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Summer Labor Institute.

proceedings of a

pension plan conference,

monterey, california
april 15 - 20, 1956.

presented by the

CALIFORNIA STATE FEDERATION OF LABOR

and the

INSTITUTE OF INDUSTRIAL RELATIONS (Berkeley and Los Angeles). and

UNIVERSITY EXTENSION

UNIVERSITY OF CALIFORNIA

~~BERKELEY AND LOS ANGELES~~ c. 1956

PENSION PLAN CONFERENCE

Casa Munras Hotel
Monterey, California
April 15 - 20, 1956

Presented by the

CALIFORNIA STATE FEDERATION OF LABOR

in cooperation with the

INSTITUTE OF INDUSTRIAL RELATIONS

and

UNIVERSITY EXTENSION
UNIVERSITY OF CALIFORNIA
BERKELEY AND LOS ANGELES

FOREWARD

The Pension Plan Conference held this April in Monterey proved one of the most successful educational efforts yet sponsored by the California State Federation of Labor.

It was successful not only in terms of attendance but, more importantly, in terms of participation and benefits received by our union and council delegates.

We are now looking ahead to similar conferences which will make our movement a more effective instrument of service to the working people of California.

C. J. Haggerty, Secretary-Treasurer
California State Federation of Labor

INTRODUCTION

For the past nine years the California State Federation of Labor and the Institutes of Industrial Relations on the Los Angeles and Berkeley campuses of the University of California have joined forces to present an annual week-long conference on problems of interest to organized labor.

This year it seemed that the question of negotiated pension plans was of such great and current interest to California labor that it was decided by the conference planners to devote the whole week, except for the evening sessions, to that subject.

The conference subsequently considered a wide range of problems in this area, ranging from the economic status of retired workers and the detailed steps involved in the establishment and operation of pension plans to the impact of pension funds on the nation's economy. Because of the importance of these matters and the great amount of valuable information presented at the conference, it has seemed appropriate to publish the conference proceedings for distribution to participants. We hope they will be of use to those unions represented at the conference, and that they will encourage further debate on a matter vital both to organized labor and to the community at large.

Arthur M. Ross
Director
Institute of Industrial Relations
University of California
Berkeley

George H. Hildebrand
Acting Director
Institute of Industrial Relations
University of California
Los Angeles

STATE FEDERATION PENSION CONFERENCE

April 15 - 20, 1956

PROGRAM

SUNDAY

3:00 - 6:00 p.m.	Registration
7:30 p.m.	Welcoming Address C. J. HAGGERTY, Secretary-Treasurer, California State Federation of Labor
	"What's Ahead in the Economy" GEORGE HILDEBRAND, Acting Director, Institute of Industrial Relations, University of California at Los Angeles

MONDAY

9:00 a.m.	"Economic Problems of the Older Worker" MARGARET S. GORDON, Acting Director, Institute of Industrial Relations, University of California, Berkeley
10:45 a.m.	"Life and Work Expectancy" IRVING PFEFFER, Assistant Professor of Insurance, University of California at Los Angeles
12:00	Lunch
1:30 p.m.	"How Long Should a Man Work?" FREDERIC M. KRIETE, M.D., Assistant Chief Division of Preventive Medical Services, California Department of Public Health
3:00 p.m.	Adjourn

7:30 p.m.	"What are the Issues in Racial Integration?" FRANKLIN WILLIAMS, Regional Attorney, National Association for the Advancement of Colored People
9:00 p.m.	Adjourn

TUESDAY

9:00 a.m.	"How to Live Longer" HARDIN B. JONES, Professor of Physiology and Medical Physics, University of California, Berkeley
10:45 a.m.	"How to Integrate Health and Welfare Benefits With Pension Plans" Discussion led by: ARTHUR CARSTENS, Assistant Director, Labor Programs, Institute of Industrial Relations, University of California at Los Angeles
12:00	Lunch
1:30 p.m.	"How to Set Up a Pension Plan" MARTIN SEGAL, Pension Consultant
3:00 p.m.	Panel Discussion EDWARD WILSON, Sailors Union of the Pacific S. E. THORNTON, Vice President, Western Federation of Butchers
4:00 p.m.	Adjourn
7:30 p.m.	"Labor's Stake in Atomic Energy" BURTON J. MOYER, Professor of Physics, University of California, Berkeley
9;00 p.m.	Adjourn

WEDNESDAY

9:00 a.m.	"How to Negotiate a Pension Plan" MARTIN SEGAL

10:45 a.m.	Panel Discussion BEN BURKOV, Consultant, Retail Clerks Union #770 GEORGE ELNER, Administrator, Pension Fund, Marine Cooks and Stewards AFL-CIO
12:00	Lunch

NO FURTHER SESSIONS ON WEDNESDAY

THURSDAY

9:00 a.m.	"How to Administer a Pension Plan" MARTIN SEGAL
10:45 a.m.	Panel Discussion KENNETH CARLSON, Administrator, Teamsters Security Fund RUSSELL R. DREYER, International Representative, Building Service Employees International Union
12:00	Lunch
1:30 p.m.	"Pension Programs and Collective Bargaining Agreements" MAX KOSSORIS, Regional Director, Bureau of Labor Statistics, United States Department of Labor
3:00 p.m.	Adjourn
7:30 p.m.	"Labor's Stake in Foreign Affairs" HENRY RUTZ, AFL-CIO Representative in Europe
9:00 p.m.	Adjourn

FRIDAY

9:00 a.m.	"The Future of Private Pension Plans" JAMES E. WALTER, Professor of Business Administration, University of California, Berkeley

10:45 a.m.	Summary Discussion Staff and Conferees
12:00	Lunch and Presentation of Certificates Speaker: THOMAS L. PITTS, President, California State Federation of Labor

* * * * * *

Registrants

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April 15 - 20, 1956

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TABLE OF CONTENTS

* * *

THE WORKER AND COLLECTIVE BARGAINING IN THE AMERICAN ECONOMY IN THE NEXT TEN YEARS

Dr. George H. Hildebrand, Acting Director
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At the end of 1954 seven million union members were covered by privately negotiated pension plans, which compares with only a half-million in 1945. Thisvery important achievement may be attributed to collective bargaining.

The rapid growth of negotiated pension systems has occured in a contextof rapid and well-sustained economic expansion since the War. Only two brief recessions have interrupted this growth. Both were mild. The second one, extending over about fifteen months between 1953 and 1954, had its inception in a rapid drop of federal spending following the end of the Korean War. This invoked a considerable contraction in business inventories, which fed the recession. Prompt liberalization of credit and broad tax reductions, aided by increased payments of unemployment compensation, proved sufficient to produce recovery and renewed expansion.

In looking ahead ten years, the question naturally arises: will we have another great depression? I do not think so. We have learned a great deal about combatting depressions. Tax policy, public spending and monetary policy are now recognized to be weapons of great power for stabilizing economic growth. Within the economy many forces are at work to sustain growth: longer range business planning, much emphasis upon industrial research and development, broad investment opportunities for a growing urbanized population, and wage rates that are reasonably well geared to rising productivity while increasingly resistent to cuts during slack periods.

This does not mean that no fluctuations can ever again occur in our economy. However, there is reason to believe we can prevent another great depression; that long-term growth is a practical objective for policy.

Supposing, then, that growth is the outlook, what would it mean to the American worker by 1965? Staff estimates for the Joint Committee on the Economic Report show that by 1965 gross national product at full employment (in 1955 prices) would reach $535 billion, up nearly 40 per cent from 1955. Per capita income would be $2,000, up 24 per cent. For nonagricultural workers annual working hours could fall from 2,000 to 1,800, and the hours saved could be applied to longer paid vacations, more paid holidays, or a shorter working week. If productivity rises by 2.5 per cent, real gross hourly earnings in manufacturing could advance between 25 and 30 per cent without inflationary pressure. The average annual real earnings of the industrial worker could increase from \$3,800 in 1955 to around \$4,800 in 1965. Population would rise to 190 million (+ 15.2 per cent), the civilian labor force would reach 76 million, of which 67.5 million would be nonagricultural employees, managers, and professionals.

So much for the economic prospects: what problems and changes do they imply for unionism and collective bargaining? With an increase of seven or eight million wage and salary workers, present tendencies suggest an increase of union membership by two or three million from growth in the labor force alone. Beyond this, added growth will depend on the ability of the unions to organize white collar workers and to penetrate difficult segments such as small towns, small plants, and retail and wholesale trade.

Economic growth will also bring much technological change or "automation," which will pose difficult problems for bargaining. Marked shifts in skill requirements will displace middle-aged workers with obsolete skills. Retraining programs, layoff and severance pay plans will will become important in some plants. Changes in plant occupational structures will pose problems for bargaining units and seniority systems. Competition among firms and industries will place a premium on cost-saving innovations, compelling firms to initiate or to adapt to change as the price of survival. Here particularly collective bargaining will have the opportunity to accommodate such needed changes while moderating the short-term hardships they will involve for some workers. Given the traditional flexibility and practical outlook of American unionism, there is no reason to fear its ability to adjust to such problems without resort to blind resistance to change.

Adjustment is the price of economic change. Higher productivity is its reward. Change reduces the impact of human effort required for a given total product. It also permits new and better products. In these ways the American people can have more production relative to the labor force, and more leisure as well. Collective bargaining will have much to do with the proportions in which these gains in productivity will be distributed.

Barring the possibility of war, we are entering a period in which poverty can be finally eliminated, basic requirements for survival can readily be provided for, and a margin of surplus can be generally had in various forms: higher consumption standards, increased recreation and play. More attention can thus be given in the future to methods for protecting workers from income losses which are the cost of economic change. Here flexible collective bargaining can play a particularly constructive role.

Taken as a whole, there are strong sustaining forces working for economic growth. We have the means to prevent extreme interruptions in that growth. Growth will bring problems, which the unions must share and help to solve. With intelligence and mutual good will, adequate solutions will be forthcoming.

ECONOMIC PROBLEMS OF THE OLDER WORKER

Dr. Margaret S. Gordon, Acting Director
Institute of Industrial Relations,
University of California, Berkeley

The problem of adverse income and employment opportunities for older workers has received so much attention in recent years that widespread awareness of the problem can be taken for granted. It has come to be identified in the public mind as one of the problems associated with the "aging" of the American population. This association is somewhat unfortunate, for the problem of the older worker may continue to be with us, andpossibly to become more acute, even if, as now seems possible, the American population should cease to "age" and might actually begin to grow "younger."

The problem of the aged as we know it today is a product of industrialization and the various changes which have accompanied it -- demographic, economic, and social. For many decades, the population in the older age group has been increasing more rapidly than the population as a whole. The proportion of persons aged 65 or more in the total population increased from less than three per cent in 1870 to 8.2 per cent in 1950. It is not certain, however, that this trend will continue much longer. The high birth rates of the last 15 years or so have meant that, though the older segment of the population is increasing rapidly, the younger segment is likewise increasing at a spectacular rate.

Even so, the <u>number</u> of older persons in the population will continue to rise rapidly, and the position of older persons in the labor market may conceivably become more disadvantageous than it is today. In a period of rapid technological change -- and here I have in mind not only automation but other technological developments as well -- it may become increasingly difficult to utilize the older worker effectively, unless the rate of expansion of economic activity is so rapid as to result in a tight manpower situation.

Much of the discussion of the problems of the older worker has centered around the question of the proper retirement age and the related issue of adequate pensions. I shall have very little to say about these problems, which will be discussed fully in later sessions. The point I should like to emphasize is that <u>the problem of the older worker begins long before retirement.</u>

From an economic point of view, the age group from 35 to 44 is in the most advantageous situation. Workers in this age group have the highest incomes, on the average, and are least affected by unemployment. From about age 45 on, the percentage of persons in the labor force falls off, average income declines, the unemployment rate rises, and the duration of unemployment increases as we proceed to successively higher age groups. This does not mean, of course, that every worker finds his economic position deteriorating as he grows older. It simply means that, on the average, from about age 45 on, the older the age group, the less advantageous its economic position is likely to be.

In this connection, it is useful to distinguish between the "elderly" years, from about 65 on up, and the "critical" years, from approximately age 45 to 64.

The Elderly Years

The great majority of persons aged 65 or more are not working. In 1955, only 40 per cent of the men and 11 per cent of the women in this age group were in the labor force. According to the most recent available income data, relating to the year 1954, the median income for men aged 65 or more was only $1,268 and, for women, only $694. It is scarcely necessary to elaborate on the inadequacy of these levels of income. A more intensive study of the income status of aged persons, conducted at the Institute of Industrial Relations, indicated that the elderly persons or couples who had some earnings were very much better off than those who had to get along solely on pensions or other forms of retirement income.

Thus, the economic position of aged people would be vastly improved if their employment opportunities could be expanded. And yet, our study suggests that the number of potential workers in the retired group is very limited. Among the men aged 65 or more who were out of the labor force, 77 per cent reported (in a nationwide survey conducted early in 1952) that they did not consider themselves well enough to work. Furthermore 60 per cent of these men said they had retired because of ill health. Very few of the aged women who were out of the labor force had had any work experience at all since age 50.

One of the most significant findings emerging from this study was that, among aged men, ill health was a more pervasive problem for those who had been manual workers than for those who had been engaged in nonmanual occupations. When the men were classified according to their longest occupations, those who had been manual workers were much more likely to report that they did not feel well enough to work and had left the labor force because of ill health than those who had been nonmanual workers.

The Critical Years

The problems of the critical years have received less attention than those of old age, but a fundamental attack on the poverty and ill health of old age can be made only by dealing more adequately with the whole problem of the worker's adjustment to aging throughout the span of his working life and particularly during the critical years.

The two problems of the critical years that particularly require attention are age discrimination in hiring and the problem of shifts in job assignment for aging workers. The first is a familiar problem; the second has received relatively little attention but is likely to become increasingly important under the impact of automation and other technological developments.

Age discrimination in hiring would be a relatively minor problem if unemployment rarely occurred in the later working years. But there is evidence that a very substantial proportion of older workers find themselves in a situation in which they have to seek a job at some time or other after age 40 or 45 -- and a good many are in the job market recurrently. At any given time, particularly in a period of close to full employment such as the present, unemployment rates for older men and women are not especially high -- they are only slightly higher than for the favorably situated 35 to 44 age group. But there are many circumstances which can force an older worker into the job market at some time in his later working years, and when he does have to seek a job it is likely to take him a long time to find one. In many cases, he has to "settle" for a job that is less desirable than his former job, in terms of steadiness of employment and level of pay. Innumerable labor mobility studies have shown that shifts into service jobs are quite common in the later years of working life, and while some service jobs provide fairly steady employment, others do not.

It is true, of course, that unions protect the job security of the older union member in many ways, through seniority provisions, control of job referrals, and other means. But seniority status may turn out to be of little value to an older worker who is employed in a firm that fails or a branch plant that closes down. Or an older worker may leave a secure job voluntarily in order to start a small business which doesn't prove successful. Or he may be employed in an industry in which employment tends to be short-term, casual, or seasonal. Although union policies typically aim at protecting the older worker's access to jobs in these industries, it is not always possible for unions to provide complete protection against the hazard of increasingly intermittent employment for the aging worker in certain occupations. Some of the employers in the construction industry, for example, who were interviewed in connection with the Institute's older worker study said that if a union sent a construction laborer in his sixties, they would employ him for that one day but no longer.

