless the parties are notified to the contrary within 30 days after the date of the acknowledgment letter, they may thereupon put the plan into effect as of the effective date provided for in the plan. Reports of plans which do not satisfy the requirements of this regulation, or which may appear, on preliminary review, to be unstabilizing shall be treated as petitions for Board approval and the parties notified accordingly. Such plans may not be put into effect unless and until the parties receive notification of Board approval.

The principal reasons which have impelled the Board to grant a large measure of discretion to parties wishing to establish new or amended plans are the following:

1. Plans covered by this regulation, unlike most other forms of compensation, generally constitute deferred and not immediate income to employees and, therefore, will not contribute materially to increased consumer purchasing power. Moreover, sections 2 and 3 of this regulation contain certain safeguards designed to insure that such plans are not used as a device for disbursing immediate income to employees.

2. The danger that these plans will result in inflationary additions to business costs is minimized by the widespread realization among employers and unions that such plans—because of their cost and because they involve long-term commitments—must be inaugurated or modified with great caution and only after careful planning, so that prudent judgment should operate as a particularly strong stabilizing influence in this field.

3. Existing plans are so varied that any attempt to establish detailed criteria in terms of benefits, costs, or a combination of these and other factors would tend to deprive parties of the freedom of choice which they should have in choosing a plan which is best adapted to their particular needs. In addition, because of the complexity and diversity of these plans, a number of serious technical difficulties arise in attempting to establish such detailed criteria.

Section 8 provides for Board review of this regulation in the light of experience hereunder. Should that experience indicate the need for changes in Board policy, such changes will be made in sufficient time to prevent impairment of the wage stabilization program.

In the formulation of this regulation, the Board has given due consideration to the standards and procedures set forth in Title IV and Title VII of the Defense Production Act, as amended, and has obtained the approval of the Economic Stabilization Administrator.

Regulatory Provisions

Sec.
1. Definitions.
2. New or amended pension plans.
3. Profit-sharing plans of the deferred compensation type.
4. Extension of existing plans.
5. Reporting and waiting period provisions.
6. Approvability of pension plans under Internal Revenue Code.
7. Relationship to GWR 6.
8. Review of this regulation.

SECTION 1. *Definitions.* (a) The term "pension plan," as used in this regulation, means any plan financed in whole or in part by the employer, the primary purpose of which is to provide annuities to employees who retire by reason of age or permanent and total disability. This regulation shall not apply to any benefit provided in plans other than such age retirement or permanent and total disability benefits. It shall include, but shall not be limited to, a plan providing benefits by means of any of the following: a benefit insured through a stock, mutual, or cooperative insurance company; a self-insured or trusteed plan administered by the employer, the employees, their representatives, a third party or any combination thereof; or any combination of such plans.

(b) The term "parties," as used in this regulation, means an employer, or an employer and union, as the case may be.

SEC. 2. *New or amended pension plans.* Parties wishing to establish a new pension plan, or to amend an existing pension plan, may do so without prior Board approval, subject to the reporting and waiting-period provision of section 5 below, and provided that the plan meets the following requirements:

(a) The normal retirement age under the plan shall be at least age 65. The retirement benefit for an employee who retires prior to normal retirement age shall be:

(1) Reduced in an amount which takes account of the additional years of service the employee would have accrued had he remained in service until normal retirement age (except in the case of unit benefit plans whose formulas apply only with respect to service until the time of early retirement); and further

(2) Appropriately reduced actuarially unless the payment of the benefit is deferred until normal retirement age (except in the case of early retirement for permanent and total disability); and

(b) Benefits, except death benefits, shall be payable at least over the life-time of the employee; and

(c) Any benefits for employees whose employment terminates prior to retirement, derived from employer contributions, shall not carry a cash surrender value to the employee and shall be deferred to the normal retirement date.

