Pensions (1954)

A Reference Guide to Local Unions for BASIC PENSION BENEFITS

as recommended by

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International Union

United Automobile Workers of America

Affiliated with the American Federation of Labor

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PREFACE

Every Pension Plan must be tailor-made to fit the needs in the particular Local for which it is designed. We are making an effort in this booklet to give you a list of basic benefits that should be included in every Pension Plan. We are not trying to set up a perfect Plan that should be followed in every case. That is impossible, due to the individual needs of each Local. We are also making every effort to keep this booklet free of unnecessary detail and a booklet that you will take the time to read. You will then understand that your International Union has made every effort to see that everything is available for your needs, in order to design the perfect Pension Plan for your Local, and to know the costs. Various other minor details applying to your Local situation naturally will be included when your Plan is drawn up.

ELIGIBILITY

Many Companies argue that eligibility for a Pension Plan should not start until an employee has had five years of service. We cannot agree with this argument. A correct period of eligibility should not be later than the anniversary date of the Plan after one year of service. If Life Insurance is included in the Plan, the employee should be given Life Insurance in accordance with the formula set up under the Life Insurance Section. If any period longer than the one-year period is agreed upon, we suggest that you have employees credited with their past service upon entering the Plan.

RETIREMENT DATE

The usual ordinary retirement date as agreed upon is Age 65. This probably is due to the fact that Age 65 is the time at which Social Security starts to pay. Management will want an agreement for required retirement. This is a provision that must be thought through very carefully, and should be bargained for between the Local Union and Management. If you agree to a required retirement age, you should have provisions for present employees to be able to work for an additional number of years to complete advantageous maximum or minimum periods required to be eligible for a Pension, or to complete maximum Pension credits. Be sure also that you have a provision that enables a person to retire earlier at a correct actuarially reduced Pension income. Needs as to age of retirement differ in various types of work. They may also differ in future years due to shorter working hours or changed standards for retirement age. If a former employee retired on Pension is returned to work for any reason, his Pension shall continue. If he has been retired with a maximum Pension, he will not build additional credits. If, however, he was retired with less than the maximum Pension, he shall build additional credits with no waiting period.

PENSION FORMULA

A number of Unions have agreed upon an amount of Pension paid monthly at Age 65 including Social Security. We do not recommend that you agree to any Pension including Social Security, because that nullifies any increase in Social Security that becomes effective at a future date. We recommend that you bargain for a Pension Formula similar to one of the following:

A. A Pension paying a specific amount in dollars per month at retirement age times the number of years of service credited to you. **Example:** Suppose that you agree to $2.00 per month income at retirement date per year of service. If you have thirty-five years of service, your Pension would then be ($2.00 x 35) $70.00 per month. We have bargained for Plans paying varying amounts per month per year of service. The cost will depend on average age and past service. It may be possible, in some instances, that $2.50 to $3.00 will cost no more than $1.50 in another Local.

B. Another formula which we find attractive and simple to apply is based upon a percentage of the monthly wages times the years of service payable per month at retirement age. **Example:** Suppose your wages have been $300.00 per month during an agreed period and you have worked thirty years. Your Pension income would then be (1% x $300.00) $3.00 times thirty years, equals $90.00 per month. **Note:** Agreed period mentioned above means the five or ten-year period of highest earnings which is to be agreed upon between Union and Management when the Pension is being bargained for.

C. A formula that is beginning to become popular is based upon a combination of dollar-per-month income at retirement for past service, as in "A", plus a profit-sharing Plan for current and future service to retirement age. If Type "C" formula is used, you must be careful not to set up a Plan in such a way that, because of no guarantee for present and future service, you have an unsatisfactory Pension at retirement. We suggest that you insist upon a **minimum guarantee** for the profit-sharing period. The Plan would then become a satisfactory Plan.

PAID UP LIFE INSURANCE

It is becoming more important all of the time that not only should the Pension Plan be correctly funded, but also that the Life Insurance should be Paid Up. It is not safe to agree to the type of Plan with Life Insurance for the Pensioner where premiums must continue to be paid throughout his lifetime. That type of Insurance (Group Term) increases very rapidly in cost after Age 65, so that it becomes a sizeable cost factor over a period of years. A future Management, or even a future Bargaining Committee in your Union, may decide that the cost is too great and discontinue Life Insurance. This problem can be solved by bargaining for Life Insurance to be Paid Up, with Cash Values and no further premiums to pay at a specified age. Your International Union has been able to work out with one of the large Insurance Companies, by reducing commissions paid to the lowest possible point, a Policy that has a very much higher Cash Value than the ordinary Policy, and builds considerably more Cash and Paid Up Insurance at Age 65. See below the comparison between the Policy referred to and the nearest competitive Policy we have been able to find. We show one Policy issued at Age 25 and another issued at Age 55.