The need for a shift in job assignment in the later years of working life is most likely to arise in occupations involving heavy manual labor or requiring speed of reaction, as in certain assembly-line operations. The solution most frequently sought by both unions and employers in these cases is a shift to a more suitable job assignment, but this is not always easily accomplished. In the small firm, the range of possible reassignments is often limited, and management representatives in large firms sometimes complain that seniority provisions prevent an appropriate shift in assignment. One sizable manufacturing firm in the Bay Area has been encouraged by its success in developing special work teams of older workers who set their own pace, and a well-known large firm in the Los Angeles area is experimenting with a somewhat similar policy.

Conclusions

Whether the problem of employment opportunities for the older worker will become more serious or not in the next decade or so depends chiefly on what happens to the general level of employment. If the rate of economic expansion is rapid enough to absorb the annual increase in the labor force, the problem of the older worker may not prove to be difficult, but if we fail to maintain a high level of employment, older workers are likely to suffer disproportionately. Although it has been said many times before, it cannot be said too often -- measures directed toward the maintenance of full employment constitute the most important form of attack on the problem of the older worker.

Among other ways of attacking the problem, the following are particularly worthy of mention:

1. Active efforts need to be made (a) to modify barriers to the employment of older workers and (b) to bring about appropriate shifts in job assignments for older workers when the need arises.

2. Versatile job experience may become increasingly necessary, since the worker whose job experience has been limited to a single operation may be left with an obsolete skill in a rapidly changing technology. A spokesman for a major CIO union argues that unions will have to insist on versatile job experience within the firm for their members, even if this requires some modification of seniority provisions.

3. Some unions are giving increasing attention to the whole problem of educating and training workers, including secondary school and vocational training of all types. Young workers entering the labor market will need more adequate basic technical training and older workers will need special retraining courses in order to adjust successfully to changing technological requirements. The housewife who enters the labor market either through choice or necessity after her children are grown frequently needs access to special training to renew rusty skills or develop new ones.

4. The findings of our survey of the economic status of the aged strongly suggest the need for more research directed toward a better understanding of the relationship between

health and occupation, particularly in the later years of working life. If manual workers are more likely to be forced to retire because of ill health than nonmanual workers, does this suggest that a larger proportion of aging manual workers need to shift to lighter or less demanding jobs some years before retirement? Should unions place more emphasis on an annual physical check-up for their members, particularly those who are past 40, and to what extent should unions support the use of physical examinations in industry in connection with the assignment and reassignment of workers?

5. Much that I have said has to do essentially with one rather simple point: that for a variety of reasons an occupational shift is required in the later years of working life in a substantial number of cases. The shift may involve a change to a different job with or without an intervening period of unemployment, or it may involve a change in occupational assignment on the same job. The real challenge -- to unions, management, the public employment service, and other community agencies -- is to bring about a situation in which shifts of this kind can occur with a minimum of interruption in continuity of employment and income.

HOW LONG SHOULD A MAN WORK?

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The question posed here for discussion is one which is always asked in connection with discussions of retirement and pensions. In an absolute sense, it is rarely answered; perhaps, indeed, it can never be answered precisely. On the other hand, it is given a practical answer hundreds of times daily, as individuals are retired from their jobs for age.

Because we are dissatisfied with the practical efforts to answer this question, we have to keep on thinking about it; and it is herewith submitted that three additional questions will help us in our thinking. These are:

How long <u>can</u> a man work?
How long <u>does</u> a man <u>want</u> to work?
How long does <u>society need</u> a man's work?

Taking the first question, then, how long can a man work?

It is a matter of common-sense observation that men and women change as the years advance. Hair turns gray, or disappears; teeth have to be replaced; bifocals become a necessity; children seem to become noisier even as hearing diminishes; our ability to learn new tasks becomes impaired, making us frustrated; and our memory for recent events becomes unreliable, making us bores.

Are we, then, useless? To say that we are would be to consider only half the story.

It has been, for instance, well established that although older men are less efficient than younger ones in eye-hand-foot coordination, in speed of reflexes, and in night vision, and might therefore be presumed to be poorer drivers, the fact is that they have fewer accidents.

In other areas of performance, it has been amply demonstrated, on the job, that older workers are steadier, more reliable, more accurate, take fewer leaves, and are responsible for less turn-over than their younger counterparts.

The explanation lies in the fact that nature has provided some compensations for those adverse changes which occur with aging; and, if we become deficient in certain respects, we make up for it in others. Experience compensates for lack of training; comprehension, reason, and judgment remain unimpaired or even improve; and productivity, in a given span of time, may actually be higher.

It cannot, of course, be denied that, for many of us, the day will come when we may no longer operate as efficiently in the job we then hold as we have been doing, or as our employer might expect. Yet the existence of some physical handicap, whether it be high blood pressure at sixty-five or an amputated leg at twenty-five, need not and should not mean retirement to non-productivity. We have been too much obsessed with the idea that chronological age means something definite and specific in terms of performance. We have maintained this obsession in spite of the evidence of our own eyes.

Of course, people vary, and jobs vary. At any age, there are some things that a given individual can do better than others; and at any age one can observe the disastrous effects that may result when a man shifts to another job, whether by transfer or promotion, which is beyond his abilities. But, at any age, the only thing that should determine whether a man can work should be his measurable ability to do a specific job.

The important thing is that this question of how long a man can work is not one to be answered with a generalization; it must be answered separately for each individual. If we think in terms of a man's potential as well as his current ability, most men can probably work longer than we think. It is quite likely that many who are retired for chronic disability could, by the application of the knowledge and skills now available to medicine, be rehabilitated to the point where they could serve usefully. If we rephrase the question to say, "How long can <u>this</u> man work?", we can always find the answer, and some of the answers <u>will</u> be surprising.

Proceeding then on the assumption that most men can work longer than we think, how about the question of how long a man wants to work?

In one study of a group of retired workers, 60 per cent indicated a preference for remaining at work. In another study of a group of men aged 65-74, it was found that half were still working; and, of these, 31 per cent said they were continuing to keep occupied; another 10 per cent said they were still working because they liked it. Obviously, not everyone wants to retire when the time comes. Some need the money; others like the job; others want to continue to feel important and necessary and productive; and many are probably simply not prepared for retirement.

Those who are now approaching retirement age did not receive the education that our children are getting; they have, perhaps, had less opportunity to develop off-the-job interests and skills. Furthermore, they were children of a generation which professed to set a higher value on work as a good thing in itself than we perhaps do. They are of a generation which professed to regard idleness as not quite respectable, if not downright immoral. To the extent that they identify retirement with a sort of sterile idleness, they are unprepared, intellectually and socially, for the idea of retirement, no matter how comfortable the pension; and, by the same token, they are unprepared to make an intelligent decision about how long they want to work, because they do not appreciate the alternatives.

A man's usefulness need not be expressed in terms of the job he has always done. Nor, for that matter, is all useful work the kind of work for which a man is paid in money. If a man needs to keep doing something which will make him feel of value to his community, he may find other rewards; but he may need help in developing the kinds of skills which will sustain him as a person when his job is over, whether these skills be those of wood-working, stamp collecting, club work, or church work. This kind of help could be called preparation for retirement; and it is as important as the amount of money a man can expect to receive as retirement pay; and it should start long before the date of retirement. Few of us can expect to spend our sunset years in the midst of a devoted and adoring family of children and grandchildren; on the contrary, it is more and more likely that we will be pretty much on our own, dependent upon our own resources to keep us occupied, interested, and alive.

How long does a man want to work? Again, it depends upon the individual; and it depends upon the extent to which he is prepared for retirement as well as upon his ability to do his job.

Finally, how long does society need a man's work?

At this particular moment, labor is in relatively short supply. Even those with prejudices against older workers are more willing to keep them employed, if not always to hire them. The 8 per cent of California's population which is over 65 is enjoying the consequences of the low birth rates of the thirties.

This will not always be the case.

There is a wave cresting in the 30 per cent of the population under 15 years which is going to strike with smashing impact in a very few years. In 1954 there were an estimated 9,000,000 in the 14-17 age group; the estimate for 1964 is over 14,000,000.

In addition to the competition to be expected from the teen-agers, there is the matter of steadily increasing productivity, including the newest phase of the machine age, the phase called automation. Already there is talk of the thirty-hour week; and as those of us who are now in the working force look ahead to age 65, or 60, or 55, we can't help wondering whether the reduced working time is going to be shared with us, or whether we will simply be crowded out of the labor market to make room for machines and youngsters. It is reasonable to expect that, as conditions change, retirement ages, whether compulsory or voluntary, will drop. The question is whether those who make decisions about retirement will be motivated by any desire other than the consideration of how much it will take to buy a man out of the labor market, and whether they will think about what happens to him after that. By 1975 there will be a lot more retired people than there are now. What will they be doing? What will they be thinking?

Here then, is the problem. It appears unlikely that most men will have the opportunity to work as long as they want to, or even as long as they can.

What, then, is the answer to the question of how long a man should work? At this point in time it would appear to call for a redefinition of work, and for more efforts to prepare a man to serve his community as a citizen, free of economic worries, when his efforts in the labor force are no longer needed.

HOW TO LIVE LONGER[1]

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Everyone has probably expressed a wish for a long and healthful life. Such good fortune not only brings obvious personal pleasure, but it can be of very great economic benefit to any individual and his family. The absence of good health can be a disaster. Taken from a larger viewpoint, average health is directly related to the productivity and the wealth of a community. Everyone receives indirect benefit from belonging to socio-economic groups identifiable as having appreciable measures of the inter-related factors of health, productivity, and wealth. Indeed, there is an ancient adage, "Wealth is Health."

It is important for every individual to be familar with factors which can modify basic health. There are undoubtedly many factors which have not yet been identified, but a number are now known, and if they are applied with hygienic wisdom they should make a very great difference in health as measured over a broad span of life.

To begin with, the factors which modify basic health act over a long period of time. Good health may be lost quickly or slowly, but gain in health appears to be the result of long-acting vigilance and attention to hygienic principles.

It is probable that each of us is born with a maximum of physical reserve in terms of potential growth towards bodies of good vigor. It is also probable that before birth factors of inheritance and parental health have already established certain fundamental limitations to health, or perhaps a more bountiful natural reserve of physical health. For the average person, however, it appears that the factors which influence health are substantially hygienic in that they can be modified and lead to modification of health.

Populations of the world of the same sex, compared at the same age, exhibit a wide range of general health. Such differences observed at one age are similarly observed at all subsequent ages, supporting the fact that today's health is related to health of earlier life, and tomorrow's health may be modified today.

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[1] This paper is a condensed interpretation of a paper, "A Special Consideration of the Aging Process, Disease, and Life Expectancy," by Hardin B. Jones, in Recent Advances in Biological and Medical Physics, Volume 4. (Edited by J.H. Lawrence and C.A. Tobias.) Academic Press, March, 1956.

The body has a very great functional reserve, and environmental factors which modify that reserve ordinarily act over a long period. The reason for this is fairly clear. If health is greatly impaired by a single encounter, it must be one of rather drastic magnitude, such as an infectious disease, injury, or appreciable exposure to material of obvious poisonous repute. It may be safely said that any material which produces an immediately detectable physiological change is probably highly toxic, and that if it is used in larger quantities it may disrupt body function to the point of death. Even in the distressing event of toxic reaction, recovery will probably occur, and it may be impossible to tell that the episode has occurred because of the body's great facility for immediate repair of injury and recovery of function.

However, as we begin to understand more about the changes which occur as we grow older -- changes which are the underlying mechanisms of disease processes -- it becomes apparent that each of these encounters with sickness-inducing factors may leave subtle residual damage from which there is no recovery and which grows to produce greater residual impairment as time passes. In the several circumstances where quantitative study has been possible, it appears that these encounters, regardless of their immediately detectable effect, may have a way of adding an increment of change toward poor health. In some circumstances, the agent which induces a change toward poor health is apparently well tolerated at any moment of observation and -- since the effects can only be evaluated over a lifetime of observation -- identification of the subtle disease-inducing system has been accompanied by controversy among experts.

Controversies have arisen in part because our minds are set in the assumption that for every disease which occurs there must be a factor which is the immediate cause of that disease. Where it is possible to trace the history of a disease, immediate events which initiated the observed sickness may be established. An example is vascular disease, where there is usually identifiable obstruction of a major vessel occurring suddenly as the end result of years of accumulated deterioration in the structure of that blood vessel. But the events which induced these immediately-underlying-causes-of-disease undoubtedly develop all through life. Body functions are so complexly interrelated that probably every function to some extent modifies all other functions. In the beginning of an individual's life, he undoubtedly has a greater favorable organization of factors determining health than at any later moment. Thus, while the body has great measurable capacities for repair and natural replacement of functional units, the organization of the entire body function (equivalent to our idea of 'health') is constantly becoming less vigorous and more rundown as we grow older. This is the process of aging; it is seen as the many diseases of failures of body function which occur with increasing frequency as we grow older.

What may not be commonly realized is that aging does not occur all at once, or at any particular age -- aging is happening all the time as the result of all the activity essential to the maintenance of life. Even in the most ideal environment we would show aging, but unfavorable circumstances may have an unfavorable effect on health and induce a more pronounced aging change.

Some of the factors in good health are the following:

a) Childhood Health

Individuals born in the period from 1850 to 1925 show a progressive reduction in the adult death rate directly related to the decrease in childhood diseases. For European populations where vital records have been kept for more than a century, it is possible to predict adult death rate or internal-disease incidence at any age, if we know the childhood infectious disease death rate of the group concerned. In response to reduced childhood disease-deaths, the internal diseases of adults born in 1925 are now postponed by an estimated fifteen years, compared to the average experience of individuals born in 1850.* The effect appears to be one of increasing individual life-value, as the extra years are added to early adult life. A longer life is thus enjoyed in better health before the body ages to the point where internal diseases limit life and usefulness.

Childhood health is undoubtedly very important in establishing lifelong health -- or absence of it! The principles to apply are in the general category of good physiological and environmental hygiene. Nutrition, exercise, rest, avoidance of infectious diseases, love and care -- all are important factors which we can expect to receive more appreciation and better evaluation in the future.

b) Adult Health

Every principle that is important for childhood health is also important for adult health. Today's health is establishing the health or disease of tomorrow. One cannot, however, expect much success in reversing body changes which occurred earlier in life.

In comparing the people of the United States with those of other countries in a way that accounts for the differences of childhood health, it may be shown that adult health in the United States is considerably below expectations. This is true even if we limit the comparison to individuals of the same race, sex, childhood disease-experience, and age. It appears that there are differences in adult health we cannot explain on the basis of childhood health. This suggests that there are adult environmental hazards in the United States which are estimated to be 40 per cent as important to health as the gains in adult health which have resulted from lowered childhood disease experience during the last 75 years of calendar time. Compared to the death rate predicted from childhood death rates, the average white man in the United States (or Finland)

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*Sweden, Denmark

at any age has a disease-death risk equivalent to that of a white man six years older in Sweden, Norway, Denmark and the Netherlands. Six years lost from useful life (on the physiological time scale of prematurely developing degenerative body changes) represents a great difference in health and life expectancy. Within these average values, some individuals will have lost much more than six years of useful life due to toxic environmental circumstances.