SEC. 3. *Profit-sharing plans of the deferred compensation type.* Parties may, subject to the reporting and waiting-period provision of section 5 below, put into effect new or amended profit-sharing plans, approved by the Bureau of Internal Revenue under pertinent regulations, which provide for the payment of benefits, derived from employer contributions, upon retirement for reasons of age or permanent and total disability, or upon severance, where (a) payments do not begin until at least 10 years after an employee's admission to the plan, and (b) such payments are payable over at least a 10-year period. No immediate benefit derived from employer contributions may be provided in the form of a lump sum cash or loan value except in the event of the employee's death.

SEC. 4. *Extension of existing plans.* Parties may, subject to the reporting and waiting-period provisions of section 5, below, extend an existing pension plan or profit-sharing plan of the deferred compensation type, without modification (a) to smaller employee units within the same plant or establishment, or (b) from a group of employees in one geographical unit of a multi-plant employer to a similar group of employees in another geographical unit of the same employer. Such extension may be made even though the plan does not satisfy the requirements stated in sections 2 or 3.

SEC. 5. *Reporting and waiting period provisions.* (a) The parties shall file details of the plan, on a prescribed form, directly with the Wage Stabilization Board, Washington 25, D. C., and they will be notified by letter that the report has been received.

(b) Unless the parties receive a further communication pertaining to such plan from the Board within 30 days from the date of the acknowledgment letter, they may put such plan into effect as of the effective date of the plan. However, final approval of the plan is conditioned upon compliance with the provisions of section 6 below.

(c) Reports of plans which do not satisfy the requirements of sections 2, 3, or 4, or which may appear, on preliminary review, to be unstabilizing, shall be treated as petitions for Board approval, and the parties notified accordingly. Such plans may not be put into effect unless and until the parties receive notification of Board approval.

SEC. 6. *Approvability of pension plans under Internal Revenue Code.* Any pension plan which meets all the other requirements of this regulation, although it may be put into effect, shall not be considered finally approved under this regulation unless and until approval is secured under the appropriate sections of the Internal Revenue Code.

SEC. 7. *Relationship to GWR 6.* Parties who have established or modified a plan of the type covered by this regulation under the provisions of GWR 6, subsequent to January 25, 1951, may petition the Board for the elimination of the cost of such plan from the amount chargeable against the permissible general wage increase under GWR 6, to the extent that such cost was so charged.

SEC. 8. *Review of this regulation.* This regulation will be reviewed by the Board in the light of experience hereunder.

Adopted unanimously by the Wage Stabilization Board, February 22, 1952.

NATHAN P. FEINSINGER,
Chairman.

(Resolution 85)

RES. 85—RESOLUTION ON PROCESSING OF CASES UNDER GENERAL WAGE REGULATION 21

Pending further instructions by the Board, the Executive Director shall process cases filed under General Wage Regulation 21 within the thirty-day waiting period provided in section 5 thereof.

Any case which does not meet the requirements of General Wage Regulation 21 or which raises a question as to whether the plan may be unstabilizing shall be referred to a Division of the Board. The Division shall be empowered to take final action, subject to the right of any member of the Division to refer the case to the full Board.

APPENDIX B

RETIREMENT BENEFITS AVAILABLE UNDER SOCIAL SECURITY ACT

The President signed the latest amendments to the Social Security Act into law on July 18, 1952. The terms of these amendments became effective September 1, 1952. The following are the benefits now available under the Act.

Persons Drawing Benefits Under Old Law

Benefits were increased for persons already on the retirement rolls in August 1952, and for persons who retire after August but who have not earned six quarters of coverage after 1950. In computing the new benefits of this group, the following Conversion Table is used:

TABLE I

Monthly Benefits (New Law) as Derived from (Pre-1950) Old-Law Primary Benefits and Conversion Table

Retired Worker (Old Law)	Retired Worker (New Law)	Worker with Wife over 65 or Widow with One Child	Widow over 65 or One Child	Widow with Two Children	Maximum Family Benefit
$10	$25.00	$37.50	$18.80	$45.00	$45.00
15	35.00	51.20	26.30	51.20	51.20
20	42.00	60.80	31.60	60.80	60.80
25	52.40	76.00	39.30	76.00	76.00
30	60.80	91.20	45.60	111.20	111.20
35	66.60	99.90	50.00	133.30	141.60
40	72.00	108.00	54.00	144.00	168.80
45	77.10	115.70	57.90	154.40	168.80

Beneficiaries Under "New Start" Formula

A new formula is used to compute the monthly benefits of a person who retires with six quarters of coverage after 1950. The primary benefit under this formula is equal to 55 percent of the first $100 of his average monthly wage, plus 15 percent of the next $200. Only the average earnings after 1950 are used in connection with this formula, in computing the benefit.

