Pensions
(1957-59 folder)

University of California

PENSIONS FOR INDUSTRIAL WORKERS

by

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B.A. 256
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May 25, 1959

[Berkeley] University of California, 1959.

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Introduction

Our population is growing older. People in the upper age groups increase at a much faster rate than our total population. While in 1919 life expectancy was fifty years, and in 1930 sixty years, there is an estimated life expectancy of seventy-eight years for 1975. On the average current life expectancy is sixty-eight years.1/ In 1900 four percent of the population was sixty-five years of age or older, in 1975 this figure is estimated to increase to eleven percent.2/ This aging of our society has as one consequence the quest of security by the older workers.

The problem of old age security is basically one of providing for persons who live longer than they are able to work. Urbanization and industrialization have been important in making the older worker more security-minded. The family, which traditionally provided shelter for the aging individual, now has limited its span of protection to two generations. Living away from the family, however, requires a greater cash outlay by the older worker. Industrialization has attracted workers to the city where upon retirement they are left insecure. On the farm such older workers had security since they could work as long as they were able to, shifting from the more difficult to the easier tasks. They also had a place to stay once they became totally unable to work. Added to these economic problems are emotional problems of family adjustment and changed personal and community relationships which an older person faces, and which were mitigated under family protection in an agricultural society. Opportunities for self-employment which would allow the older worker additional income as long as he is able to work, likewise, have dwindled. Part-time work for the

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[1] Footnotes will be found at the end of the paper.

older worker does not seem practical.

The quest for security by the older worker can be met in some of the following ways. By individual savings, by old age relief or assistance, by government old-age insurance, and by private pension plans initiated by the employer or negotiated by the employer and the union.

Savings by an individual have only limited usefulness since thrity-seven percent of families do not save, and for those who do save their savings are grossly inadequate.3/ Experience has indicated that individual savings and family support can only meet part of the income needs of a retired worker. People who do save may do so for purposes other than old-age insurance. They typically save for more pleasant housing and other commodities they want. Mild inflation which is being regarded as quite normal now, takes much of the value of saved money. Public assistance, likewise, is not an adequate method. The main difficulty here lies in the problem of arriving at a common basis of need. Objective tests for defining need are difficult to establish and administer. At the moment, likewise, government old-age insurance does not seem adequate. After the 1958 amendments to the Social Security Act the maximum annual earnings for which benefits will be paid are $4,800. At this point, assuming continuous employment, the benefits amount to between twenty-nine and thirty-two percent of a worker's wage or forty-three to forty-eight percent if the fifty percent supplementary payment to his spouse are included. Above this $4,800 level the benefits decrease rapidly since no additional benefits are given for additional earnings.4/

It seems that these means supplemented from some other source like private pensions meet the existing need more completely. My paper will mainly be concerned with various dimensions of private pension plans.

Historical Development

Early Beginnings. Private pension plans now (January, 1959) cover 16.3 million workers or one fourth of the nation's work force.5/ This has not been always so. While pension plans have existed they were an exception rather than a rule.

The earliest private pension plan in the United States was that of the American Express Company, in 1875.6/ Pension Plans in the railroad industry date back to about the same time.7/ The earliest pension plan that grew out of union-management negotiations was that of the granite cutters in 1905. Benefits were paid from a specific fund. Prior to that time other negotiated benefit programs, including disability benefits, homes for the aged and disabled, etc., existed, however, these programs can not generally be classified as true pension programs.

A contributory pension plan was negotiated between the United Brewers Association and the International Union of Brewery, Food, Cereal, and Soft Drink Workers in 1911.8/ However, this plan was never put in operation.

These early plans were considered by the courts as gifts to the employee rather than something to which the employee is entitled. Workers, therefore, had no permanent rights under these plans which could be discontinued at any time by the employer. They were given to the employee out of a moral obligation; to reward the loyal worker for his long services. Sometimes the desire to improve plant morale, or the possibility of increased economy of operation once the older persons were retired, or reduction of turnover were the objectives of a company which it tried to achieve with the installation of pension plans. Other plans were mainly installed as a shield against labor pirating. Such plans, as already mentioned, could be terminated or reduced at will. Today practically all pension plans have enforceable non-discretionary rights for the employee covered.