Certain adult health hazards have been identified and they may account for the relatively poor health of the average adult in the United States, where adult males -- as in Finland -- are dying 1.5 times faster than males of the same age in the northern European countries with longer life-expectancy.

c) <u>Over-weight</u>

Strong evidence has been available for some time -- based upon Life Insurance policy-holder studies -- that over-weight individuals have a shorter life, and a higher death rate at any age compared with leaner policy-holders. Presumably, the effect is the result of the body's burden of excessive fat. But the burden may include a number of complex considerations in addition to the physical weight of excess poundage, including disturbance of metabolism, physical interference with body function, and nutritional differences. The magnitude of the effect is the association of approximately 10 pounds of overweight with a loss of one year of life expectancy and the addition of one year to apparent or physiological age. The problem of obesity as related to disease needs further investigation. We can be relatively sure that it is important for the average man to watch his waistline and body weight throughout life and to maintain as youthful a body proportion as possible. We may reasonably predict that reduction of obesity is an important means of improving health, but the problem requires more extensive evaluation.

d) <u>Control of Metabolic Diseases</u>

Many adults today lead essentially normal lives even though they have a functional disease such as <u>diabetes</u> or <u>pernicious anemia</u>. Half a century ago, these diseases would have drastically reduced life expectancy; today, they are responsive to skillful medical dontrol. We are now able to recognize other bodily functional disturbances, such as the metabolic errors in fat utilization which Dr. Gofman has shown underlie the development of heart diseases. Methods leading to control of fat utilization have been established on the basis of individual requirements -- including dietary help, weight reduction, and endocrine management. For the individual, these recent developments offer a gain in health retarding the development of a prevalent disease with hygienic measures applied through principles of preventive medicine. Today, the relative likelihood of heart disease occuring may be established before the vascular changes characterizing the disease are far advanced. There is good evidence that control of body fat utilization, especially in individuals with high heart-disease-risk, lowers their tendency to develop vascular disease.

While the basic evaluations of the vascular disease problem have been in regard to heart disease, there is now evidence that cerebral vascular disease is so very highly correlated with heart disease that they are probably identifiable as one disease -- hardening of the arteries. The social-economic gain from postponement of degenerative mental disease associated with cerebral vascular disease is perhaps as important as the heart disease problem itself.

e) Exercise and Physical Activity

Throughout the world, there is general evidence that individuals whose occupation requires physical work -- such as farmers, farmers' helpers, laborers, tradesmen -- live longer and are less likely to develop a fatal disease at any age. It may be argued that these classes are already selected to include individuals with bodies sufficiently powerful for their heavy occupation. This is, however, a rather unlikely explanation. In evaluating this problem, in laboratory studies, we have found that physiological measures of blood flow and body composition of lean mass and fat are at more youthful values in individuals with athletic skill. Perhaps the answer is that average good health requires at least a minimum of muscular physique and moderate physical activity.

f) Rural versus City Dwelling

In essentially all countries at the present time, individuals living in the rural areas away from the larger cities live longer. This is, in part, undoubtedly due to the association of physical work with rural life and clerical (sedentary) work with city-dwelling. For example, in England, both the farmer and his wife are relatively long-lived in comparison with city couples. In contrast, the skilled laborer is generally as long-lived as the farmer, but his wife has the shorter life expectancy of most city dwellers.

It is early yet in the study of population hazards to be certain of the identity of environmental hazards associated with cities and industry. Certainly, great care has been used to develop knowledge of industrial medicine and industrial hazards and many toxic factors have been identified and eliminated. Perhaps today's greatest hazard is the city-smog problem currently being investigated.

g) Marital Status

Evaluations of health in relationship to marital status by statistical scientists in Denmark and Sweden very definitely show that married individuals are less likely to die at any age. The effect is equivalent to a difference of about 4 years of life expectancy and about 5 years difference in physiological age, between married and single individuals. Those who are widowed or divorced share the disadvantages of the unmarried. The evidence is not, however, proof of the healthful virtue of marital-bliss, although it is a strong argument that the average person achieves a better balance of good-health factors in the married state!

h) Use of Cigarettes

The American Cancer Society showed in their study of disease-occurrence in populations classified by the use of tobacco that cigarette consumption was associated with a greatly increased tendency for many degenerative diseases to develop (compared to the non-smoking individual). This has subsequently been verified by additional field studies answering many of the troublesome questions, -- such as how the smokers and non-smokers were selected, and whether the smokers and non-smokers were really drawn from the same population. The questions will probably not be fully settled for some time, but the current evaluation of the smoking problem appears correct -- the cigarette smoker at any age is twice as likely as the non-smoker to develop degenerative diseases. We now know that other physiological differences between smokers and non-smokers are associated with the use of cigarettes, predicting very increased disease tendency in the cigarette-smoker. It is probable that the physiological differences observed are directly related to the use of cigarettes and that the enhanced disease-tendency is directly attributable to this habit. Tobacco in other forms has not been sufficiently evaluated, but all preliminary reports indicate less or no effect of this sort associated with smoking pipes or cigars. It is much more difficult to establish a comparison between those who use pipes or cigars and those who could have smoked them but did not. There seems to be a possibility that there are occupational and environmental differences with regard to these categories of tobacco use.

Physiologic age is undoubtedly subject to great individual differences. This is readily observed in comparisons of average disease tendency between countries or individuals grouped by different environmental backgrounds. We are all aware that some individuals have long productive lives while others die quite young of similar causes.

Technically, it is now possible to measure some of the qualities of the body which predict youthfulness and health or "agedness" and proneness to disease. We should achieve reliable measures of physiological age. Such evaluations are important now in the practice of preventive medicine; they could also become guides to retirement and occupational activity at any age.

It is important to remember that in the application of principles of physiological age to the problem of occupational activity, there are many modifying factors related to the custom, beliefs, and regulations of our socio-economic system. However complex these problems may be, we may be certain that all of us today are enjoying better average health than our predessors, and that we can expect increasing gains in health and life expectancy throughout this century. It is a reasonable estimate that by the end of the twentieth century in the United States, the average person will have gained another 5 years of useful life before he is burdened by overt disease. This predicted gain may be very much greater as a result of the recent identification of factors which contribute to good or poor health.

Our society will want to allow for the requirements of individuals who are able and wish to do useful work during the period of extended life expectancy which in the year 2000 will represent an estimated gain of 9 years over the life-expectancy in 1900. This means a gain of useful life and postponement of the onset of signs of degenerative disease.

LIFE AND WORK EXPECTANCY

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The problems of life and work expectancy have been the subject of intensive research by scientists over a long span of time. Frequent discussions in the press and elsewhere tell the story of the never-ending struggle to enable people to live both longer and better. Predictions are loosely offered to the effect that men will one day survive to age 100 or even 150. Because of its common use, the life expectancy concept is an appropriate subject for analysis in a discussion of pensions.

An analysis of mortality tables indicates a clearly defined lengthening span of life during the present century. The actuaries report that the life expectancy at birth of white males in the United States has risen from 41 years in 1860 to 46 in 1900, to 54 in 1920, to 59 in 1930 and to about 67 currently. Among females, this lengthening of the average future lifetime has been even more pronounced.

Projections of the life expectancy among Americans have given rise to a number of provocative speculations. Some persons have argued that we are approaching a fulfillment of the biblical three score years and ten as a norm for length of life. A number of scientists have supported the theory that since many animals have a maximum life span of about six times the number of years required to reach maturity, therefore human beings ought to have a life span of about 150 years on the assumption that full maturation occurs about age 25. Prior to World War II, the work of Dr. Alexis Carrel with the long-term maintenance of the heart action of chickens gave rise to the idea that similar results might be achieved with humans. The hearts of frogs can be sustained for long periods under proper laboratory conditions as a routine biological experiment. Finally, mention might be made of the reported work of certain Soviet scientists in the reviving of persons pronounced dead.

The improper use of the notions of life and work expectancy has created an aura of optimism about future longevity among the American people but, conversely, it has suggested certain pessimistic conclusions about the costs of pensions which can have an important bearing upon pension negotiations. The concept of life expectancy has come into disfavor among actuaries in recent years, and perhaps an analysis of the concept will indicate some of the reasons for this change of attitude.

What is the life expectancy?

Briefly, the life expectancy is a kind of unweighted average. It is the average number of years lived by a group of persons after any particular age according to any particular mortality table.

Suppose that a number of people, each of whom is forty years of age, was to register for a long-term experiment. Each year, those members of the group who survived the year would be given a one-year credit. The process of granting survivors credits would continue until the last one had died. At this point, if the total number of credits was determined and then divided by the number of persons in the group at the beginning of the experiment, we would obtain a figure for the average future lifetime, or life expectancy, of members of the group. The life expectancy would probably be about thirty years, but that does not mean that any particular individual should expect to survive thirty years. It is impossible to make a meaningful prediction for any specific person. He might survive one year or sixty years.

To the extent that the age distribution of the group tends to change, so, too, does the figure for the expectation of life. Herein lies the weakness of the concept of life expectancy. It is not a reliable basis for comparing groups, nor does it provide a basis for accurate predictions of the mortality experience of any particular group. Technically, the life expectancy measure is not "age specific."

The misleading feature may be borne out by a familiar illustration employed by statisticians. If two cities, for example, each had identical numbers of people with identical age specific mortality rates, as in Table 1, but the age composition differed between the cities, one would give the false impression of being much less "healthy" than the other. In our example, there is no real difference between the correct

Table 1. Age-Specific Death Rates vs. Crude Death Rates

Age	Death Rate per 1000	Town A Population	Town A Deaths	Town B Population	Town B Deaths
20	2	10,000	20	90,000	180
80	125	90,000	11,250	10,000	1,250
Totals		100,000	11,270	100,000	1,430
Crude Death Rates		112.7		14.3	

death rates in the two towns, yet the crude death rates suggest that town B is a much healthier place to live. The life expectancy in town B will be a good deal greater than that in town A only because of the different age composition. The kind of error revealed by this exaggerated illustration underlies most uses of the life and work expectancy concepts.

Has the life expectancy really changed?

Granted that the concept of life expectancy has many limitations, to what extent have there been effective reductions in the death rate at various ages? Most people do not realize that the truly significant changes in the death rate have occurred among the newly-born and the young. The impact of the medical revolution of the past few decades has been less and less important at higher ages. The increase in the average length of life has been due to the fact that more people survive to higher ages than was formerly the case. Millions who, in earlier times, would have succumbed to fatal diseases in childhood now commonly enter the middle and upper years. But for those who reach advanced ages the prospects of a lengthened life span are little better than they were a century ago.

Table 2. Expectation of Life Among White Males in the United States From 1850 to 1946 for Selected Ages of Life

Calendar Period	Age 0	20	40	60	80
	Expectation of Life in Years				
1850	38.3	40.1	27.9	15.6	5.9
1890	42.5	40.7	27.4	14.7	5.4
1900-02	48.2	42.2	27.7	14.4	5.1
1909-11	50.2	42.7	27.4	14.0	5.1
1919-21	56.3	45.6	29.9	15.3	5.5
1929-31	59.1	46.0	29.2	14.7	5.3
1939-41	62.8	47.8	30.0	15.1	5.4
1946	65.1	49.0	30.9	15.6	Not available

Source: Adapted from Dublin-Lotka-Spiegelman, Length of Life, 1949.

As Table 2 makes clear, there has been a spectacular improvement in the expectation of life at the younger ages, but relatively little change at the older ones. The absence of change at ages sixty and above is of particular significance because of the common belief that the lengthening of the life span has been uniform at most ages.

What significant changes have there been in death rates in recent years?

While the average or crude death rate has not changed appreciably in the last fifty years, there have been dramatic changes in the list of the leading causes of death. Heart disease, which ranked fourth after influenza and pneumonia, tuberculosis and intestinal diseases in 1900, is currently the principal killer, accounting for approximately 35 per cent of all deaths in the United States. Cancer, which ranked eighth in 1900, is now the second leading cause of death, responsible for about 15 per cent of the total. Infectious or acute diseases such as diphtheria and typhoid fever have been replaced on the list by such chronic conditions as diabetes and hypertension. In general, the infectious diseases have substantially been brought under control from the standpoint of fatalities, while chronic illnesses have shown the marked rise which one should anticipate in an aging population.

The differences which have been observed in the composition of the death rate may readily be explained in terms of a number of fundamental changes which have occurred both in our economy and in the practice of medicine.

The shifting age distribution in the United States, as reflected by the fact that while only 18.1 per cent of the population was 45 years of age and over in 1900, 28.8 per cent of our people fell into this age bracket in 1955, has lent emphasis to the degenerative diseases. Furthermore, vast improvements have been achieved in diagnostic techniques so that there is undoubtedly more frequent and accurate reporting of such causes of death.

The decline in the severity of acute infections may be attributed to a complex of factors. The tremendous improvements in our standard of living, the increasing sanitary control of the environment, the expansion -- both quantitative and qualitative -- of medical care and, perhaps most dramatic of all, the discovery of a wide range of wonder drugs have been primarily responsible for the favorable trend.

Unfortunately, the war against heart disease and cancer has had somewhat less success. There has not yet been a break-through on the problem of degenerative disease. This means that, in a broad sense, we should not expect a significant lengthening of life, in the later years, for some time to come. The nature of the degenerative process is such that while it can be delayed, it probably cannot be stopped.

<u>What is the work expectancy?</u>

Just as the life expectancy refers to the average future lifetime of a group of individuals, the work expectancy refers to the working lifetime of the population. Computed by a similar method, this concept shares all of the weaknesses and misleading aspects of the life expectancy idea. It is dependent upon the age distribution of the group studied and the rate of labor force participation.

Reference has already been made to the aging of our population. It is interesting to note that the median age of Americans rose from 22.9 years in 1900 to 30.2 by 1950. The Bureau of the Census estimates that the proportion of the population above fourteen years of age will rise to 79 per cent by 1970. In 1940, it was 75 per cent. Concurrently, but to a lesser degree because of the high birth-rate, the proportion of the population age 65 and over is increasing. From the standpoint of the labor force, the immediate effect of the rising average age of people in the United States is a rise in the proportion of the population in the age groups most concerned with gainful employment.

The proportion of the population actually in the labor force has increased very modestly and irregularly during the past fifty years. From a level of approximately fifty per cent in 1900, this figure rose to a high of 58 per cent in 1950, and is currently about 56 per cent. It is estimated that by 1975 the proportion of gainfully employed persons in the population will be about 58 per cent once more.

<u>Is the work expectancy increasing?</u>

The evidence suggests that the work expectancy in the United States is undergoing a decline at the present time. This arises from two sets of factors. On the one hand, the average age of the working population is increasing, which means that on the average there remain fewer working years; on the other, increasing barriers have been established to the employment of older workers, thereby compelling earlier retirement. The past few decades have witnessed a steady drift from agriculture into the cities. Men who might have been gainfully employed at advanced ages on the farm find little opportunity in commerce and industry. The spread of the principle of the compulsory retirement age in private pensions, and the structure of the Social Security benefit program are additional factors in the tendency to a shortening of the work expectancy.