TABLE II

Monthly Benefits Based on New Formula

Average Monthly Wages	Retired Worker (Primary Amount)	Worker with Wife over 65 or Widow with One Child	Widow over 65 or One Child	Widow with two Children	Maximum Family Benefit
$100	$55.00	$80.00	$41.30	$80.00	$80.00
120	58.00	87.00	43.50	96.00	96.00
140	61.00	91.50	45.80	112.00	112.00
160	64.00	96.00	48.00	128.00	128.00
180	67.00	100.50	50.30	134.10	144.00
200	70.00	105.00	52.50	140.00	160.00
210	71.50	107.30	53.70	143.20	168.00
220	73.00	109.50	54.80	146.10	168.80
230	74.50	111.80	55.90	149.10	168.80
240	76.00	114.00	57.00	152.00	168.80
250	77.50	116.30	58.20	155.20	168.80
260	79.00	118.50	59.30	158.10	168.80
270	80.50	120.80	60.40	161.10	168.80
280	82.00	123.00	61.50	164.00	168.80
290	83.50	125.30	62.70	167.20	168.80
300	85.00	127.50	63.80	168.80	168.80

TABLE III

Social Security Tax Rate Schedule

Calendar Year	Employee	Employer	Self-Employed
1951-53	1½%	1½%	2¼%
1954-59	2 %	2 %	3 %
1960-64	2½%	2½%	3¾%
1965-69	3 %	3 %	4½%
1970 and after	3¼%	3¼%	4⅞%

APPENDIX C

ANNUAL COST OF BUDGET FOR AN ELDERLY COUPLE

The table set forth below represents the estimated annual cost, for the dates and cities shown, of a budget which, according to the Bureau of Labor Statistics, is needed to maintain an elderly couple, living alone on their own resources, with "a level of living which provides the goods and services necessary to maintain health and allow normal participation in community life, in accordance with current American standards. . . . The level of living described is not luxurious but is sufficiently adequate to provide for more than the basic essentials of consumption." [1]

The October 1950 costs, shown in the right-hand column, were developed and published by the Bureau of Labor Statistics. The February 1952 cost estimates, shown in the left-hand column, were derived by applying the subsequent increase in the B. L. S. Consumers' Price Index, for each of the cities shown, to the October 1950 data.

Annual Cost of Budget for an Elderly Couple, October 1950 and February 1952

City	February 1952	October 1950
Atlanta, Ga.	$1888	$1748
Birmingham, Ala.	1923	1779
Boston, Mass.	1989	1880
Chicago, Ill.	1934	1818
Cleveland, Ohio	1928	1805
Detroit, Mich.	1936	1818
Houston, Texas	1977	1855
Los Angeles, Calif.	2025	1866
Milwaukee, Wis.	2064	1908
New York, N. Y.	1891	1782
Norfolk, Va.	1904	1774
Philadelphia, Pa.	1920	1783
Seattle, Wash.	1976	1852
Washington, D. C.	1975	1863

[1] "Budget for an Elderly couple; Estimated, Cost, October 1950", *Monthly Labor Review*, September 1951; Bureau of Labor Statistics, U. S. Department of Labor; p. 304-306.