Early plans were usually an unilateral arrangement by large corporations. Smaller companies could not afford the expense.

Labor looked upon them with distrust. Samuel Gompers, founder of the AFL, was opposed to them fearing that they would, by encouraging long service, discourage unionization. Likewise, with the rise of company unions pension plans became associated in the minds of union leaders with the effort to stop or discourage the growth of independent unions. Employees, so labor felt, should not become chained to some paternalistic employer through pension plans. The public looked upon them with apathy. ~~Labor looked~~ upon ~~them with distrust~~. The country's strenght was believed to lie in self-reliance of the individual who was expected to do his own saving for the "rainy day".

Changing Trends. The depression of the 1930's cruelly shattered the philosophy of self-reliance. People woke up to the fact that an individual's savings were not adequate to provide for all emergencies and also for his old age. The change in public opinion and the resulting pressure for something that had to be done set the stage for the Social Security Act of 1935. The passage of the act was the first incentive toward wider use of private pension plans. Employers which previously found it too burdensome to have such provisions now often found themselves in a position where they could afford such plan in connection with the Old Age Security Insurance offered by the government. Thus, it can be said that private pension plans started, not so much due to private initiative of employers, but as a consequence of government action.

This latter point can be even more clearly demonstrated at the second major stage of development. This occurred in the 1940's when private pension plans can be said to have first started on a large scale. At this time of World War II pressure to expand production led to a desperate hunt for manpower. Additions in wages could not be offered under the govenment wage stabilization program. However, fringe benefits, including pensions, were exempt from such measures. Reasonable contributions for pensions by the employer were exempt from the wage stabilization program. Moreover the Internal Revenue Code which was revised in 1942 liberalized employer tax deductions. Contributions to pension plans by employers were exempt under the code.

Whichever company had profits to spare would establish such pensions to get the manpower it so badly needed then. The current cost for such plan in the face of a high excess profit tax was nominal and the advantages that could be gained by such scheme were substantial. During the war when taxes hit an all-time high, an employer in the highest excess profit tax bracket was paying out of his pocket only fifteen cents of every dollar that went into the pension fund. The remaining eighty-five cents would have gone into taxes otherwise.9/ Established pensions really presented a handsome addition for a worker, since in the meantime since 1935, the year in which the Federal Social Security Act had been passed, due to rising prices, such help had become less adequate. The 600 plans that existed in 1939 rose to 13,000 in 1949.10/

The major upsurge in pension plans, however, came in the postwar years which marked a change in labor philosophy. While labor had earlier found pension plans outside the scope of its concern it now felt that management was obligated to provide for a worker's retirement. While industry had the money to pay for such demands, labor by now had the power to make such demands stick. What at first had been done voluntary by the employers now became something done under the coersion of powerful unions.

One important factor in the success of union leaders is to keep gaining higher benefits or at least equal benefits to those which have been gained by other unions. Few leaders are as frequently imitated as the president of the United Mine Workers. When after a strike in May, 1946, the Federal government represented by Secretary Krug, signed the Krug-Lewis agreement which provided for a pension for coal miners, other unions tried for similar benefits.11/ Pensions and welfare plans had all of a sudden become a legitimate bargaining subject. Management who had given pension plans unilaterally was not completely convinced about the legitimacy of such subject for collective bargaining purposes and resented such assumption by the union. Labor felt that the employers had a moral obligation to provide for workers who were "too old to work and too young to die". The companies' position was that the cost of such pensions was often underestimated. If pensions should be established they should require joint employee-employer contributions which would be in accordance with the sound, traditional principle of self-help.

April, 1948 marked an important date in the development of private pension plans. At that date the National Labor Relation Board decided in the case of the Inland Steel Company and Local Unions Number 1010 and 64 of the United Steel Workers of America, that pensions wages were included in "wages and other conditions of employment" and thus were subject to bargaining in good faith.