What are the implications of the life and work expectancies for the pensions movement?

The costs of pensions are primarily a function of mortality, turnover, interest and expense rates. Of these, there is unlikely to be much doubt as to the nature of the interest and expense factors, although the "retention" concept remains fairly vague. The mortality and turnover tables, however, offer peculiar problems because the layman is unable to grasp their nature and limitations. The number of alternative tables which might be used is endless, and the implications in terms of the value of negotiated benefits can be extremely important. Unless all parties are aware of the assumptions made by the particular mortality and turnover tables adopted, there is not likely to be a true meeting of the minds in the pensions negotiation process.

The concepts of life expectancy and work expectancy are loosely bandied about. Both notions have been virtually repudiated by the actuaries, but they continue to be used widely in discussions of the length of life. There is a real danger that due to a lack of understanding of these ideas, pension negotiators may tend to permit the actuaries to develop the assumptions of pension programs, rather than make these assumptions a point at issue. While the actuary is well-versed in the finer points of pension planning, his role should be that of a technician rather than a policy-maker. The pension negotiator has a responsibility to understand the tools of his trade well enough to play a positive role in establishing the assumptions of any particular plan. If he is alert, he will regard the ideas of life or work expectancy with the skepticism they deserve.

HOW TO SET UP, NEGOTIATE AND ADMINISTER A PENSION PLAN

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A leading weekly publication recently predicted that the national population will increase by 68,000,000 persons in the next 20 years to 228,000,000.

Wide open spaces will disappear; there will be new centers of population, new markets, new opportunities -- and new problems.

It's predicted that the State of California, now the second state in population, will be first by 1975. Specifically, it is estimated that this state will have a population of 26,000,000 as compared to the present estimate of approximately 13,032,000.

Incidentally, as you may know, California's population growth is greater, monthly, than any other state in the union.

With the rise in population is an even greater rise in the percentage of older workers. The number of older workers is due first to the general increase in the total population and secondly, in the increasing life expectancy of men and women in the United States, due to the wonders of modern medical science.

The increasing population and the increasing number of older workers presents a formidable problem; and all of these are related to what has to be done about enabling those older workers to retire on decent incomes, for three reasons, among others:

1. To enable the older employee to enjoy the fruits of his productive years by eliminating the need to work in the advanced years;

2. To provide job opportunities for younger employees (and this is particularly important in view of the technological changes, such as automation); and

3. To enable the older and retired employee to meet his everyday needs, in a self-sufficient, dignified and scientifically planned manner, rather than to become a burden of relief or dole for the community or a weight on the shoulders of the employee's children or his employer.

Collectively-bargained pension plans may not be applicable in all situations. And, certainly, whether or not there are to be such plans is entirely a matter to be determined by the employers and unions involved.

It's interesting, however, to note that today there are more than 8,000,000 employees covered by collectively-bargained pension plans, and the number continues to grow each year, depending on the financial ability of employers to finance these plans and on the way in which this type of benefit may be negotiated.

The basic foundation for security in old age can be found in Federal Social Security. Certainly increased Social Security benefits are needed for many, many employees, and this has been found to be the most practical and efficient way of providing for the employees' old age. The relative importance of Social Security benefits can perhaps be demonstrated by the fact that at the end of 1940 there were 220,000 retired workers and their wives and survivors who were receiving one kind of benefit or another, via Social Security, in a monthly sum of $4,100,000. By 1955, the number of retired workers and their dependents had increased to almost 8,000,000 receiving $412,500,000 per month in benefits.

In the sessions that follow I do not plan to discuss whether or not a pension program should be negotiated as part of any particular collective bargaining agreement. As previously indicated, this is a matter to be determined by the employers and the unions involved. However, what will be presented is that which may be considered fundamental in the development of a pension program, if one or more employers or one or more local unions do decide to proceed with a pension program as part of a collective bargaining agreement.

So that you can have a general idea of the order in which various aspects of this subject will be discussed, the following is an outline of the main topics I plan to review:

I. <u>FACTORS TO CONSIDER IN NEGOTIATING FOR A PENSION PLAN</u>

II. <u>ESTABLISHMENT OF A PENSION PLAN</u>

III. <u>FACTORS THAT AFFECT THE AMOUNT OF PENSION BENEFITS</u>

IV. <u>ADMINISTRATION OF A PENSION PLAN</u>

V. <u>SOME GENERAL PROBLEMS</u>

VI. <u>SUMMARY</u>

I. FACTORS TO CONSIDER IN NEGOTIATING FOR A PENSION PLAN

We have been asked to consider the situation that confronts many organizations in collective bargaining for pensions, namely, that they have collective bargaining agreements with more than one employer and are, therefore, concerned with obtaining a uniform pension plan for all employees represented by the Union for the purpose of collective bargaining. Accordingly, it may be that many of my remarks are not fully applicable in instances where a Union represents the employees of just one plant or one employer.

In our experience as consultants to more than 100 multi-employer, collectively bargained pension plans, we have found that most employers and unions agree that the "multi-employer" plan is the most effective vehicle for providing pension benefits for the employees represented by the union. A brief examination of how such a plan operates, from a cost and benefit point of view, should give you a better idea of why such plans are so enthusiastically supported by both management and labor. In the typical multi-employer, collectively bargained pension plan, the union reaches a uniform agreement on pensions with the various employers with whom it negotiates whereby the employers agree to contribute "x" cents per hour or per day, or "x" dollars per month to a pension trust fund. The contributions are based on the number of hours or days for which pay is received by the employees of the employer represented by the union. Accordingly, each employer with whom the union negotiates thereby incurs the same cost obligation in terms of cost per employee; most employers find this important from the standpoint of all employers dealing with the union maintaining the same competitive position in terms of labor cost. In addition, the employers appreciate that by many employers contributing to one central fund, economies can be effected in establishing and administering the pension fund which can be translated into higher benefits for the employees; in this respect they appreciate that their contributions are being used to the best advantage, from an economic standpoint.

Most unions recognize that these advantages to the employers are also advantages to the unions and to the employees to be covered. In addition, by the use of a multi-employer plan with a uniform rate of contributions, the union will be assured that all employees represented by the union for the purpose of collective bargaining will be provided with the same plan of benefits.

In industries where the nature of employment is such that an employee may be changing jobs frequently (like the construction and other industries, where employment may be with many employers over the years), such plans offer the additional advantage of the employee being able to receive pension credits for employment with all employers, whereas if each individual employer had a pension plan based on length of service with the one employer, it is doubtful that such employees would ever be eligible for pension benefits. In other industries, normal changes in employment conditions due to changes in production schedules, plant relocations, etc., are also taken care of in a multi-employer plan because the employees are able to obtain employment with other employers in the same industry and continue accumulation of pension credits. When an employee reaches the retirement age set forth in the pension plan, he may have an accumulation of pension credits based on years of service with many different employers.

Assuming that agreement has been reached on the principle that there shall be a "multi-employer, jointly administered" pension plan, the next question is the amount of employer contribution. Clearly, this item comes under the "give and take" phase of negotiations -- higher the contribution, the higher the ultimate pension benefits. As the final settlement might be anywhere from a range of $2 a week to $5 a week, it would appear best that the parties bargain this item out as they would any other wage increase, leaving to a later date the discussion of the amount of pension benefits that can be purchased for a given rate of contribution or the details of the pension plan that will be provided. One reason for this suggestion is that we know it takes many months of study and discussion to solve the final pension plan after agreement has been reached on the amount of employer contribution. After negotiations are concluded, detailed actuarial studies are made of the data on the employees to be covered (their ages, length of service, patterns of employment, etc., are all taken into consideration). To do all this work before or during negotiations may cause considerable delay, confuse the issues, and, most likely, as a practical matter, may not affect the amount finally agreed to as the employer contribution. Short cuts to such studies to produce "approximate" results for a given contribution often do more harm than good in that most conservative estimates must be made to compensate for the "short cut" procedure with the consequence that it may appear that a higher amount of employer contribution is required to support a particular plan of benefits, or, stated another way, that the employees will have to give up more of a wage increase than is necessary to obtain a particular level of benefits. There are exceptions, of course, and in some selective situations a preliminary actuarial study may be valuable.

Both the employers and unions can properly assume that the amount of contributions agreed to in collective bargaining will be used in the most effective manner possible to provide the very best plan of pension benefits consistent with the amount contributed and the age and employment data of the employees to be covered.

In summary, it would appear best for negotiators to agree on whether there should be a "multi-employer, jointly administered" pension fund and then on the amount of employer contribution. It would also appear best, in most situations, not to confuse or delay negotiations with discussions of the level of the ultimate pension benefit or the details of the plan, but instead to agree that such matters be left for decision by a joint board of union and employer trustees.

II. ESTABLISHMENT OF A PENSION PLAN

After negotiations have been concluded, the union and employers should designate representatives to meet for the purpose of adopting the legal structure for the pension fund. In this connection, the employer and union representatives will want to use legal counsel as there are many legal matters that require careful consideration. Such meetings generally result in the preparation of a document called an "Agreement and Declaration of Trust" which is entered into by the Union and employers. This Trust Agreement sets forth the general purpose of the pension fund being created, provides for the designation of union and employer trustees who will be responsible for the establishment and administration of the pension plan, and sets forth their rights, duties and obligations as Trustees. In addition, there are many miscellaneous problems covered in the Trust Agreement. However, it should be noted that the Trust Agreement does not set forth the plan of benefits or the elegibility rules of the pension fund; instead, it essentially gives the trustees the authority to adopt an appropriate pension plan after having the necessary actuarial studies made. After this legal document has been signed by the Union, the contributing employers and the persons designated as trustees, copies are generally furnished to each contributing employer for their records.

It is then necessary for the trustees to meet and start on the work that will lead to the ultimate adoption of the pension plan. The first item for consideration is usually retaining a pension consultant to advise the trustees on the technical aspects of their work and to do the necessary actuarial calculations.

Having selected a pension consultant, perhaps the first job will be the preparation of an appropriate form of "census card" which can be used to obtain basic information as to the employees' ages, length of service, and other characteristics of employment. This type of card should be designed from the long-range point of view of its serving not only as the source of the initial information required for the actuarial study, but also so that it can serve as a permanent record card in the administration of the pension fund. Having a card of this nature serves a multi-purpose and eliminates administration work and delays at a later stage of administration of the pension plan. The census cards are then distributed for completion to the employees to be covered by the pension fund and returned to the pension consultant so that the actuarial studies can be started.

It is often necessary to obtain still additional information concerning the nature of employment in the industry, particularly the rate of turnover. This involves a study of employment patterns in the past so that an evaluation can be made of the number of new employees expected to come into the industry in the future, how long they can be expected to stay in the industry, and their ages when they enter and leave the industry. This information can be obtained in a variety of ways; a qualified pension consultant will be able to work out an appropriate system for obtaining the information based on the records available in a particular situation.

When the actuarial studies have been completed, detailed written reports are generally submitted to the Trustees summarizing the results and presented in such a way that all cost factors can be clearly understood by the Trustees. This is an important point because the technical aspects of this subject seriously affect the ultimate plan of benefits and if the Trustees do not have this explained to them in sufficient detail they may not appreciate the ultimate impact of their decisions.

Simultaneously with a review of the actuarial calculations, the Trustees consider alternate types of benefits that can be provided in a pension plan. For example, they may be considering not only a normal pension benefit amount to be provided for employees who reach 65 years of age with 25 years of service, but they may also be considering providing a reduced pension benefit amount for employees who are 65 but have fewer years of service, or disability pension benefits for employees who become totally and permanently disabled at a younger age after a minimum number of years of service in the industry. In addition, they may wish to consider early retirement benefits for employees who have long years of service in the industry but who have not yet reached retirement age.

There are related questions, such as vested rights, various options that can be provided for members who are retiring, provisions for guaranteeing payments for a minimum number of years, etc. Most items of detail in a pension plan are related to cost, and, accordingly, are considered at the same time the Trustees discuss the normal pension benefit to be provided.

After preliminary discussion, it is then necessary to translate the decisions of the Trustees into a proposed form of rules and regulations for the pension plan. In addition to setting forth the benefit amounts of the various types of benefits to be provided, the rules and regulations also cover such items of detail as the manner in which employees are to be granted credit for their yearsof service in the industry, how they are to be given credit for or during periods of disability, military service, periods of unemployment, and changing of employment from one employer to another. The rules and regulations also cover the definition of total and permanent disability, if disability pensions are to be provided, the type of future employment, if any, that is prohibited for members retiring under the plan, procedures for submitting applications for pension benefits and proof of age and service, etc.

Time does not permit a detailed review of each of these items now, though in the question and answer period each point will be discussed at some length.

It has been my purpose to give you a general idea of the subjects considered by the Trustees and the approximate order in which they are generally taken up.

Based on the discussions of the Trustees, the final set of rules and regulations for the pension fund is then adopted. Such plan is incorporated in a written instrument. The rules and regulations, together with the actuarial certifications, the trust agreement, collective bargaining clause and list of contributing employers are then incorporated in a set of documents for submission to the Internal Revenue Service of the United States Treasury Department with a request for a ruling that the pension plan qualify as an approved plan under the applicable provisions of the Internal Revenue Code. It may be that minor amendments will have to be adopted by the Trustees before final approval of the plan is received from the Internal Revenue Service of the U. S. Treasury Department.

When approval is received, a copy of the approval letter is furnished to each contributing employer so that it can be referred to when the employer wishes to sustain his income tax deductions for contributions to the pension fund.

The final pension plan should then be incorporated in booklet form together with questions and answers and other material which review the main provisions of the pension plan in simple non-technical terms so that each covered member fully understands his rights under the plan. This is most important because many members make long-range plans for their retirement based on the benefits that they hope to receive from the pension plan and under the Social Security Law. It is unfortunate to come across situations where a pension plan has not been clearly explained and for many years a member may have thought he would be covered under the plan when he reached retirement age only to find out that because of some provision of the pension plan, of which he was not aware, he does not qualify.

In the course of discussing the pension plan, the Trustees will also want to give consideration to whether the plan will be on an insured or self-insured basis. This general subject will be discussed shortly under the heading of "General Problems."

III. FACTORS THAT AFFECT THE AMOUNT OF PENSION BENEFITS

The amount of pension benefits to be provided for a given employer contribution will depend primarily on the ages and length of service of the members to be covered, the type of pension benefits to be provided, and the eligibility conditions under which they are payable. Most every provision of a pension plan involves some cost consideration. For example, a provision for "vesting" pension benefits can be very costly. (This involves giving the employee a right to receive payments from the pension plan when he terminates employment in the industry without regard to his age or length of service, but based on the amount of contributions made to the fund on behalf of his employment.)

However, in this section of my discussion, I plan to discuss certain actuarial assumptions taken into account by the pension consultant in calculating the ultimate plan of benefits that can be provided. Such assumptions are generally discussed with the Trustees so that they can determine just which assumptions should be ultimately used in the pension calculations.