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Adminis-tration	Financing	Eligibility for Benefits
Cement, Lime and Gypsum Workers, AFL, and Alpha Portland Cement Co.	Trusteed through bank; employer administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 15 years' service. Retirement compulsory after age 70. Disability: Age 50 after 20 years " 51 after 19 " " 52 after 18 " " 53 after 17 " " 54 after 16 " " 55 and over after 15 years.
Chemical Workers,AFL and Blockson Chemical Co.	Company administered; insured-group annuity.	Employer pays full cost of scheduled benefits.	Normal: age 65. Early: age 55, with company consent. Vesting: Full vesting at age 45 after 10 years service; after 10 years service, regardless of age, for disability.
Electrical Workers, AFL and National Electrical Contractors Association	Tripartite administered trust fund.	Employers pay 1% of payroll. Workers pay $1.60 per month.	Normal: age 65.
Electrical Workers, AFL Local 3 and New York Contractors Association	Bipartite administered trust fund.	Employers pay 4% of payroll. Workers pay 1% of wages only when pension and benefit funds fall below $2,000,000	Normal: age 60 after 10 years union membership Disability: no age requirement; 10 years union membership.

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000 $3,000 $5,000 including Social Security of: $65.00 $77.50 $85.00		
Normal pension: $2 per month per year of service from 15 to 25 years, plus $1 per month for each year from 26 to 35, up to age 68. Does not include Social Security. If average annual earnings in 5 years before retirement exceeded $3,600; then $1 per month extra is added if less than $3,800; $2 if $3,800 to $4,000; and $3 if $4,000 and over. Disability Pension: Ratio of years of service at date of disability to total years of service if employment had continued to 65 applied to pension due at 65. Minimum $30 a month. Normal pension after 65.	After 20 years' service		
	$105	$117.50	$128.00
	After 30 years' service		
	$120	$132.50	$143.00
Normal: 1% of average annual earnings per year of service to 65. Exclusive of Social Security. Early: actuarially reduced pension.	After 20 years' service		
	$98.33	$127.50	$168.33
	After 30 years' service		
	$115	$152.50	$210
$30 a month at 65 after 20 years' membership, increasing to $50 a month at 65 after 30 years' membership. Does not include Social Security.	After 20 years' service		
	$95	$107.50	$115
	After 30 years' service		
	$115	$127.50	$135
Normal pension: if 60 to 65 years of age or over 65 but not eligible for International Union pension—$60 per month. Age 65 and over and eligible for International pension—$150 per month less total amount received from International pension, Social Security or any other civilian governmental pension. If pensioned after 1954: $160; after 1959: $170. Disability: $60 per month.	$150	$150	$150

APPENDIX

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Administration	Financing	Eligibility for Benefits
Electrical Workers, AFL and Niagara Mohawk Power Corp.	Company administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 15 years service. Disability: No age or service requirement.
Federal Labor Union No. 24679 and Deere and Company	Company administered trust fund.	Employer pays full cost of scheduled benefits.	Normal: age 65. Early: age 60 after 15 years service. Retirement compulsory at 68. Disability: age 50 after 15 years.
Ladies Garment Workers, AFL, New York Cloak Joint Board and Employers in New York City	Tripartite administered trust fund.	Employers pay 3% of payrolls.	Normal: age 65, union member for 11 years since June 1, 1933, in continuous good standing for last 5 years, and continuous employment for a contributory employer for last 5 years. Disability: age 60, service same as above
Flint Glass Workers, AFL and Corning Glass Works	Company administered trust fund.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 5 years service. Compulsory at 65. Disability: age 50.
Hatters, Cap and Millinery Workers, AFL Empire State Cloth Hat and Cap Man. Assn., Natl. Headwear Man. Assn., Uniform Man. Exchange	Bipartite administered trust fund.	Employers pay 3% of payrolls.	Normal: age 65 after 15 years union membership since 1925, including last 8 or more years, and 1 year of service since July 1, 1948.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000	$3,000	$5,000
	including Social Security of: $65.00	$77.50	$85.00
Normal Pension: 1.5% of average earnings during highest 5 of last 10 years, per year of service to age 65, less one-sixth of the portion in excess of $1,200 and less one-half of primary Social Security. Minimum net pension: $300 per year.	After 20 years' service		
	$82.50	$113.75	$163.33
	After 30 years' service		
	$107.50	$149.17	$215.42
Disability: Same formula, with minimum pension $360 per year prior to age 65, and $300 thereafter.			
Normal: 1.5% of average earnings during last 10 years multiplied by years of service. Minimum of $100 a month after 25 years, reduced $1.50 for each year less than 25. Includes Social Security.	After 20 years' service		
	$92.50	$ 92.50	$125
	After 30 years' service		
	$100	$112.50	$187.50
Early retirement: actuarial equivalent of normal pension.			
Disability: $3 per month for each year of service up to 30 years, but not less than $50 a month. Normal pension after 65.			
Normal and disability pension: Flat rate of $65 a month. Does not include Social Security.	$130	$142.50	$150
Normal: 1% of first $3,000 annual earnings, for each of the first 20 years of service, plus 2% of annual earnings over $3,000. For each year of service in excess of 20, 0.5% of earnings. Excludes Social Security, except increases after Jan. 1, 1950.	After 20 years' service		
	$80.00	$ 98.00	$164.67
	After 30 years' service		
	$100	$114.50	$189.50
Minimum of $100 after 25 years, reduced on gross pro rata basis for service less than 25, including Social Security.			
Disability: actuarial equivalent of normal pension. Normal pension after 65 if credited with 15 years service.			
Flat rate of $35 per month, exclusive of Social Security.	$100	$112.50	$120