The Steelworkers filed an unfair labor practice charge against the company. When the complaint came before the NLRB a hearing was conducted. At this hearing the company challenged the accusation that it had engaged in an unfair labor practice through its failure and refusal to discuss pension matters with the union. The company contended that pension and retirement plans did not legally fall within the area of collective bargaining. Since pension payments did not come within the definition of "wages" under the Taft-Hardley Law of 1947. Likewise the company held that conditions set up under a pension plan do not come within the scope of "conditions of employment" as provided by the act. The company argued that the term "wages" referred to wages earned by the employees for actual performance of the work, however, pensions are not earned by the expenditure of productive efforts on the part of the worker but by the length of time that an employee performs a given work. Pensions are more in the realm of philosophy, which holds that a pension is not wages earned but a gratuity. The Board, however, replied that such narrow definition of wages could not have been the intent of Congress. The Board held that there existed a nexus between the compensation that an employee received currently and his future pension benefits. With regard to conditions of employment the Board came to the conclusion that pensions and retirement plans do affect tenure and therefore lie within the scope of collective bargaining.

After the decision of the Board, the Inland Steel Company appealed to the courts. On September 23, 1948 the United States Court of Appeal upheld the decision of the Board. It held that the language of the Labor-Management Relation Act leaves no doubt that pension fall within the category of "conditions of employment." On April 26, 1949 the Supreme Court of the United States denied the comany's petition for review of the decision of the lower court.

When the steel industry capitulated to the demands of the union auto and other important industries soon followed. Pension demands swept through the mass production industries and other fields. Toward the end of 1948 the NLRB also ruled in the General Motors case that unilateral employer action to establish employee benefit plans was an unfair labor practice.

It should be mentioned that neither steel nor auto were the first to establish pension plans by collective bargaining. The International Brotherhood of Electrical Workers reached an agreement for pension plans in the construction industry in 1941. Other agreements were secured in the garment industry and other organized trades in New York City in the 1940's.12/ However, these agreements were mainly concentrated in the light industries which generally do not set patterns for the great mass of organized labor.

Now where pension plans are established in many industries demands go for increased benefits, for vesting the plan and similar modifications. These will be treated in later sections.

Negotiated Pension Plans

The typical private pension plan makes arrangements under which the individual who retires from his job will receive a certain sum of money at regular intervals for the rest of his life. A set of rules and policies is likewise included. These determine the conditions under which a person may receive a pension, the age at which he has to retire, the methods of financing the plans, the amount of benefits to which he is entitled, etc. Such negotiated pension plans grow out of the collective bargaining agreement or are even though at first unilaterally introduced by the employer, incorporated into a collective bargaining agreement. Detailed provisions of the plan generally relate the particular needs of the company and the union, the objectives of these parties, or their relative strength. The primary function of a pension plan was to supplement the Federal Social Insurance. It was not designed to replace it. Plans generally provided retirement and pension benefits integrated with, or geared to take into account, primary social secuirty allowances so as to provide a more adequate retirement income for the worker past sixty-five than he could ever hope to receive under social security. The following will be a sample of three of the major pension plans and their provisions as they stood in 1950.

Auto. Under the agreement of the Ford Motor Company and the United Auto Workers (CIO) a pension of $100 a month was paid. This amount included any benefit that the Federal Government under OASI may pay. Thus the difference between the amount paid by the OASI and the $100 was paid by the company alone. All hourly paid workers of the bargaining unit were covered. Retirement was mandatory at sixty-eight, although an employee could retire at sixty-five. He had to retire at sixty-five when the company felt that he was no longer competent to do the work required of him. No pensions were paid to a worker who was under the age of sixty unless he was disabled. In order to draw a full pension workers had to have thrity years of service, although they could draw less proportionally for shorter service, with the above age limitation in mind.

Bituminous Coal. The pension fund set aside in this industry was financed from a certain cent royalty per ton of coal mined for sale or use. This amount was recalculated from time to time based on actuarial computations. All soft coal miners were covered under this agreement. Here again the pension was over the amount of $100.- per month. Any employee age sixty-two was eligible provided that he had been employed in the industry at least twenty years. This $100.- was subject to amendments or modifications at any time as the operation of the fund required.