1. Interest Assumption: In the basic financing of the pension fund, large amounts of monies accumulate for the payment of benefits to members who are expected to retire. Such monies are invested and earn interest. The interest factor is an important consideration in projecting the income to the fund over the course of future years and, therefore, the assumed interest rate materially affects the amount of final pension benefits that can be provided. If it is assumed that the reserves will earn interest at 2-3/4 per cent per annum, the pension benefits will be roughly 5 per cent higher than if it is assumed that the reserves will earn interest at the rate of $2\frac{1}{2}$ per cent per annum. Generally, for each one-quarter of one per cent difference in investment yield there is approximately a 5 per cent difference in the amount of benefits that can be provided. Accordingly, a most careful discussion of this subject is warranted before the Trustees reach a decision.

2. <u>Mortality Rate</u>: There are various mortality tables which an actuary can use for the purpose of predicting how long people will live. If an ultra-conservative table is used which predicts that the members will live for a very long period, more money will be required to pay pension benefits to such employees than if a table is used which predicts a somewhat shorter life-span; the reason being that the anticipated number of retired employees and of pension payments after retirement will be greater if the man is expected to live longer. This entire subject must be discussed by the Trustees so that the pros and cons of the various mortality tables can be considered and so that the projected mortality rate used will be conservative and appropriate for the employees in their industry.

3. <u>Assumed Retirement Age</u>: Although you may have a pension plan which provides a given benefit for an employee who has attained the age of 65, experience proves that not all employees retire when they reach the eligible retirement age; some prefer to continue to work for a few years beyond the established retirement age. This is perhaps more understandable when you consider the fact that not all employees reaching the age of 65 are in the same physical condition nor are they all equally emotionally adjusted to retiring.

In addition, it is often found that certain employees in this category have financial problems, which may require their continued employment. In most pension plans it is found that in the absence of a provision that there be automatic retirement at age 65, the employees tend to retire on the average at an age slightly in excess of 65. The assumption as to the actual retirement age of the members is another very important cost factor. For example, if it is assumed that the employee will retire at age 66 rather than at age 65, the pension benefit can be approximately 10 per cent higher.

4. <u>Rate of Turnover</u>: In practically all industries it is generally found that a certain percentage of the employees stop working in the industry before they reach retirement age or are eligible for pension benefits under "early retirement" or other sections of the pension plan. When this occurs, there is a "savings" to the pension fund because contributions have been made on behalf of such employees. These "savings" can then be used to provide higher benefits for employees who remain in the industry until they become eligible for pension benefits. It is important to study the employment patterns in the industry and determine an appropriate, but conservative, rate of turnover that can be assumed in the pension calculations.

5. <u>System of Funding</u>: The question of how the pension fund should be "funded" is, perhaps, the most complicated actuarial assumption discussed with the Board of Trustees by the pension consultant. In general, this involves a determination by the Trustees as to how reserves in the pension fund are to be established from the employer contributions so as to meet the liability the pension fund will have to provide pension benefits for employees who reach retirement age. If a too conservative system of funding is used, the rapid accumulation of reserves will require a lower amount of immediate pension benefits. If an overly lib-

eral system of funding is employed, which, in the last analysis, does not even amount to "funding," the pension fund may be embarking on a problem which can lead to ultimate bankruptcy or reduction in benefits. Rather than burden you with a full discussion of this matter now, I thought it best to simply mention the subject as one that does materially affect pension costs so that you will have some idea of the problem that will be considered by the Trustees and upon which they receive technical advice from the pension consultant.

If you will consider for a moment the more technical aspects of the actuarial assumptions discussed above, you can most likely appreciate why it would be so difficult to effectively negotiate a level of benefits plan whereby the employer would agree to provide a particular plan of benefits regardless of the cost. The parties in collective bargaining will undoubtedly want to fix a cost value to the employers' obligation to provide such benefits so that the members can evaluate the amount of wage increase being sacrificed for the pension plan and so that the employer can determine his unit labor cost. To do this the parties in collective bargaining would, of necessity, have to discuss all of these actuarial assumptions. It is an understatement to say that this complicates collective bargaining and can produce inequitable results. This is not the kind of subject which lends itself well to the "give and take" of a collective bargaining session.

I think it appropriate that I stress at this point that I have not discussed all the details of the cost factors that affect the ultimate pension plan or pension benefits, but rather that I have treated the subject in a general way so that you can have some appreciation of the problems involved in pension planning.

IV. ADMINISTRATION OF THE PENSION PLAN

When a large group of employees is to be covered by a plan, it is generally advisable for the Trustees to set up a separate office for administration. (With smaller groups it is sometimes advisable to establish the office in the most convenient location, such as the union office, the employer association office, or whatever other place is generally agreeable to both sides.)

The functions of the administration office are briefly as follows:

Collection of Employer Contributions: Forms and procedures have to be established to regularly collect the employer contributions required by the collective bargaining agreement. Careful and experienced planning will permit a simplified and effective method which will not be costly either in terms of administration or in terms of the employers preparing reports of employment and submitting contributions. All contributions must be properly recorded in the fund office and deposited in the bank account for the fund. In addition, it is the employer's remittance report which generally serves as the basis for crediting employees with service credits for the purpose of their eligibility under the pension plan. This is but another example of the many "multi-purpose" forms used by the pension fund which save time and expense in the administration of the fund. Procedures are generally also established for furnishing the employers and employees with a statement of the amount of contributions made in a particular year so that a continued check of accuracy is maintained on all contributions.

Procedures for Processing Pension Applications: A simple yet effective form of pension application must be designed so that it can be made available to any person applying for benefits from the pension plan. Clear-cut instructions are most important so that the members can furnish all necessary information the first time. Clearly, such forms must be tailor-made to the particular type of pension plan and eligibility rules. In addition, account must be taken of the nature of employment in the industry, and the type and form of proofs of employment, age, military service, periods of disability, etc. When the pension application form is returned to the fund office, information submitted by the members must be verified. It is here that the pension records maintained by the fund office on a regular basis will control whether this is going to be a simple or time-consuming job. Systems must be set up to properly verify the pertinent aspects of an employee's entitlement to pension benefits because mistakes in this connection can be most costly. Generally, the person in charge of the administration office of the pension fund prepares a "Pension Analysis Form" which is then submitted to the Board of Trustees. This form analyzes all phases of the pension application and the verification of pertinent facts so that the Trustees can pass on the final eligibility of the applicant. Many form letters are used in connection with the processing of pension applications as well as in the payment of benefits. When a pensioner is approved for pension benefits, he is generally provided with a Certificate of Award signed by the Trustees which serves as his tangible evidence of approval and entitlement to benefits. A regular system is then instituted for the payment of pension checks and verifying that the member is receiving the checks. The members are also assisted in filing for their Social Security benefits and in receiving information concerning their entitlement to such benefits. In cases of disability pensions there is the problem of obtaining proper proofs of disability; this frequently involves the member being examined by a doctor selected by the pension fund office.

If the plan is on a self-insured basis, the pension fund office also is involved with the mechanics of the investment of pension fund reserves and transfer of such reserves to the investment accounts and working with the bank or other investment advisor on reports of the status of the pension fund's investments. Arrangements are also made for periodic audit reports of the pension fund accounts.

Records are also maintained in the pension fund office which permit periodic reviews of the entire pension plan by the pension consultants and the Board of Trustees.

V. SOME GENERAL PROBLEMS

I now plan to discuss certain special problems which often come up during the course of establishment of a pension plan. The subjects to be considered are:

1. Self-Insured vs. Insured Pension Plans
2. The Roles of Banks or Trust Companies in Connection with Pension Plan
3. Employee Contributions to a Pension Plan
4. Automatic or Compulsory Retirement
5. Vesting of Benefits
6. Benefits Tied in or Related to Social Security
7. Guaranteed Periods of Benefit Payments
8. Life Insurance, Hospitalization, Surgical and Medical Insurance for Retired Employees and/or their Dependents

The time allocated for this phase of the discussion will permit only some brief statements on the above problems and a few general observations. It is important to bear in mind that each subject warrants careful and detailed consideration by the parties concerned in the establishment and administration of a pension plan.

1. Self-Insured vs. Insured Pension Plans: When the Trustees consider the plan of benefits to be provided and review the actuarial calculations used in determining the ultimate benefits to be provided, they also consider whether the plan should be on an insured or self-insured basis.

Our experience in the establishment of more than 100 collectively bargained pension plans has indicated that by and large self-insured pension plans are better, particularly for groups of more than 500 employees. By "better" we mean that higher benefits can be provided when a pension plan is on a self-insured basis for the simple reason that the insurance company charges and expenses are eliminated from the cost considerations.

At the outset, it should be borne in mind that the element of "risk" in a pension plan is considerably different than it is in other types of situations where you are providing life insurance, sickness benefits, hospitalization benefits or even such benefits as fire insurance or automobile insurance. In a pension plan the only important "risk" is how long employees who retire can be expected to live beyond retirement and how many employees will live to a retirement age.

If you are dealing with a small group of employees, such as 50 or 100, the possibility of variations from normal mortality experience is clearly far greater than if you are dealing, asyou are in a multi-employer situation, with generally 500 or more employees. Mortality statistics have been so thoroughly studied and developed in this country that it is extremely unlikely that for any large group of employees such experience will vary materially from the assumed mortality rate in a self-insured pension plan. (We assume, of course, that the pension consultant and the Trustees have used a reasonably conservative mortality table in preparing the benefit plan.) And even if there should be a variation, it is something that develops very slowly over the course of years and permits corrective action to be taken by the Trustees in future years.

In other words, there can be no "catastrophe" such as multiple deaths or epidemics, floods, etc. which could hurt the pension plan or for which insurance protection is required. To the contrary, although it may sound odd, the actuarial facts of life develop that such catastrophies help the pension plan (though obviously only in monetary terms) in the sense that if retired employees are involved in such catastrophies, pension benefits are provided for a shorter period of time, or, if members gaining eligibility for pensions are in such catastrophies, fewer persons than anticipated attain eligibility.

In any event, the Trustees must weigh the various types of insurance contracts available for providing pension benefits and must evaluate the guarantee offered by the insurance company against the risk and against the additional costs that will be involved if an insurance company is used. In the past few years the variety of insurance contracts available for pension plans has increased considerably and it may be that some insurance companies will evolve a type of insurance contract suitable to collectively bargained pension plans, which will warrant a general reconsideration of the approach to be taken on this problem.

For the Trustees of a pension plan to be completely satisfied with this problem, it is often advisable for them to ask a number of major insurance carriers to submit competitive bids in which they offer proposals for underwriting the pension plan. Careful and impartial analysis of such bids should be helpful to the Trustees in understanding the relevant merits of insurance.

(Incidentally, in competitive bidding the Trustees will undoubtedly be interested in noting the wide differences in insurance company charges. Also, a proper and detailed analysis of the insurance company bids will appraise reserve factors, termination charges, and a number of other technical items that are of great importance in money and benefit terms, but can easily escape the untrained eye.

Those of you who have had experience in welfare plans may remember how insurance company retention charges vary and how careful an examination must be made each year of their claim charges, reserves, and of each item of their retention. Recently, our firm had two very interesting experiences here in the State of California. We were retained by the Trustees of these Funds to prepare detailed analyses of welfare funds that had been established some time ago. As a result of our analyses, the insurance company charges in those two Funds were reduced by more than $145,000, the retentions for future years are also to be reduced, and substantial administrative savings were effected. These are but only two examples indicating what careful study can accomplish-- and the same kind of thing is also possible when dealing with insured Pension Plans.)

Under some types of insurance contracts for pension plans, the Trustees are relieved of the responsibility for investing the reserves of the pension plan since, in effect, such reserves are turned over to the insurance company for investment. This is one of the advantages of an insured plan which is weighed by the Trustees when they determine the question of whether the plan should be on an insured or self-insured basis, though it should be pointed out that in a self-insured pension plan the Trustees can get excellent investment advice and assistance from banks and professional investment counselors.

In summary, this is the type of subject on which the Trustees do require competent and impartial advice by a pension consultant familiar with the operation of multi-employer, collectively bargained pension plans. But, as we said at the outset, our experience has indicated that self-insured pension plans are generally better -- especially for larger groups.

2. The Role of Banks or Trust Companies in Connection with Pension Plans:

If a plan is on a self-insured basis, the Trustees will have the responsibility of arranging for the investment of the pension plan reserves. The Trustees of most pension plans have found it advisable to use the services of qualified bank or trust companies in this connection. The general procedure followed is for the pension consultant to prepare a specification letter for transmittal to those banks from which the Trustees may wish to obtain bids or proposals. Based on the proposals submitted by the banks, the ultimate selection is based on the fees quoted by the banks and their general qualifications and facilities for handling this aspect of the pension plan's operation. Sometimes such banks are used as "corporate trustees" whereby the Trustees turn over to the bank the pension plan reserve accumulations for the bank to invest. The Trustees set forth the general policy of investments (which, incidentally, is generally on a most conservative basis) and such policy is followed by the bank. In addition, the bank also acts as custodian of the invested assets of the pension fund in the sense that it physically holds the stock certificates or other evidences of the securities purchased on behalf of the pension fund. In addition, the bank "clips coupons," collects dividends and takes care of the other details in connection with the purchase and sale of securities and collection of income from such securities. Regular periodic accountings are submitted to the Trustees. The Trustees often designate a brokerage firm or firms through with the bank is requested to place orders for the purchase or sale of securities so that in return for the modest commissions received by the stock broker the Trustees are able to obtain from such broker independent periodic appraisals of the investment portfolio of the pension fund.

Generally, the banks and trust companies are most anxious to receive this type of business and following the competitive bidding process will enable the Trustees to obtain the most beneficial arrangement for the Pension Fund.

3. <u>Employee Contributions to a Pension Plan</u>: There are two schools of thought on whether it is advisable for employees to contribute to a pension fund. In our experience we have found that most multi-employer, collectively bargained pension funds do not provide for employee contributions. One of the major considerations is that from a tax point of view it is unwise for an employee to contribute to a pension fund. For example, in order for an employee to have $1 to contribute to a pension plan, he must earn approximately $1.20 because he has to pay income tax on the $1.20, and the employee's contributions to a pension fund are not deductible for income tax purposes. If the employer contributes the same $1, it is not taxable to the employee as wages and the employer, of course, is able to deduct the dollar for income tax purposes. In addition, because employee contributions must be segregated and returned to the employee in the event he should leave the industry or die prior to his retirement, as a general rule, $1 of employee contribution can only buy two-thirds of the benefits that can be bought with the same $1 of employer contribution. (In the case of contributions made by the employer, no money is returned to the employee if he should die or leave the industry prior to his retirement. The only exception is in the case of certain vested pension plans.)

It is for the above reasons that it is sometimes surprising to learn of a collective bargaining agreement which is concluded providing, for example, a $2 a week contribution by the employer to the pension plan, $1 a week increase in wages and an agreement that the employees will contribute 50¢ per week to the pension plan. It would seem to make so much more sense to have the agreement read that the employer would pay $2.50 to the pension fund and that the wage increase would be 50¢ per week instead of $1 per week because the employees gain more from this type of settlement.

On the other hand, there is the argument that if an employee contributes to a pension plan it is a form of forced savings device whereby if he does leave the industry or die prior to becoming eligible for pension benefits, the money acts as a sort of savings account for him which is then paid to him or his beneficiary.