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Administration	Financing	Eligibility for Benefits
Longshoremen, AFL, and N. Y. Shipping Assn.	Bipartite administration. Trust fund or insurance at discretion of administrators.	Employers pay 5c per man-hour.	Normal: age 65 after 25 years service in the industry. Disability: age 45 after 15 years service in the industry.
Meat Cutters, AFL, Local 234 and N. Y. City Kosher Butchers Associations	Bipartite administered trust fund.	Employers pay $2 per man-week. Workers pay $10 per year. Contributions also cover cost of health and welfare benefits in addition to pension.	Normal: age 60, after 20 years union membership.
Meat Cutters, AFL, Local 640 and N. Y. wholesale meat packers	Bipartite administration. Insured	Employers pay $2 per man-week.	Normal: age 65 after 10 years union membership.
Painters and Decorators AFL, District 9, and Association of Master Painters and Decorators of New York	Bipartite trust fund. administered through bank.	Employers pay 3% of payrolls.	Normal: age 65 after 20 years service and union membership Disability: age 60 after 20 years service and union membership.
Paper Makers, AFL and Pulp, Sulphite and Paper Mill Workers, AFL and St. Regis Paper Co.	Bank trust fund. Company administered with union representation.	Workers contribute 2% of first $3,000 annual pay plus 4% of pay in excess of $3,000. Employer pays balance of cost.	Normal: 65 (men), 60 (women), after 10 years service. Retirement compulsory. Early: 55 (men), 50 (women), after 15 years, with company consent. Vesting: Full vesting after 15 years service
Photo Engravers AFL, Local 1 and Photo Engravers Board of Trade New York City	Bipartite administered trust fund.	Employers pay $1.50 per man-week.	Normal: age 60 after 20 years union membership.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was:		
	$2,000	$3,000	$5,000
	including Social Security of:		
	$65.00	$77.50	$85.00
Normal and disability benefit: Flat rate of $50 per month, exclusive of Social Security.	$115.00	$127.50	$135.00
Flat rate of $60 per month, exclusive of Social Security.	$125	$137.50	$145.00
$1.50 per month for each year of union membership up to 30 years, exclusive of Social Security.	After 20 years' service		
	$95.00	$107.50	$115
	After 30 years' service		
	$110	$122.50	$130
Normal: Flat rate of $32 per month, exclusive of Social Security. Disability: actuarial equivalent of normal pension.	$97.00	$109.50	$117
Normal: ¾% of earnings up to $3,000 plus 1½% of earnings above $3,000 per year of future service; ½% of earnings up to $3,000 plus 1% of earnings over $3,000 per year of past service, after 5 years of employment. Does not include Social Security. Early: actuarial equivalent of normal pension.	After 20 years' service		
	$90	$115	$172.50
	After 30 years' service		
	$102.50	$133.75	$216.25
Flat rate of $40 a month, exclusive of Social Security.	$105	$117.50	$125