COMPARISON OF PREMIUM RATES, CASH VALUES, AND PAID UP INSURANCE BENEFITS PER $1,000.00 OF INSURANCE BETWEEN OUR POLICY AND THE BEST COMPETITIVE POLICY REFERRED TO ABOVE AGE 25 to 65.

AGE 25 to 65		OUR POLICY				COMPETITIVE POLICY		
		Annual Premium	Cash Value	Paid Up Insurance	Years in Effect	Annual Premium	Cash Value	Paid Up Insurance
Issue age	25	$20.97	$ 16.84	$ 43.75	1	$22.03	$ 13.00	$ 36.00
	30	20.97	106.25	251.77	6	22.03	86.00	203.00
	34	20.97	184.55	405.60	10	22.03	150.00	325.00
	44	20.97	411.90	747.55	20	22.03	327.00	586.00
	65	20.97	1,007.32	1,330.68	40	22.03	763.00	1,000.00

Note that for 5% less premium, this Policy has a higher Cash Value and Paid Up Insurance value each year from the first year, and accumulates 33% more at Age 65.

AGE 55 to 65		OUR POLICY				COMPETITIVE POLICY		
		Annual Premium	Cash Value	Paid Up Insurance	Years in Effect	Annual Premium	Cash Value	Paid Up Insurance
Issue age	55	$93.35	$ 70.96	$ 106.54	1	$96.57	$ 66.00	$ 98.00
	60	93.35	458.64	638.77	6	96.57	424.00	587.00
	65	93.35	825.42	1,090.39		96.57	763.00	1,000.00

Note that for 3½% less premium, 9% more of Paid Up Life Insurance is accumulated at Age 65 with higher Cash Values prevailing each year even prior to the Paid Up date.

We suggest $2,000.00 of Paid Up Insurance at retirement date, the reason being that if the wife dies first, a Pensioner may surrender $1,000.00, and use the cash for last expenses. If he dies first, the wife may use $1,000.00 for his expenses, and save the other $1,000.00 to take care of her last expenses. The above Policy should not in any way affect any Life Insurance for which you are covered in your regular Welfare Plan. Management sometimes argues that Insurance can be continued less expensively after retirement on the regular Group Term basis, rather than using the Paid Up Insurance. We have had the actuaries extend the actual costs of one of our Locals on the 1937 mortality table to get an exact comparison. It actually proved that Ten-Pay Life Policies could be used for those employees over 65, and the cost to pay up their Insurance would be only 70% of what it would cost to continue paying Group Term until death. The cost actually figures seven-tenths for Ten-Pay Life compared to Group Term. In order to be in line costwise, you should agree with Management that they can use a Ten-Pay Life instead of Life Paid Up at Age 65 for those Age 56 and over.

VESTING

Vesting means ownership by the Union Member of the funds that are deposited each year in the Plan to his credit. We urge that you insist absolutely upon a proper vesting formula. Without vesting, you may be confronted with very serious problems in the future. Management sometimes argues that a Pension Plan is set up for those who stay with the Company until retirement. This is not true any more, because we bargain for so many cents per hour to be paid into a Pension Plan, and that amount is charged against you as a labor cost. We do believe that Company has a just argument when they want to eliminate those people who are with the Company for only a short period. For this reason, we believe it is all right to agree to a Pension formula eliminating the first few years before vesting is effective. **Example:** We think that the first five years can be eliminated, but in no case go beyond five years without some vesting. We have agreed, in a number of instances, to the formula as listed below:

Years of Service	Vesting	Years of Service	Vesting
five	50%	eight	80%
six	60%	nine	90%
seven	70%	ten	100%

The vesting applies to Life Insurance, as well as the Pension Fund. We would like to caution you to watch for the Pension vesting formula very carefully, because vesting formulas can very easily be misleading.

Consideration must be given to vesting of funds for the following:

In case of death, shall Life Insurance alone be paid, or shall the Life Insurance plus the vesting credits be paid?

In case of permanent total disability, shall the vested fund be paid to the Participant, or shall it remain with the Company, so that a Participant has his earned Pension at retirement?

When leaving the Plant, shall the vesting be a take-with vesting, so that the Participant may take the full amount of his earned credits, or shall this amount remain in the Pension fund to furnish additional Pension at retirement date?