Some proponents of pension plans with employee contributions have also claimed that by this device employees become more interested in the pension plan and appreciate the benefits being provided. Frankly, we have not found this to be generally true and hardly feel it is a sufficient reason to institute employee contributions especially when you consider the unfavorable tax position the employee is in as a result of such contributions and the various complications involved in administration of the plan when there are employee contributions.

4. Automatic or Compulsory Retirement: The Trustees of a multi-employer, collectively bargained pension plan may consider the question of automatic or compulsory retirement. In effect, this would be considered when the Trustees decide whether any age limit should be set for retirement so that if the employee does not retire, he will be denied all future benefits from the pension plan. One difficulty with such provisions is that an employee's actual age does not necessarily govern his ability to effectively continue to work. An employee's decision to continue working beyond age 65 (or whatever retirement age is used) is generally based on his knowledge of his physical condition and ability to perform the job and of a comparison of his take-home pay with the combined benefits he would receive from Social Security and the pension plan. This latter point is most important in that as collectively bargained pension plans provide higher amounts of pension benefits and considering the recent improvements made in the Social Security benefits where the maximum primary benefit is now $108.50, the question of compulsory or automatic retirement is rapidly becoming academic.

The argument for compulsory retirement is that by requiring retirement at a certain age there is a possibility of a general improvement in efficiency of the employer's operation and also greater incentive provided for the younger employees to move up to the generally better jobs vacated by the older retiring employees. In this respect, it also provides for a more orderly system of retirement and planning, in advance, for the time the employee will retire.

While tradition in many industries has been for employer plans to provide compulsory retirement at age 65, there has been a growing tendency to increase the automatic retirement age to 68 and, in other instances, to age 70. (Some industries and unions favor compulsory retirement, where the work is particularly arduous.) There are also concerted efforts being made to lower the "normal" retirement age to 60.

In any event, most arguments pro and con on this subject are self-evident. The one phase of this question that becomes a cost factor is that if it is decided that compulsory retirement is to be at age 65, the assumption as to the average age at which employees will retire is resolved and this can be a cost factor in determining the ultimate pension benefits (as we discussed in the section dealing with cost factors in pension plans).

5. Vesting of Benefits: By "vesting," we generally mean that if an employee leaves the industry or ceases employment in the industry

for any reason prior to his becoming eligible for pension benefits under the pension plan, some provision is made to return to him all or a portion of the amount of the employer contribution made to the pension plan on his behalf. While this is certainly an appealing type of provision, most groups quickly appreciate that including such a provision changes almost the entire structure of the pension plan and causes a substantial reduction in the ultimate plan of benefits that can be provided for employees who do reach retirement age and have the required length of service in the industry.

As part of the actuarial studies, the pension consultant will review for the Trustees the different types of vesting provisions that can be incorporated in a pension plan and also the impact such provisions will have on the level of benefits to be provided. The Trustees then have a clear choice to make. However, it appears worthwhile to caution you that very few large multi-employer, collectively bargained pension plans have any meaningful vesting provisions as the general concept of such plans is that they are being established not as severance pay plans, but as plans to provide retirement benefits and security for employees who reach a reasonably acceptable retirement age after completing long years of service in the industry. One word of caution that is appropriate for negotiators is that until such time as the Trustees have had an opportunity to consider this question and review the cost implications of vesting, no commitments should be made to the employees by either employer or union representatives as to whether or not the ultimate plan will contain vesting provisions.

This general subject should not be confused with the fact that when an employee does reach retirement age and has the required length of service to be approved for pension benefits, the pension benefits are "vested" in the employee to the extent that under an actuarially sound pension plan he will be guaranteed to receive pension benefits for at least the rest of his life following retirement.

6. Benefits Tied in or Related to Social Security: Most multi-employer, collectively bargained pension plans provide a pension benefit that is in addition to or independent of the benefits provided under the Social Security Law. However, this subject is being discussed because of patterns that have developed in many industries, such as steel and oil, where, by tradition, the amount of Social Security benefit has been considered as part of the total retirement benefit to be provided by companies in those industries.

There have been many substantial and frequent changes made in the Social Security benefits throughout the last 15 years. As you know, the maximum primary benefit provided under the Social Security Law has increased from $41.60 in 1940 to the present benefit of $108.50. While it may appear that a pension plan is providing a higher benefit if it is announced that the total benefit includes the benefits the employee would be entitled to receive under Social Security, as a practical matter, most employees are sufficiently sophisticated about the Social

Security benefits so that they would appreciate the plan just as well if a straight-forward statement was made as to the level of benefits provided in addition to those available under the Social Security Law. The possibility of future changes in the Social Security Law is the main reason for omitting a "tie-in" benefit.

7. Guaranteed Periods of Benefit Payments: A word of explanation is in order as to the subject heading. There is no question but that in an actuarially sound pension plan when an employee retires he is guaranteed to receive benefits for the remainder of his life following retirement. However, some trustees in multi-employer, collectively bargained plans find it wise to provide an additional guarantee to the effect that under certain circumstances the employee will be guaranteed to receive a minimum of "x" monthly benefit checks. Sometimes this figure is 36 monthly checks or 60 monthly checks, etc. The purpose is to avoid an inequity if an employee retires and then dies a few months following his retirement. In such circumstances, he would have received very little from the pension plan and yet, upon retirement, may have given up certain other benefits available under a group insurance program. In this respect, a guaranteed monthly benefit for the type of periods indicated eliminates the hardship of the employee's early death after retirement and yet isnot too costly a factor for the pension plan. The cost implications of such guarantees should be reviewed with the Trustees and the advisability of providing the guarantee is weighed against other benefits that the employee may be giving up upon his retirement.

8. Life Insurance, Hospitalization, Surgical and Medical Insurance for Retired Employees and/or their Dependents:

It is not uncommon for the Trustees of a pension fund to ask about the cost and advisability of providing benefits for retired employees through the pension plan that are not strictly pension benefits. For example, it is commonly asked that life insurance, hospitalization, surgical and medical insurance should be provided for retired employees or their dependents. To put matters in their proper perspective, this should be a question for the Trustees of a welfare fund and not the trustees of a pension fund. However, we would like to indicate that such benefits are generally expensive and careful consideration should be given to the cost implications before they are put into effect. Most groups find that providing a limited type of group insurance protection for retired employees can be done on a sound financial basis, but this is generally done through a welfare fund that may be in effect for the employees. On reflection, you will see that the guaranteed period of payments referred to in the preceding section has some bearing on this point in the sense that it is related to providing a life insurance benefit for retired employees.

VI. SUMMARY

Multi-employer, collectively bargained pension plans can be one of the most effective mediums for providing retirement security for employees who have put in long years of service in an industry. With the increase in Social Security benefits and with the current level of pension plans being established, retirement is becoming more and more of a reality for employees throughout the country. The combined benefits from Social Security and the pension plans are approaching a level where an employee can look forward to retirement without effecting a drastic change in his standard of living and without having to rely on savings accumulated during the course of his lifetime, or the support of his children.

The experience of these funds throughout the United States has been that they can be established and operated efficiently on a sound basis and produce substantial benefits.

This subject certainly warrants careful consideration by employer and union representatives in collective bargaining.

We hope that as a result of these several days of review you are now aware of the facts to be considered in negotiating, establishing, and administering a pension plan.

We look forward to helping you further on this matter in any way possible and will be more than pleased to answer any questions you may have.

METHODS FOR UNION PENSION NEGOTIATORS

Bernard B. Berkov, Pension and Welfare Plan Consultant
San Francisco

As collective bargaining has moved from only wage and hour considerations into ever new fields of fringe benefits, the demands upon union negotiators have become more complex and confusing. Union committees have found themselves negotiating in specialized fields which were generally considered to belong only to experts.

This is particularly true of the field of pension negotiations. The union official is not only faced with a highly technical terminology but also with conflicting pressures. Genuine collective bargaining is a matter of give and take and of negotiating skill on both sides of the table. But to negotiate skillfully requires understanding of what is being traded.

In the practical circumstances of most contract openings, time limits also impose some urgency in the negotiations. In addition, significant settlements have usually been reached in similar or pattern-setting industries, which have established overall "packages" of wage increases plus fringe benefits. The union negotiator has in mind the total money "package" for which he can realistically expect to settle.

He must allocate that part of the package which should go to wages, and that which should go to pensions and all other contract improvements. In the day to day process of bargaining, the union negotiator must reallocate these values in his mind as portions of the contract are agreed to, and as the eventual settlement begins to emerge in outline.

Money or Benefits?

In thinking of pensions as part of the "package," the negotiator must of course assign a given number of cents per hour for the pension plan. At the same time, in doing this, he must have in mind the benefits that can be purchased by that amount of money. Here is where the negotiator faces the most serious problem. Should he negotiate for cents per hour and then try to determine what can be bought with that amount, or should he negotiate for benefits irrespective of their cost? Each method has its own serious drawbacks. The cents per hour approach can be very misleading, since a given amount, say 5 cents per hour, may purchase different benefits in different industries. The same amount which would produce a sound $100 a month pension for a group with a particular age distribution and certain conditions of employment might barely produce a $50 a month pension in a different group of workers.

The union negotiator who settles for a given amount per hour because some other industry has done so may find later that he cannot provide a sound pension for his people. Under these circumstances, he might have preferred to take the pension contribution in the form of wages or some other contract improvement, leaving pensions to be negotiated at a future contract opening.

At the same time, if the negotiator attempts to avoid this danger by demanding a $100 pension and a liberal set of provisions as a pension settlement, the employer will certainly not agree without a clear idea of the cost to him of the union demand. If the employer places an arbitrary value on it, the union negotiator must know whether the amount is correct or he is not in a position to continue his bargaining on the other contract issues.

Expert Advice

At this crucial point in negotiations the union official may seek expert advice. But the expert may not be able to give him much help.

Before even an estimate of the cost of the pension plan can be made, certain information must be collected. The ages, sex, years of service, average hours worked, turnover, etc. must be known for a fair sample of people to be covered. Each feature of the plan such as vesting rights, retirement age, disability provisions, amount of pension, past service credits, etc. must be taken into account in the cost estimate. It takes some time to collect the information and make the computations. It is not always possible to delay the conclusion of negotiations while a survey is made.

Need for Early Survey

It is obvious that whenever possible the survey should be made before negotiations begin. The union committee can then enter negotiations with a reasonably accurate idea of the cost of its pension proposal. Further, and this is of great importance, the union negotiators would also know the approximate cost of each of the desirable features of the proposed plan, and of alternate provisions. In this way, as negotiations continue, if it becomes necessary to reduce the amount of money demanded for pensions, the Committee can do so knowing what actual benefits of the pension plan are to be reduced or sacrificed.

Negotiate Money and Benefits Both

Actually the union must negotiate money and benefits at the same time. To make this possible the Union should study pensions <u>before</u>, not after final contract negotiations.

Retail Clerks Pension Negotiations

This principle was followed by the Retail Clerks Union in Southern California. The Clerks in their recently negotiated contract won an employer contribution of 7½¢ per hour for a pension plan. No previous industry wide pension plans existed in this area for Food Clerks. The industry is rapidly expanding with the growth of population in the state and has characteristics of age and sex distribution and employment turnover peculiar to it. Pension settlements negotiated in manufacturing industries have not much meaning when applied to the Clerks. The union took the very sound view that its negotiators should be fully prepared with as much knowledge as could be collected in respect to their pension proposal.

As a result several months prior to contract opening, the Clerks Union in Los Angeles asked us to survey its membership and prepare preliminary cost estimates for pension plans with various benefit structures. This was done and a study was also made of the average hours worked in the industry in order to compute the total income from various levels of proposed employer contributions. The union negotiators were given several training sessions so that they could become more familiar with the basic ingredients of a pension plan. When the union finally went into negotiations, the union officials knew approximately the kind of pension that 5¢ an hour, 7½¢ an hour, or 10¢ an hour would purchase in their industry. When after lengthy negotiations, in which a three year contract covering many important gains was concluded, a final agreement for a contribution of 7½¢ for pensions was reached, the union officials had in mind the kind of pension benefits for which they were settling. Furthermore, the contract language specified the broad outlines of the benefit structure. Since the computations were admittedly tentative, rather than exact, it was agreed also that some adjustment could be made in these benefits if necessary when the final actuarial study had been completed.

This study is now in process and is being conducted jointly by consultants of the union and the employers. Inasmuch as both the money and broad benefit structure had been previously agreed to by the parties, no serious disagreements have arisen in the actual development of the pension program. Pension benefits will begin in July, 1957 and will cover approximately 25,000 clerks in Southern California. Persons familiar with the industry feel that the Retail Clerks in Los Angeles have really blazed a path in the direction of sound, intelligent pension negotiating.

THE APARTMENT AND HOTEL EMPLOYEES PENSION PLAN

Russell R. Dreyer, President
Apartment and Hotel Employees #14,
San Francisco

Our organization represents service workers in the apartment buildings of San Francisco and also in the hotel and motel industries. We have been chartered for some 20 years and are affiliated with the Building Service Employees International Union, AFL-CIO.

The history of Local 14 has been an eventful one and has been marked by many struggles and achievements. The latest forward step that has been made by the apartment house section of our Local Union has been the achievement of a pension plan. I am happy to relate the history concerning the development of this plan. It may contain some features of special interest because of at least two factors: First, our industry is not a typical one in many respects, and, secondly, the events leading to the development of our pension plan are, as far as I know, unique.

To indicate the nature of our problem, insofar as pension negotiations are concerned, let me state that we have some 850 members working in the apartment houses of San Francisco and these 850 members are employed by approximately 1,100 employers! This may seem hard to believe, but the fact is that the typical ratio in our industry is one worker per employer and there are many cases of union members who regularly work for two or even more employers on a steady part-time basis. Only the larger apartment houses of the city require the services of several employees.

Another aspect of our membership which affects the pension problem is the average age. Our records reveal that the average age of our apartment house membership is 53 plus years, or considerably higher than the general community average.

Although our pension plan in this industry went into effect only in January of this year, it originated in discussions that took place as early as 1948. I recall most vividly a lengthy Union membership meeting held that year. Our membership had on its agenda a discussion of the long run objectives that it wished to develop through collective bargaining. There was an intensive discussion of the goals that we should seek to achieve, perhaps not immediately but in the coming years. The membership expressed its concern with such matters as severance pay, improved vacations, health insurance -- and, pension plans.

Towards the end of a lengthy discussion one old time member rose from the floor and asked whether the Union Officers themselves enjoyed these conditions. The answer, of course, was a negative one. How then, it was asked, could the full-time Union negotiators approach the apartment house employers and justify certain provisions that were not granted to them by their own Union?

Out of this discussion there evolved a plan to cover the employees of Local 14 by a simple pension-severance pay plan and in 1949 such a program was drawn up and adopted. You may be interested in the preamble to this document, which reads:

> "The members of APARTMENT & HOTEL EMPLOYEES UNION LOCAL No. 14, recognizing the growth of retirement programs in American industry, realizing that the officers and employees of this Local Union are devoted in their efforts to advance the standards of the Union membership, and feeling that the officers and employees of the Union are entitled to enjoy some measure of security, are pleased to announce through this booklet the establishment of Local 14's Retirement Plan."