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Adminis-tration	Financing	Eligibility for Benefits
Theatrical Stage Employees, AFL, Motion Picture Machine Operators Local 306 and RKO, Loews, and Independent theatre owners, New York City	Bipartite administered trust fund.	Employers pay 5% of straight time payroll.	Normal: age 60 after 20 years union membership. Disability: No age requirement, after 25 years union membership.
Teamsters, AFL and Milk Industry Employers, New York City	Bipartite administered trust fund.	Employers pay 6c per straight-time man-hour.	Normal: age 65 after 15 years service. Retirement compulsory at 70; at age 68 after July 1, 1952. Disability: age 55 after 15 years' service.
Teamsters, AFL and Peppard Seed Company	Company administered. Insured—individual policies.	Employer pays full cost of scheduled benefits.	Normal: age 65 Vesting: 25% after 5 years 50% " 10 years 75% " 15 years 100% " 20 years
Teamsters, AFL, and Milk Industry Employers, St. Louis, Mo.	Bipartite administration. insured-deposit administration contract.	Employers pay 6c per man-hour.	Normal: age 65 after 15 years of employment in the industry and 13 years union membership in good standing. Disability: age 55, service same as above.
Tobacco Workers, AFL, and American Tobacco Company	Company administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 and 12 years service Early: age 60 and 12 years service, with company consent. Disability: no age requirement, 12 years service. Vesting: full vesting at age 50 and 20 years service.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000	$3,000	$5,000
	including Social Security of: $65.00	$77.50	$85.00
Normal and disability pension: $30 per week, exclusive of Social Security.	$195	207.50	$215
Normal: $2 per month for each year of service from 15 to 25, exclusive of Social Security. Disability: $50 per month.	After 20 years' service		
	$105	$117.50	$125
	After 30 years' service		
	$115	$127.50	$135
Normal: ¾% of highest basic monthly pay prior to 5 years before retirement, per year of service to 65. Exclusive of Social Security. Death Benefit: $1,000 for each $10 of monthly pension. Pension paid for 10 years certain and life thereafter; paid to survivor in case of pensioner's death before end of 10 year period.	After 20 years' service		
	$90	$115	$147.50
	After 30 years' service		
	$102.50	$133.75	$178.75
Flat rate of $130.57 after 25 years, reduced for years of service less than 25, according to schedule, to $78.34 after 15 years of service on retirement. Includes primary Social Security.	After 20 years' service		
	$104.46	$104.46	$104.46
	After 25 years' service		
	$130.57	$130.57	$130.57
Normal: 2% of average annual earnings below $5,000, for each year of service up to 25 years. Includes one-half of primary Social Security. Disability: formula same as for normal pension, but no Social Security deduction from pension until age 65.	After 20 years' service		
	$99.17	$138.75	$209.17
	After 25 or more years		
	$115.83	$163.75	$250.83

APPENDIX E

SELECTED REFERENCES FOR FURTHER STUDY

Baker, Helen. *Retirement Procedures Under Compulsory and Flexible Retirement Policies.* Research Report Series: No. 86; Industrial Relations Section, Department of Economics, Princeton University, Princeton N. J. 1952. 65 pages. Price: $2.00.

Case studies based on surveys of actual experience in operation of both compulsory and voluntary retirement procedures under pension plans of fourteen representative companies in six major industries.

Bankers Trust Company. *A Study of Industrial Retirement Plans, 1950 Edition.* 16 Wall Street, New York 15, N. Y. 119 p. Free.

A useful and informative study of industrial retirement plans established or amended in the period of 1948, 1949 and the early months of 1950. Describes and analyzes the provisions of 217 plans, mostly of the employer unilateral type, covering a wide variety of different industries and types of companies. The short section on negotiated plans is very weak and unrepresentative, being confined largely to a few plans of the steel and auto type.

Boyce, Carroll. *How to Plan Pensions.* New York. McGraw-Hill. 1950. 479 p. Price: $5.00.

Deals with the technical, administrative and collective bargaining aspects of pensions. Primarily from the management point of view, but contains a good bit of material of value to unions. Written in clear and readable language for the layman. Appendix contains useful tables for approximating pension costs.