<u>Steel</u>. The plan between the Bethlehem Steel Corporation and the United Steelworkers of America (CIO) was completely paid for by the company. Here again $100.- was the amount paid including social security. This amount was paid to the worker upon reaching sixty-five which was the normal retirement age, although a worker was not forced to retire at such time. Twenty-five years of service were needed to receive a full pension. However, smaller pensions were permitted for employees with as little as fifteen years of service. Their amount was a prorated figure based on the number of years service below twenty-five years of service at age sixty-five. Financed by the employer, the rate of contributions was determined by the need of the fund since the company agreed to keep the fund actuarially sound at all times.

As can be seen from the above most of the pension plans included certain standard provisions. Most of the agreements provided that a worker must attain a given minimum age or serve a minimum number of years with the company or both. Many plans guarantee a minimum pension at normal retirement age for those employees who completed a specified period of service. There is usually some mention made as to which side makes the contributions. Although some plans are contributory the great majority is financed by the employer alone. Unions vigorously endorce non-contributory clauses. Nevertheless, there is some indication that workers may be quite willing to share the burden. Seventy-one percent of the employees asked in a public opinion survey said that the cost of pension plans should be shared. The general view is that it is not fair to ask for pensions entirely at the company's expense. "We get the benefit, we ought to be willing to pay a part", seems to be the general consensus. Sometimes contribution is favored since it is believed that larger pensions can be paid under such arrangement. How willing workers are to contribute would probably depend on the protection they expect and get from such plan. There exists the feeling, however, that if contributions are made by the employee, such contributions should be tax deductible since the same benefit is given to the employer.

Pension Plans and Labor Mobility

One of the most controversial issues in connection with pension plans is whether they do or do not restrict mobility. Mobility here refers to the degree of ease with which a worker can move from one job to another. Many parties hold that mobility is restricted since the worker is unwilling to leave the employment of an employer with whom he has accumulated a considerable amount of pension rights. The argument goes, assuming that mobility is restricted, that an economic system as ours requires mobility of the labor force to facilitate the development of new plants and new industries. Movement should occur without restrictions, from the old and inefficient plants to those that are expanding. Mobility is valuable since it permits the worker not only to maximize occupational opportunities but also social adjustment. It furnishes him with greater independence and allows for his advancement in other jobs, industries or areas. To the extent that rpivate pension plans do in fact act as a brake upon labor mobility, their effect can be mitigated in several ways: by vesting, multiemployer plans, and to a certain extent by paying earlier retirement benefits.

Vesting. The issue of vesting has certainly received much attention in connection with pension plans and their effect upon mobility. The right to a pension is said to be vested if the employee who leaves the company before normal retirement keeps the right to his pension which is based on his employer's contributions. Pension plans may call for different types of vesting. Immediate full vesting, deferred full vesting and other deferred vesting arrangements.

Immediate full vesting grants the employee rights to all benefits based on the contributions which the employer makes for the worker from the date that such worker starts the participation in the plan. A worker, upon leaving gets as much as has been accumulated from him by his employer's contributions. The provisions under which the receipt of all rights are deferred until a worker attains a certain age and/or has completed a specified period of employment or participation in the plan is known as deferred full vesting. Another type of deferred vesting grants benefits based on a certain percentage of the employer's contribution after certain conditions are met. The percentage increases as additional conditions are full-filled until eventually the worker has full vesting rights. One of the conditions may be that the worker has to participate twenty years before full vesting occurs.

In a study conducted by the Bureau of Labor Statistics, in 1953, it was found that deferred full vesting was the predominate type of vesting where vesting existed at all. None of the plans under study gave full immediate vesting.13/ The payment of cash likewise, was found not to be a common practice. More common were deferred annuities commencing at the normal retirement date.

As of now there are few negotiated plans that call for vesting, although the trend toward their use is increasing. In 1955 auto and steel arranged for vesting provisions. After the age of forty and ten years' service an auto worker has vesting rights. Steelworkers at the age of forty and with fifteen years of service receive vesting rights only in the event of layoff or plant shut down. From one hundred important collective bargaining plans that were reviewed in 1957 fifty-four percent were found to have some degree of vesting and forty-five percent provided full vesting at some point. However, none of these plans provided for immediate full vesting.14/ These findings are consistent with those of an earlier date quoted above.