One reason for the creation of this plan for Union employees was that the membership of Local 14 recognized and appreciated some of the hazards that go along with the position of a Union official. One serving in such a capacity for any period of time, and who then must leave such employment, is really in a spot. He would generally be considered unacceptable for most employers because of his union background, and it is also a fair likelihood that his previous craft skills will be on the rusty side. The plan as set up back in 1949 simply called for a 5 per cent weekly deduction from the salary of each union employee, which was then matched by an equal contribution from the Union. This amount was deposited each month in a separate bank account. Then, every three months the accumulated funds were converted into Series "E" Bonds of $100 denominations and placed in a safe deposit box.

More recently the joint contributions were increased from 5 per cent to 10 per cent. The plan has been approved by the Bureau of Internal Revenue and is jointly administered by three trustees selected from the employees of Local 14 and three trustees selected from the membership who represents the Union as employer. A participating employee, upon reaching age 65, has the option of receiving his bonds at that time or accepting a monthly payment to supplement his Social Security benefits. An employee leaving his position prior to retirement age also has an option of receiving his bonds or leaving them with the trustees in anticipation of later reemployment.

In collective bargaining negotiations with apartment house employers during the following years a proposal for a pension plan was made on several occasions. The give-and-take of contract negotiations were not conducive to the establishment of a pension plan until 1954, but finally in the Fall of 1954 the membership of Local 14 decided that the time was ripe for al all-out drive on this issue. A concentrated effort was made to secure a pension plan for the apartment house workers and toward this end voluminous records were prepared and our case was built up.

We originally proposed to the employers that a pension plan should be created similar to the one I have described above. Our opening proposal was for a contributory plan whereby the union member would authorize a payroll deduction which would then be matched by his employer. Interestingly enough the feature of an employee contribution was dropped rather early in negotiations even though the employers had originally contended that an employee contribution was necessary to give the employees a sense of participation in this benefit. In spite of their enunciation of this principle it was actually the employers who suggested that we drop the element of employee contributions (probably on the score that such a provision would lead to an even more intensive drive by the Union to recapture this cost through higher wage rates!). This decision led to serious discussions around the program that the Union really desired, namely, a pension plan solely financed by employer contributions.

The result of our 1954 negotiations was an agreement for a pension plan to be financed by an employer contribution of 5¢ per hour.

I would like now to discuss briefly two aspects relating to the timing of our pension program. I consider that timing is of the utmost importance. We were perhaps fortunate in making some decisions that have turned out to be sound ones, even though we were groping at the time and did not have too much to go on.

As I stated above the agreement for the 5¢ per hour contribution was reached in the Fall of 1954; but we further agreed with our employers at that time that their contribution would not become payable until January 1, 1956. This, of course, was most agreeable to the employers, but it also gave the Union a sufficient period of time to get ready. We have had a period of some 15 months to set up the administration of the pension plan -- and this is no small job. It meant preparing records, getting all of the details worked out, getting Bureau of Internal Revenue approval and so on. We can see now that if we were operating under the pressure of a time element we could have made many more errors of judgment than actually did occur. We found that the 15 months were not at all too much to get in shape for receiving the first payments. As January, 1956 rolled around we had secured government approval and could assure our employers of this important tax matter and we also had our office procedures in good shape.

The second aspect of the time factor in setting up our pension plan was that we realized the need for careful and thorough statistics. You will recall that we were dealing with an industry of 1,100 employers covering 850 workers. To have a sound pension plan there must be careful records, particularly in the matter of past service credits. In my opinion this matter of past service credits lies at the heart of a sound pension plan. I would like to voice a warning to all who are concerned from the union side in the installation of a pension program. Union membership records are vital to the success of such a program. You must know the age of your members, their sex, length of service and their changing employment history. Fortunately, Local 14 has kept such records since its inception in 1937. We can tell from our card files the accurate movement of our members in and out of the Union and in and out of the industry; who they worked for, how long they worked at each place and so on. These records were indispensable to us in doing the ground work between 1954 and 1956. Naturally, with the large number of employers to deal with we have been faced with many problems of administration. All pension contributions are received at the Union headquarters. We have developed a reporting form on which each employer shows the name of his employees, the place of employment and the hours worked during the previous month. We maintain an employer record form to which we post the total employer contribution each month. We also maintain a pension record form for each member to which we post the hours worked as reported by his employer.

Each year the trustees of the pension plan are obligated to certify the total number of hours worked by each Union member. This becomes a part of his individual permanent record, together with his name, birth date, past service credits and year by year service credits. On the reverse side of this permanent record there is space for the monthly pension payments the member is entitled to.

I would like to emphasize some points in conclusion. These remarks are based upon the particular experience of Local 14, but I trust that they may be of some help to others.

Notwithstanding the numerous experts in the pension field, I firmly believe that each pension plan is a new adventure. Each collective bargaining unit has different problems from the next one. Certainly the apartment house industry of San Francisco presents factors which differ markedly from a factory situation. I also know that the apartment house group has different pension problems from even such a group as hotel service workers.

I firmly believe that the best pension policy, particularly in the early stages of one, is a policy of conservatism. It is better to aim only for a small pension during the early years of a plan in order to avoid errors and the possible risk of having to reduce pension benefits in the future.

Another general conclusion is that the best pension plan is one which is simple to administer. We are not doing the best possible job for our membership if we dissipate too much of our pension revenue in administration costs. In our case we decided that the most sensible location for our pension headquarters was the Union office itself. The Union assumes overhead for such things as rent, light, etc. and these overhead costs are not charged to the pension revenues.

With the relatively high age group of our membership we were forced to recognize the high cost of an adequate pension program. Our membership decided to permit the workers to develop the greatest pension benefit they could. We do not foresee early retirement under our plan. Employees may work until the age of 70 and we have even allowed older present employees to remain on the job beyond that age if they choose to and are capable of continuing their employment.

No one group can simply copy the rules of another and expect the same results. Each plan must be tailor-made to the local situation. Local 14 has tried to adapt its pension program to the peculiar needs of the apartment house employees of San Francisco. We have launched our retirement program on a small scale and have acted with a considerable degree of caution. In the coming years there may be and we hope there will be opportunities for developing greater benefits. By keeping careful records as we go along we hope to be on the road towards a completely adequate retirement program for our members.

THE MARINE COOKS AND STEWARDS PENSION PLAN

George Elner, Administrator
Marine Cooks and Stewards

The MCS-AFL-PMA Pension Plan has been in existence since June 1, 1954. It was originally established unilaterally by the Pacific Maritime Association and has since been included under the terms of a collective bargaining agreement.

The benefits, contributions and policies have been developed in a trial and error basis. The Fund is administered by a joint board of trustees with equal representation from the Union and the Employer. The plan is not funded. Benefits are paid out of current income. The plan is financed by employer contributions, originally 40¢ per man day employment which has recently been raised to 53¢ per man day employment. The plan is self-insured. It is a voluntary retirement plan allowing for service credit from employment with any West Coast steamship company. The benefits are paid in addition to social security payments. The plan provides for a basic pension of $100 per month at the age of 65 with 20 years' service within the past 30 years. There is a provision for early retirement at from age 60 to 64 with payments ranging from $56 to $95 per month. There recently has been added a reduced retirement which will allow men to retire at from $50 to $90 per month with from 15 to 19 years' service.

A permanent disability retirement pension will be paid to eligible seamen at any age in amounts ranging from $50 to $100 per month depending upon the number of years service.

The trustees delegate authority to an administrator to receive and process applications, write pension checks, keep the books and permanent records, and invest the surplus funds.

The Marine Cooks and Stewards believe that a pension plan should include more than the machinery for making monthly payments to retired members. Definite plans are being formulated for providing hospital and medical care for retired members, a burial benefit, and housing and recreation facilities.

THE PENSION PLAN OF THE S.U.P.

Ed Wilson, Welfare Representative
Sailors' Union of the Pacific

The first pension check ever paid to an American seaman was issued on January 1, 1954 to a member of the Sailors' Union of the Pacific. Since that time 224 members have enjoyed monthly pension checks from the Sailors' Union of the Pacific Pension Plan in addition to their social security. These are sent to men all over the world -- Finland, Canada, Austria, Germany, Sweden, Italy, Norway and Japan.

The Sailors' Union Pension Plan, which to our knowledge is the first multiple employer plan, was negotiated in October, 1953. This plan is voluntary. There is no compulsion that a seaman retire at any given age, but after reaching 60 years of age, and having the qualifying time, he is free to choose the date he wishes to retire.

The Plan is paid entirely by the employer and is based upon days of work in covered employment. The contribution is now 53¢ per man per work day.

The position of the Sailors' Union can best be illustrated by the remarks of Harry Lundeberg, Secretary-Treasurer of the Sailors' Union of the Pacific, on presenting the first pension check.

> "Tonight we will officially inaugurate the Pension Plan for the members of the SUP who qualify. This is another milestone in progress for the members of the SUP, not only for the SUP membership but eventually for all American seamen.
>
> "It will only be a matter of time before the rest of the American seamen, both unlicensed and licensed, will receive pensions.
>
> "Many gains have been won by the membership under the banner of of the SUP. Since our organization was built here in San Francisco, 69 years ago, the struggles have been many and bitter. This organization has had its ups and downs; it has been down but never out. We, as an organization, have always survived the darkest days and the record speaks for itself.
>
> "We are the oldest continuous seamen's organization in existence, not only in America -- we are the pioneers in the organization field for seamen on a world wide scale. We could, without bragging, point to the accomplishments of this organization during its stormy existence which have so benefited all American seamen.
>
> "However, we are tonight here to honor some of our brother members in a way which will lighten their burden in their old age -- not by giving them a banquet or a gold watch for faithful service

to any given company, but by giving them security in their old age so they can face the twilight of their remaining years with security as free men. That, in my opinion, is one of the finest jobs done by this organization in its long existence.

"Some of the men in the meeting here tonight and in the meetings in the branches who are here to get their first pension checks have been part of the backbone of this Union. They have been in many a struggle in good and in bad times. When the Union was down they stood by and helped fight to bring it back on an even keel again.

"These men will receive what the SUP feels is justice in their old age. They are entitled to it; they helped build and maintain this organization which made it possible for them to reitre on $100 a month for the rest of their lives. We can only feel badly for the old-timers who have already passed on without having a chance to see and enjoy this wonderful organizational feat.

"Twenty years ago ships came to this coast where sailors were paid as low as $32 per month, 56 hours a week and no overtime. If you received $60 a month those days you were getting high wages. That was in the dark periods in this organization with fink halls and slave markets running full blast, operated by the shipowners and the government on both coasts. Little did men believe that 20 years after, the SUP would be able to retire the old-timers on $100 a month.

"The SUP came back with a bang. It hasn't been easy, but you never get anything which is worthwhile, easy or for nothing. There can be no question in anyone's mind what the old-timers would have got had it not been for the strength of the Union. The shipowners would have paid you off with a flop in a mission and a cup of coffee and doughnuts.

"This is real progress, SUP style; this is what the SUP stands for -- fight for decent wages, hours and conditions for the men who are active and take care of the old-timers when they are too old to work, so they don't have to live on charity, but stand up like free men, like we are. The SUP as an organization can be proud of a job well done."

The following is the exact plan negotiated in October, 1953:

THE S.U.P PENSION PLAN

Reduced Pension

On May 1, 1954 the Reduced Retirement Pension was found to have served its purpose and was abolished. The purpose of this retirement plan was to enable those men who retired between 1950 and 1953 to receive a pension check.

Disability Pension

After two years of operation it was our experience that in order to do a better job for the membership we would need to broaden our Disability Pension.

In January, 1956 the Sailors' Union put into effect the following Disability Pension Plan, which is by far the best in the business:

Formerly men who qualified received the top of $50 a month if they had 15 qualifying years in 25 years in the industry. This has now been liberalized to such an extent that there are now three classifications.

The minimum amount will still be $50 a month. However, now men falling into an intermediate bracket will get $75 a month disability retirement pay, while men in the top bracket will be paid $100 a month.

This latter is double the previous $50 a month. In addition to this increase in pay of 100 per cent for those in the older bracket, the qualifying time has been liberalized. Generally speaking, the qualifying time has been reduced one-third.

It works out along these lines: Men who have 10 to 15 years qualifying time within the 20 years immediately preceding disability will get the minimum of $50 a month.

Those with 15 to 20 years qualifying time within 25 years will get $75, and those who have 20 or more qualifying years within 30 will be paid $100.

The program was made retroactive to December 1 of last year. As a result those men who have been receiving Disability Retirement pay have had their records checked and their benefits have been increased accordingly.

This fine increase has been made possible by the demand of the Sailors' Union to liberalize this clause in the Pension Plan.

Death Benefit

When a member of the Sailors' Union receives a pension he is automatically covered by a $500 death benefit at no cost to him. If he leaves no member of his family behind or no close friend, the Sailors' Union has burial plots on all coasts and he is buried by the Union, next to his shipmates who have gone before him.

Apartments

The Sailors' Union also has apartments available for the pensioner modern apartments up and down the coast. These apartments are furnished with all the necessities -- a 3 room apartment with full equipment in all rooms, all linens, blankets, kitchen gear, etc. There are also automatic washing and drying machines in each of the apartment buildings.

If a pensioner is on a Disability Pension or Early Retirement Pension he is charged $15 per month. If enjoying Basic Pension, the rent is $30 per month.

In Wilmington, California there is an apartment house consisting of 16 apartments located one block from the Sailors' Union hall and is equipped with an electric cart so that the old-timers can do their shopping, go to the doctor, etc.

In Seattle, Washington we have 22 modern apartments located on the second deck of the Sailors' Union building, which overlooks the Seattle harbor.

In Portland there are 12 modern apartments, also located on the second deck.

Each of the apartments has a manager, a member of the Sailors' Union, who keeps an eye on the old-timers and bears a hand wherever needed.

Medical Program

When a member of the Sailors' Union goes on pension he is up in years and parts of his body are worn and in need of medical attention. For this reason the Sailors' Union has put into effect a Medical and Hospital Plan for pensioners. This plan enables the pensioners to get needed medical attention and hospitalization from the best people in the business without having to worry about going to some charitable organization. This enables the pensioner to enjoy his full pension check and not have it eaten up by doctor bills, etc. This program takes care of 100 per cent of the bills up to $1000 per fiscal year. If necessary, this amount of money will be jacked up, as has happened in a number of cases in order to see the old-timer back in good shape again.

The Welfare Plan has the best doctors in all ports where there are Sailors' Union halls, where the pensioners are given the best of attention.

* * *

I have before me the forms that are used for making application for the various pensions; also the procedure which we follow in satisfying ourselves as to the eligibility of the pensioner.

Also of importance is our covered employment card, upon which we are keeping an accurate record of the covered employment worked. It is this card that in future years will tell the full story on the applicant's covered employment time. Twenty years from the date we first put the Pension Plan into effect a member of the Sailors' Union of the Pacific in applying for Basic or Early Pension may merely bring in his union book and say, "I want my pension." We will then go to our covered employment cards showing his pension credits, which will greatly simplify the application for pension. The covered employment card will do away with the applicant bringing in discharges and letters of employment from various companies and will simplify things as much as possible.