Bureau of National Affairs. *Handbook for Pension Planning.* Washington, D. C. 1949. 368 p. $5.00.

Contains chapters on the tax, legal, cost and financing aspects of pension plans, by a number of authorities in these fields. A chapter on "Bargaining for Pensions" by the BNA editorial staff.

Bureau of National Affairs. *Negotiated Pension Plans.* Washington, D. C. December 1949. 248 p. $3.00.

Contains a summary and complete texts of 30 pension agreements.

Man and His Years. An Account of the First National Conference on Aging, sponsored by the Federal Security Agency. Health Publications Institute, Inc., Raleigh, North Carolina. 1951. 311 p. $3.25 cloth; $1.75 paper.

Gives a summary account of the discussions, findings and recommendations of the conference on problems of the aging, held in Washington in August of 1950. Covers such topics as income maintenance; employment, employability, and rehabilitation; housing; recreation, etc. Provides valuable material on the broader phases of the retirement problem.

National Industrial Conference Board. *Handbook on Pensions.* Studies in Personnel Policy No. 103. 247 Park Avenue, New York 17, New York. 1950. 164 p. $3.00.

Contains the complete texts of 22 negotiated plans plus a number of different types of pension contract clauses.

New York State Department of Labor. *Collectively Bargained Pension Plans in New York State, July 1951.* Publication No. B-49.

Division of Research and Statistics, 80 Centre Street, New York 13, N. Y. 106 p. Free.

Every union official considering the negotiation of a retirement plan should obtain a copy of this study. It provides what is probably the most detailed, instructive and up-to-date analysis of the largest number and variety of union-management pension plans that is now available, arranged in a particularly convenient form. The study outlines the terms of 208 negotiated pension plans in existence in the State of New York. The first part gives a general statistical summary, and the second consists of a tabular break-down of the major provisions of each individual plan.

O'Neill, Hugh. *Modern Pension Plans; Principles and Practices.* New York. Prentice-Hall, Inc. 1947. 382 p. $5.00.

One of the best books available for anyone interested in making a more thorough study of the technical side of retirement plans. Discusses all the various angles, in some detail and in terms which are relatively intelligible to the layman. Good for reference purposes or for the amateur actuary, as the appendix contains complete mortality and precomputed interest tables.

Social Security Administration. Division of Research and Statistics, *Seventy-Three Employee Benefit Plans in the Petroleum Refining Industry,* Bureau Memorandum No. 70; Washington, D. C.; 1951. 264 pages.

Social Security Administration, Division of Research and Statistics, *Nineteen Employee-Benefit Plans in the Airframe Industry,* Bureau Memorandum No. 71; Washington, D. C., 1951. 63 pages.

Social Security Administration, Division of Research and Statistics, *Employee-Benefit Plans in the Electric and Gas Utilities Industries,* Bureau of Memorandum No. 73; Washington, D. C., 1952. 150 pages.

The three volumes listed above present detailed descriptions and analyses of the benefit provisions of a large number of pension plans, as well as health insurance plans, now in operation in the specified industries.

Strong, Jay V. *Employee Benefit Plans in Operation.* Bureau of National Affairs. Washington, D. C. 1951. 348 p.

Covers "health and welfare" plans as well as pension plans. Has a chapter on "Collective Bargaining on Welfare Programs," Appendix contains a statistical survey of the provisions of 637 pension plans as they existed in 1948 and early 1949.

U. S. Department of Labor, Bureau of Labor Statistics. *Collective Bargaining Provisions: Health, Insurance and Pensions.* Bulletin 908-17. Washington, D. C. 1950.

Sample contract clauses and complete texts of a number of pension agreements.

U. S. Department of Labor, Bureau of Labor Statistics. *Employee-Benefit Plans under Collective Bargaining,* Mid-1950. Bulletin 1017. Washington, D. C. 1951. 7 pages.

Sets forth the findings of a statistical survey of the extent, nature and coverage of pension and health insurance plans in union agreements, as of mid-1950.