Requirements for vesting vary considerably. While some require a certain lenghth of service others stipulate a certain period of participation in the plan. Under the latter arrangement immediate participation in the plan is usually not forthcoming. Frequently a period of one to five years of employment with the company is necessary before the vesting rights come into effect. The qualification of at least ten years of service is present in many plans.

Attitudes Toward Vesting. Two opposing views on vesting are represented by the two sides labor and management. Labor argues that vesting and other fringe benefits are merely deferred wages and the worker would have the right to receive them as soon as he leaves the employer. Existing vesting rights present less temptation for the company to ease an older worker out of the organization. Furthermore, vesting offers benefits for younger workers who generally are not too concerned with the issue of pensions in their first years of employment, a fact that might later hurt them when they find that they have not accumulated the necessary service requirements to take advantage of the pension.

The employer counters those arguments with some of his own. He argues that vesting will increase labor turnover, and will thereby increase replacement and training cost. That, however, he the employer, can demand some loyalty from his workers. The employer further argues that vesting provisions make pension plans so much more expensive, since where no provisions are made for vesting, the amounts contributed by the employer on the behalf of a worker who quit stays in the fund. These amounts can be used to lower the size of the contributions that the employer has to make or may increase the size of the benefits for those who are remaining.

In reality the cost of vesting may not be as high as it may seem when first looking at the matter. Turnover is more concentrated among the younger workers who either accumulate no vesting rights under deferred vesting, or very little rights under immediate full vesting. If the employer could make the plans contributory the cost could be further reduced. Where multiemployer pension plans are in existence the need for vesting anyway loses somewhat in importance. Inspirte of the fact that unions find vesting of pension plans highly desirable, such plans which have been negotiated do not generally have provisions for vesting.

Multiemployer Plans. Another arrangement to preserve pension rights and facilitate mobility is made through multiemployer plans. Under these plans the area covered is broadened thus enabling the worker who moves from one firm to the other to transfer his pension credits with him. However, the freedom of movement for the individual workers is here restricted to the plants covered by the agreement. Plants covered may be located in the same locality or they may be squattered all over the nation. Sometimes these plans may cut across industrial lines. All this will depend on the nature and the size of the operation.

There are a few plans which have been established where individual employers deal with the union. However, these plans are not very common and generally include a relative small number of employers.

Area pension plans attack the vesting problem by providing that employees can change jobs without losing any credit toward their benefits as long as the jobs are with empoyers who are members of the same area plan. New York has such a plan which provides greatest opportunity for free and unrestricted movement. Participation of employer associations in area pension plans may have the advantage of eliminating the whipsaw technique of the union. A further advantage under these plans, which generally include small and highly competitive employers, lies in the fact that the higher cost of individual plans can be greatly reduced. Furthermore, area plans enable smaller firms which, because of limited size, cannot provide the management know-how or the actuarial base for plans of their own to establish old age security matching that of larger firms without economic penalties.

Examples of Plans. In New York the wholesale and warehouse industries contribute to one pension fund for the benefit of workers who are members of the Distributing, Processing and Office Workers of America (IND). New York and Chicago milk truck drivers who are members of the International Brotherhood of Teamsters (AFL) are covered by such plan. Other plans exist in Toledo, Pittsburgh and San Francisco. The plan for the truck drivers, the New Jersey Fund, rests on a principle of integration and reciprocity among industry-wide pension funds in related fields. Continuing credit is given to the employee as he transfers from one fund to the other. A similar arrangement is in existence with the Almalgamated Clothing Workers and the International Ladies Garment Workers Union (AFL) in the New York Area. Each of these unions, the ACWU-CIO and the ILGWU-AFL, participates in a series of plans which operate with separate funds and match the special employer association counterparts of the union. Each separate ILGWU contributes one percent of its income to those reciprocal retirement fund which pays benefits to those who do not qualify under any one pension agreement. This arrangement then gives benefits to those who are not working long enough at one place to qualify for any individual pension plan. A high proportion of workers in one industry is also covered under the plan of the Mens's and Boy's Suit and Coat Manufacturers located in New York, Philadelphia, Chicago and other principal cities.