It is impossible to say which Plan fits better in all cases. Each must be discussed and gone over very carefully before the decision is made.

TOTAL AND PERMANENT DISABILITY

Many times employees, after having a period of service with the Company and still not being eligible for their Pension, have become disabled, and are unable to continue their work. We believe a provision should be included in all Pension Plans that will pay at least a small amount per month in case permanent and total disability is experienced before eligibility for Pension. Management sometimes wants fifteen years of service and Age 50 for the Union Member to be eligible for total and permanent disability income. We suggest that a ten-year service period should be that agreed upon without any Age limitation. We prefer fifteen years of service with no Age limitation, to even ten years with the Age 50 limitation. A minimum suggested amount to be paid monthly until he is eligible for earned Pension should be $50.00 per month. This benefit is surprisingly inexpensive for the amount of the payment.

FUNDING

Under funding, we will discuss methods of investing or caring for the funds before the Union Member retires, as well as the way in which the Pension shall be paid to him. This is an extremely serious problem. Your International Union does not feel that we have the right to run any risk of present or future losses where it is possible to avoid doing so. For this reason, we suggest that, by all means, every Pension Plan should have a provision that at retirement, the Plan is required to purchase a Terminal Annuity paying his income for life. It should be an Annuity which **pays for life**, irrespective of how long he may live. A number of types of Annuities are available to select from. To do this, the Insurance Companies, of course, have to be used. We also suggest that, as a matter of utmost security, a Deposit Administration type of Plan be used for the fund until the Annuity is purchased. The Trust Companies have some argument against this, and there are some arguments favorable to the Trust Companies. Some of the Investment Companies are arguing that a combination of conservative investments and common stock should be used. We do not set ourselves up as authorities on investments, but we do not believe that we can advise anything but what has proven to be, as far as we know, the most conservative investment for this type of fund. Your International Union, again, has an agreement with one of the large Companies for the purchase of Annuities without commission when the fund is deposited with and the Insurance is bought from their Pension Department. This makes a saving of better than 3%. Trust Companies will claim that they have, in some cases, the tax and investment advantage over the Insurance Companies. Neither the principal of the fund nor interest on the fund, however, is guaranteed by the Trust Companies. The Insurance Companies give a guarantee on the total fund and also a guarantee on the interest. Having the agreement whereby we save over 3% on the purchase of Annuities, our Locals are in a position to have a very profitable and safe Plan.

BARGAINING FOR A PENSION

There are, of course, as many ways to approach the bargaining for a Pension as there are for any other item. It is a strictly money-cost item, but there are many considerations to be kept in mind other than just bargaining for so much in cents per hour. Two methods are those most commonly used:

1. Set up the benefits wanted, and bargain for those benefits, being sure that you include every basic benefit that you should.

2. Bargain for so many cents per hour. If this method is used, you must necessarily be sure that you set a minimum monthly or yearly hour basis. We suggest that the better way to handle Number Two method is, for example, $15.00 per month, or an amount to that effect. Plan Two will automatically give you an advantage over Plan One, because having obtained an agreement on so much per month, you will then be able to have your actuaries work out the most satisfactory way of setting up benefits that can be purchased by the agreed amount. If financial conditions make it necessary, a provision may be placed in the Plan that will enable deposits to be temporarily lowered or discontinued during the period.

KNOWING YOUR COSTS

You must know the cost of any Plan, in order to bargain intelligently. A number of Unions, a few years ago, were told that certain Plans they had obtained would cost 7½ to 9½ cents per hour. When the actuaries worked out the cost, it was proven that it was 2½ or 3 cents, in some cases. Acceptable Plans may, with the same benefits, differ in cost as much as 6 or 8 cents per hour for two different Local Unions. After benefits are established, the cost will be determined by the years of past service and the Ages in the Plant. We have an agreement with an outstanding actuarial group to figure cost for any of our Locals that have proven and are proving extremely profitable and satisfactory to us. The actuaries in this group are very efficient, and the cost is low. Our agreement is this: They will do all the figuring, set up proposals, and where possible, be with us on presentation, at a cost of $1.00 per man with a maximum cost of $250.00, irrespective of the number of employees. If the Pension Plan is not placed, there will be no charge, or if the Plan is placed and they service it, there will be no charge. If, however, the Plan is placed and they cannot service it or get the business, the charge will then be payable. This agreement has been very valuable to many of our Locals.

FOR FURTHER INFORMATION

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