Other plans have extended beyond the bounds of one metropolitain area. Here at the West Coast we have a good example in the longshore industry. One pension plan covers the entire coast. This agreement is between the Pacific Maritime Association and the International Longshoremen's and Warehousing Union (IND).

One of the most extensive plans is the one that is in operation in the bituminous coal industry. A great proportion of the entire soft-coal industry is covered by the welfare and retirement fund of the United Mine Workers. Employers who bargain with the United Mine Workers of America(IND) contribute a certain amount of cents per ton of coal mined to the fund. A similar plan also exists for the anthracite industry.

Industry-wide plans make up the largest percentage of existing pension plans today. Especially for small and highly competitive industries which often have transient employment, industry wide bargaining for pension plans is providing an answer for a worker's quest for security and his desire to move more freely.

Early Retirement Benefits. A last measure to help mobility is to give earlier retirement benefits. Under these plans a worker can retire earlier than his normal retirement age and after the completion of a specified number of years of service. These early retirement provisions seem to be more prevalent than vesting. The age of fifty-five or sixty and service for fifteen or twenty years are common requirements. However, often the right to retire earlier is made contingent upon the consent of the employer. Under this method the older worker can terminate his job and still keep his pension. Mostly, however, workers with such a long service record and at an advanced age like that will no longer change jobs readily. This, therefore is probably one of the least important methods to enhance worker mobility. Although there is indication that unions may press for vesting provisions not much has been done so far. This issue, nevertheless promises to become of more importance in the near future.

Concluding Remarks on Mobility. Although pensions may have some impact on mobility their importance has often been exaggerated. Forfeiture of some of the moneys accumulated on a worker's behalf usually occurs when the worker is young. It is a fact that younger men change their jobs far more often than older ones. Mobility declines with progressing age. Pension may have an effect on mobility when a man reaches the age of forty. When a worker changes jobs at that age he usually has not enough time to become fully eligible for pension benefits. However, at that time other factors may be equally if not more important in restricting mobility. By the time a worker has reached the age of forty a family and community roots are likely to be far stronger influences than pensions.

Area and multiemployer plans have helped to increase mobility among those employers who are covered by the agreement. Vesting, however, if its application is increased in the future will undoubtely help mobility. If nothing else it will remove the psychological fear of the worker to loose his pension. The need for mobility is generally realized by all parties envolved. To the extent that mobility is now hindred by pension plans, steps will be taken to stimulate worker movement.

Employment of the Older Worker

Closely connected to mobility is the problem of the older worker. There is considerable concern that pension cost could influence the hiring of the older worker since for an equivalent pension accrual an older worker represents higher costs than a younger worker.

Another argument advanced as to why hiring of older workers may be impaired is that the employer by giving inadequate pensions may cause ill-will in the community. The argument goes that ordinarily twenty or more years of service are necessary before contributions made on behalf of the man will buy him a pension. Management may not want to under_mine the morale of an employee by giving him a substandard pension which he would receive because of inadequate service time. Management avoids this difficulty by not hiring workers who are so old that they do not qualify for a pension.

The first argument seems to be used merely as an excuse not to hire older workers. Actually pension costs would not be increased for the employer. Those workers who require ten or fifteen years of service will not become eligible if hired after the age of forty-five or fifty-five, thus the cost of the employer would not be increased. The problem of hiring workers who will have too short a time of service to receive an adequate pension has been somewhat mitigated due to the recent Social Security Act Amendments which raised the benefits under this act. Now, at least the employer who does not grant an adequate pension runs no longer the risk of losing the sympathy of the community.

Arbitration Under Pension Plans

It is usually agreed that arbitrators should keep out of drawing up a plan for the parties. The parties have to decide on the plan they will finally adopt. This is most likely going to be one of the most important decisions that either side is ever going to make. It takes detailed and lengthy analysis and preparation on each side. One specialist is no longer sufficient by the complexity of the issue. A team on each side usually has to work on the task considering economic, actuarial and legal aspects.

Even though the decision as to what plan is going to be used and the establishment of such plan are the sole concern of the parties and such experts as they find necessary to employ, once the plan is adopted there remain areas where controversies may arise. These are the areas of potential friction where arbitration can be utilized.

It should be mentioned that while the following issues are potential cases for arbitration few disputes have arisen under pension plans. One of the reasons is that the union usually does not have too much say on pension funds, especially in their investment. The employer either does the investing himself or goes to a bank trust.

One of the potentially arbitrable issues revolves around the question whether a person should retire or not. Thus pressure may be directed toward elimination of compulsory retirement in pension plans and toward the substitution of a more flexible system. The employee himself may shift his attitude as to whether he wants to retire early or not. In times of recession he may be quite willing to retire early rather than face the risk of being unemployed. Substituting a a smaller income for none at all. In times where business activities are high the employed may prefer to stay at the job since the weekly paycheck and the prospects of overtime work may be far more appealing to him than a meakly pension. These desires of the employee may run counter to what an employer may want. In a depressed period the employer can least afford to pay the costs of early retirement. Come good times, however, an employer may want to substitue more efficient labor for the older worker. This is assuming that at an advanced age the worker becomes less efficient.

Issues for arbitration can arise in the area of investment keeping the qualifications made above in mind. At what rate shall the fund be invested. Should investment be made in notes, stock or bonds. How benefits shall be paid out to the employee may create some disagreement. Should it be a lumb sum or should the payment be made in installments.

Definition of earnings for the purpose of determining contributions and benefits may become important in arbitration. Questions like: are incentive bonuses part of the pension wage structure and how about down time and grievance time paid union stewarts, may become important. Should in calculation of employment, vacations, leave of absence, and strikes be counted as time worked for the company.

The length for which the plan is negotiated presents an issue. What happens to employees who have been retired during periods of the plan if at the end of the period the plan is not renewed or materially changed. Even though arbitration over pensions is not yet important, there is no reason why it should not become so in the future as new issues arise.

Future Trends

For the future the rate of increase in collectively bargained pension plans may be slower than it has been in the past. Unions have negotiated plans with those employers who could best afford it. To expand the field further in this direction may become a little more difficult. Nevertheless, pension plans will continue to be established since employment is growing at fairly high levels. Some growth will undoubtly be due to industries getting plans which would have gotten them sooner or later anyway. Undoubtely unions will continue to press for more favorable terms in the existing plans. There may be more emphasis on OASI as a basis for providing economic security for the aged. While the claims that the public system has its limitations are justified and improvement could be made, it also has advantages which should be kept in mind. One of those advantages lies in that all workers are treated alike, backed by resources of the nation. The worker is given a vested right to retirement, thus mobility will not be restricted. OASI benefits are likely to continue just as a floor with private pension plans as a supplement to that amount.

There is strong pressure by the union toward increase in pensions and concurrently pressure to liberalize the terms of the existing plans, thus adjusting the size of the benefit to the earnings of an individual. Since in those pension programs in which the size of the benefits depends on worker's earnings, benefits assigned to the retireing workers have automatically risen as wages have risen. In plans which have no such escalator the pressure has been especially felt to amend the benefit formula in response to the rising wage level. In the future pensions may be more closely geared to the rising cost of living. Other pressures may try to achieve more complete vesting provisions.

Although attempts will be made to get a hundred percent coverage by private pension plans, it will be more realistic to view the coverage as approaching fifty percent. Many employers, those who are small and do not belong to employer associations, will be of necessity still excluded from that group that can afford to pay pensions.

Discussion

Negotiated pension plans are not free from criticism. Often the objection is voiced that the security they provide is of a highly uncertain character. A properly financed plan places a considerable financial burden on a company. Until a full reserve has been accumulated the pension rights depend on the ability of a company to set aside the payments into the fund out of current earnings. Initially pension plans may look like little to give by a company. However, later the company may find itself caught in heavy finanacial obligations it cannot meet. Pensions are a long term obligation! The worker may not get what is coming to him if the company fails or is otherwise unable to make its payments. In order to give employees the security they really need, some authors feel, private pension plans must protect the employee against the possibility that an employer is going out of business.

Another objection voiced is that these plans do not give uniform coverage to all needy. Terms of pension plans often depend on the strength of a union and on the position of a company. Therefore, payments do not depend on the need of a worker but rather the strength of the parties. Some individuals, those who need it most, will remain outside the coverage of such plans. Small employers who do not employ more than ten or fifteen people are not likely to install pension plans. Mobile workers are not protected. Pension plans, however, to meet the national need must give as much protection to the mobile as to the non-mobile employee. Mobile employees need just as much security for their old age.

Another objection is voiced against the requirement of a substantial number of years of service before an employee can qualify for a pension. This length of service requirement may mean that only a minority of present employees of a company will receive pensions.

Retaining the physically fit worker until an older age has been suggested as one way of increasing the benefits to the workers and reducing the cost for the firm. Adequate pensions cannot be provided at moderate cost if the usual pension age is as low as sixty-five. The same author suggest that union and management both should give the possibility serious consideration. Raising the usual retirement age from sixty-five to seventy years of age would keep the 2.8 million employable persons in the workforce.15/ National product would be increased and the whole community would benefit from the additional output. When all persons sixty-five years of age are encouraged to retire this may throw an unduly heavy burden on the rest of the working population. Therefore the compulsory retirement issue at such an early date should again be reviewed. On a second look it may not seem such a good idea any longer. The place of the aged in the society is a long-run national problem and should be given due attention. Thus the government should take a more active part in social security legislations. It is no longer true that government help undermines the spirit and the initiative of the individual. As far as the effect of pensions on the individual are concerned, it should not make much difference whether such pensions come from the government or from a private source. The objection that goverment pensions would have an undesirable effect upon the outlook of the individual does not seem founded.

This writer feels that individual thrift, public assistance, government, and private action all together only can present a solution to the problem of old age insecurity. The Federal program should supply a floor for all people. In addition and on top of social security payments private pensions should be granted which take account of the changing cost of living. Savings of the individual can help later to make retirement more pleasant. Public assistance should be given to those who are not covered by private pension plans and who would need it.

As far as practical deferred vesting should be practiced. Multiemployer plans and area plans could be extended where small companies operate in competitive markets.

Although inequities that result under the pension question are accepted by society as a matter of fact it should not be overlooked that by 1970 close to one out of three persons will be covered under such plans.16/ With the aging of our society the problem of the older person is going to be with us for times yet to come. This may ultimately mean a new and powerful class with social and economic consequences.

FOOTNOTES

1. Rutgers University, Pensions Under Collective Bargaining, D. N. Dertouzos, Issues in Labor-Management Relations No. 2 (March, 1955), p.3.

2. Clark Kerr, "Social and Economic Implications of Private Pension Plans," The Commercial and Financial Chronicle, December 1,1949, p.1.

3. American Management Association, Social and Economic Impact of the Pension Trend, Sumner H. Slichter (American Management Association, 1950), p.3.

4. Robert Tilove, Pension Trends and Economic Freedom (New York: The Fund for the Republic, Inc., 1959), p. 22.

5. "The Starting Impact of Private Pension Funds," Business Week, I (January 31, 1959), p.88.

6. Ibid, p. 92.

7. Illinois University, Pension Plans in Collective Bargaining, Louis S. Buffo (Illinois: Institute of Labor and Industrial Relations, January, 1950), p.4.

8. Ibid, p.6

9. Laurence J. Ackerman and WalterC. McKain, Jr., "Retirement Programs for Industrial Workers," Harvard Business Review, XXX (July/August, 1952), p. 97.

10. Kerr, op. cit., p. 2.

11. Ibid., p.3.

12. Tilove, op. cit., p.12.

13. U.S., Bureau of Labor Statistics, Pension Plans and Collective Bargaining, Bulletin No. 1147, 1953, p. 2.

14. Tilove, op. cit., p. 22.

15. American Management Association, op. cit., p. 11.

16. Business Week, op. cit, p. 91.

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