When a man receives his first pension check he is asked to sign our authorized signature card. This card is used every three months or so in order to check the signature on the authorization card against the endorsement on the cashed check. We feel this is necessary due to the fact that we have men receiving our checks all over the world.

This is a general outline of the Sailors' Union programs pertaining to pensioners.

The Sailors' Union hopes that its programs are helpful to you in setting up not only your pension program, but in setting up programs that will help these men in their twilight years.

THE WESTERN CONFERENCE OF TEAMSTERS PENSION PLAN

Kenneth W. Carlson, Administrator
Teamsters Security Fund,
San Francisco

The Western Conference of Teamsters Pension Plan is distinguished by two unusual features:

1. It enables covered employees in the eleven western states to change jobs within their industry without penalty. As long as they continue to work in the West for employers participating in the plan they will retain all pension credits which they have accrued and will earn additional credits.

2. It sets no specific contribution rate. Though it was designed with a rate of ten cents per hour worked in mind, individual agreements can be made which provide for any rate which is mutually agreeable to the parties concerned, and benefits can be pro-rated accordingly.

The first point is perhaps the most important of the two, since it enables employees to receive the benefits of a pension contract without placing a premium on their remaining with one particular firm or in one particular locality. The mobility of the labor force involved is inhibited to a minimal degree.

However, this effect could not have been achieved without the fluid contribution rate, which permits union locals to negotiate within the area-wide structure of the plan for contributions which are in accord with parochial conditions.

The plan, supported entirely by employer contributions, will purchase group annuity contracts from the Prudential Life Insurance Co. for the benefit of retiring covered employees. The amount of these employees' monthly pensions will equal 1.6% of employer contributions made on their behalf for hours worked after April 30, 1955, (plus whatever amount they may be entitled to by reason of their employment between Janaury 1, 1937, and May 1, 1955) up to a specified maximum. If the employer contribution rate involved were ten cents, for example, the maximum would be $75; if fifteen cents, the maximum would be $112.50; if five cents, the maximum total pension would be $37.50.

Credit is given for full years of employment worked between January, 1937, and May, 1955, ("past service") on the basis of a quota system. A formula has been developed for determining how many hours of work employees of various ages should be expected to have performed after their employer signed the pension agreement. For men born in September, 1921, or later this quota is 47,000 hours; the quota figure for men with earlier birth dates is lowered until it reaches the minimum of 600 hours, which is the quota for those born in May, 1888, or earlier.

Employees who meet their quota get $2 per month in pensions for each full year of continuous "past service" with the employer for whom they worked when they first became covered by the plan.

Retirement under the pension plan is optional for men reaching their sixty-fifth birthday who fulfill certain requirements. In most cases, retirement is mandatory for employees when they reach their seventieth birthday.

Requirements which must be met by employees in order to retain credits earned under the plan are liberal. For example, an employee must work less than a total of 600 hours in a period of two consecutive calendar years to suffer a break in his continuous service. Even this requirement is softened by special provisions for men who have been disabled, who have gone into military service, or who work for an employer not signatory to the pension agreement. There are further provisions allowing benefits to men who leave the industry for other reasons, if they meet service and other requirements. In addition, a death benefit, which varies in accordance with the amount of credit the employee has earned, is provided for in the pension plan.

PENSION PLANS UNDER COLLECTIVE BARGAINING AGREEMENTS IN CALIFORNIA, 1956

M. D. Kossoris, Director
Western Region, Bureau of Labor Statistics,
United States Department of Labor

In April of this year, about 1 out of every 3 California workers covered by a union agreement was under a negotiated pension plan. Of 1,417 union contracts recently examined, but not completely analyzed, 283 contained provisions for pensions. While this amounts to only one-fifth, or 20 per cent, of the union agreements in the State, it covers about 360,000 workers out of a total of 1,300,000 under union contracts, or about one-third.

The importance unions attach to pension agreements is clearly indicated by the sharply increasing proportion of union workers under pension plans. In August, 1953, that proportion amounted to 16 per cent. By January, 1955, it had risen to 22 per cent, and by April, 1956, to 35 per cent. Between January, 1955 and April, 1956, the number had increased by more than half.

This count does not include workers under unilateral pension plans, that is, plans not negotiated by unions. Some of these, such as the one at Lockheed, probably soon will be shifted over into the union-negotiated category before long. We don't know how many workers are covered under these unilateral plans, but the number must be fairly large. As against the provisions for 1 out of every 3 union workers, the Bureau's 1956 wage survey in San Francisco -- which we just completed -- shows that 70 per cent of office workers and 51 per cent of plant workers were covered by some type of pension plans.

With 2 out of 3 union workers not covered by negotiated pension plans, and four-fifths of union contracts without them, California unions still have a long way to go.

Until quite recently the prevailing pattern was to have the union-negotiated plan supplement Old Age Retirement benefits. As you undoubtedly have been told in this conference, the OASI provides for retirement benefits after age 65 has been reached if the worker was in covered employment a specified minimum length of time. Benefits are based on the first $4,200 of yearly pay and run from a monthly minimum of $30 to a maximum of $108.50.

Perhaps on the theory that these benefits are not only to provide an income for older and retired workers, but also to make sure that these oldsters step out of employment and leave jobs for young people coming into the labor market, the Social Security Act limits the amount workers may earn in addition to their retirement benefits. A worker under 72 is docked one month's pension for every $80 he earns above

$1,200 a year. In other words, he may average $100 a month in addition to his benefits. After he reaches 72, all limits are off.

Under the earlier type of agreement, the employer supplemented old age benefits, making up the difference between these benefits and the amount agreed upon with the union. If, for example, the amount agreed upon was $125 a month and the worker got $90 in benefits, the employer -- or the trust fund -- paid the difference of $35.

Now the trend definitely is to negotiate pension payments which are additive. They are not tied to Social Security benefits in any way. And as private pension benefits are not earnings, they do not expose the worker to a reduction in his old age benefits if they should exceed $100 a month.

The reason for this shift to additive plans is that workers discovered that a liberalization of old age benefits merely relieved the employer of payments -- but added nothing to the pocket of the retired union worker.

While I cannot cite any California figures at the moment to illustrate the extent of the shift to this supplemental type of plan, a BLS analysis of 205 pension plans negotiated by the UAW will illustrate my point. In 1951, 71 out of 132 pension plans had offset provisions. By mid-1953, the plans with such provisions were 82 out of 205. Out of the 73 additional pension plans negotiated between '51 and '53, only 11 were of the offset type. The other 62 were additive. There is no question but the trend in this direction is even stronger today.

Provisions for funding vary greatly in the California agreements. The usual plan requires the employer to contribute an agreed-upon amount into a fund or to an insurance company. But some plans merely require an employer to pay specified benefits after a fixed date, but have no safeguard against an employer going broke.

The usual concept is that the employer should put aside currently and continuously the amounts necessary to meet fixed obligations. The premise is that the human labor force depreciates with age, the same as plant equipment, and that reserves are needed to meet this liability, as in the case of plant equipment.

The money in these funds represents a tremendous economic force. By 1954 the Bureau of Internal Revenue had recognized over 25,000 plans with assets running into many billions of dollars and increasing at the rate of 2¼ billion dollars, or more, each year. We have no separate figures for California.

Methods of financing vary widely in the California agreements and obviously are opportunistic. The contract for dairies in Southern California, for example, calls for 10 cents an hour. In the same area, retail clerks get 7½ cents. In San Francisco, culinary workers get $5.25 per month, or less than the San Francisco plumbers get in 2 weeks.

A study of California pension agreements leads me to direct your attention to some pertinent problems.

The first of these is vesting. Most California plans do not provide for vesting in the worker any right to the amounts contributed into a fund for him. As a consequence he loses his right to this amount when he leaves the employer. A few groups have developed area vesting, which permits a worker to change employers provided he remains in the area covered by the plan. While this in part meets the difficulty created in plans without vesting, the fact remains that labor mobility is seriously impaired. This is particularly true for the worker as he advances in age because he has more at stake.

A second consideration is high labor turnover. In some industries, and more specifically in some occupations, the absence of vested rights makes it preferable for the workers involved to take a wage increase rather than a pension contribution by the employer. For example, it is not likely that waitresses will stay with the same employer until they reach age 65, nor is this true of secretaries, typists and office clerical help generally.

Labor turnover also may mean that a fairly high pension contribution may yield a low pension benefit and that lower contributions will yield a higher benefit. To illustrate: A large group of unskilled workers negotiated for a payment of 85 cents a day into a pension fund. A small, but highly specialized group in the same industry negotiated for 95 cents a day. But when payments came due, it was found that the lower contribution was able to pay retired unskilled workers $70 a month, whereas the larger contribution netted the skilled group only $22 a month.

The explanation for this paradox is labor turnover. The unskilled group had a high turnover and very few stayed on the job until 65 years of age. The money in the fund was ample to pay $70 a month to the relatively few who lasted that long.

On the other hand, the turnover in the smaller and highly specialized group was very low and nearly everyone stayed on until retirement. In the absence of lapses, and with nearly everyone qualifying, the benefits were disappointingly small.

No one at all familiar with the labor movement in California can escape the conclusion that the bargaining for pensions is necessarily opportunistic. Labor leaders do the best they can under given circumstances against employers of varying strengths and different abilities to pay. But after a study of the great diversion of pension plans, I wonder whether it would not be desirable for labor to develop a more consistent philosophy on this subject. Instead of negotiating for so many cents an hour or so many dollars a week or month and then shopping around to see what that money will buy, it seems to me better to formulate a definite plan of what you want to achieve in the nature of a pension plan before you even negotiate.

While it is not my function or purpose to hand out advice in a field in which many of you are more experienced than I am, I wonder if you would not be better off if you decided what kind of a plan you wanted, what kinds of benefits, what kind of funding and vesting and then visited a good actuary to find out how much such a plan would cost. It probably will be more than you can get at the first try, or even the second or third. But as you negotiate successive increases you will be working toward some definite and specific end. That procedure, however, requires that you think through your problem ahead of time, obtain adequate and competent advice, and make up your minds as to what you are trying to obtain as an ultimate objective. But you will know where you are headed and why.

Thank you very much for the opportunity to speak to you.

THE FUTURE OF PRIVATE PENSION PLANS

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Let me remark at the outset that the comments which follow neither portend of future behavior in any definitive sense nor conform wholly to the union point of view. The principal objective is to raise a few of the more significant issues which are likely to plague private pension planners (if, indeed, they have not already arisen). The manner in which these considerations will be resolved remains to be seen.

As you are undoubtedly aware, the growth of private pension plans -- stimulated initially by wartime wage controls and excess profits taxation and later by union pressure -- has been phenomenal. In 1940, there were less than 2,000 plans covering 3.7 million persons; whereas by now the number of trusteed and insured plans probably exceeds 15,000 and covers over 10 million persons. Reserves associated with these plans may well surpass $20 billion and are increasing at the annual rate of $3.4 billion ($2.1 billion for trusteed funds and $1.3 billion for insured funds).* Total reserves are likely to approach $40 billion by 1960; and, assuming coverage is extended to 30 million persons, an ultimate figure of $75 billion is entirely conceivable.

As is so often the case where rapid expansion is involved, problems of nationwide significance have emerged full scale, almost before the affected parties are aware of their existence. It is interesting to note that, despite their keen noses for newsworthy topics, investigating committees have only recently arrived on the pension and welfare fund scene. In the past two years, subcommittees of the Senate and House Labor Committees, a subcommittee of the CIO's Committee on Ethical Practices, the New York State Insurance Department, as well as state agencies in California, Minnesota and Wisconsin, have all held hearings on the status of pension and welfare funds. Attention has, however -- and this is unfortunate I feel -- been largely directed to matters of "the hand in the till," rather than to questions of longer-run significance.

I should like to take up where the investigating committees have thus far left off and to treat some of the broader implications of private pension plans. The fundamental thesis, presented for your consideration, is that the <u>smooth functioning</u> of our free enterprise economy should not be seriously hampered by the existence and continued growth of private pension programs. Otherwise, the social costs may in the

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*The estimates vary with the source utilized and the elements included. An SEC survey concludes, for example, that trusteed plans alone held well over $11 billion of assets at the end of 1954.

long run exceed the benefits derived.

In the limited time allotted, it is patently impossible to touch upon all of the aspects involved. Let us therefore devote our energies primarily to three items which appear to be of paramount importance. These are:

(1) The relation of private pension plans to the social security program;

(2) the investment of pension fund reserves; and

(3) the impact of pension programs upon corporate flexibility.

Other interesting matters, such as the disclosure of fund operations, the effect upon employee mobility and the connection between pension plans and the Guaranteed Annual Wage, will be touched upon in passing.

Turning first to the relation between private pension plans and social security, you may recall President Eisenhower's suggestion early last year that ideas for fitting private plans together with Federal social security into an "integrated program for retirement income" be explored to prevent overlap in some cases and lack of protection in others. While this proposal is worthy of note, the meaning attached to the term "integrated program" is far from clear.

Many private plans (e.g. those of Allied Chemical, General Mills, Glenn L. Martin, and U. S. Steel) are <u>integrated</u> with the social security program in the sense that their <u>benefits decrease</u> as social security payments increase. But this, in my opinion, is not the appropriate kind of integration. The purpose of O.A.S.I. is to furnish a basic layer of protection (or, as the case may be, minimum subsistence). In contrast, the aim of private pension plans from the employee's viewpoint should be to provide a painless and profitable (in view of current tax savings) method of saving and investing.

The argument for separating the objectives of public and private pension plans is strengthened by the fact that private pension programs are not susceptible of uniform coverage. Ability to finance pension plans varies widely among corporations. Questions of gearing pension benefits to differences in worker productivity also arise.

The implication of these remarks is that O.A.S.I. benefits and private pension benefits should stand on their own feet independently of each other. The proposition that private pension programs should be viewed as a form of employee saving appears to suggest, in addition, that:

(1) Future pension negotiations should be based upon <u>current cost</u> to the corporation, rather than <u>upon the size</u> of future benefits (despite the reported unhappiness of General Motors and U. S. Steel over this possibility);

(2) Pension programs should be voluntary, i.e., employees should be given the choice between high current wages and participation in pension plans (the incentive for participation is of course current tax reductions) and:

(3) The employee should not lose his accumulated savings by reason of changing employment.

Although these proposals may be difficult to digest, they possess certain side advantages above and beyond their appeal to logic. Emphasis upon current costs eliminates an element of unspecified future costs from the corporate burden and is likely to increase the willingness of corporations to hire older workers. Voluntary programs afford employees an opportunity to indicate their personal preferences. Avoidance of loss in accumulated pension rights as a result of relocation in turn augments worker mobility.

Needless to say, the points raised are not wholly cut and dried. The careful consideration of these ideas by pension planners is nonetheless warranted by virtue of their internal consistency and their minimal effect upon the smooth functioning of the economy.

Or perhaps even greater significance to the effective functioning of our economy are present and future problems associated with the investment of pension fund reserves. It is generally recognized that the successful operation of private pension plans presupposes the creation of adequate reserves (although some confusion still exists as to the meaning of the term "adequate"). The consequence is that substantial amounts have been, and will continue to be, set aside for this purpose.

With few exceptions, investments by pension fund trustees have thus far emphasized safety of principal. Several trusteed plans, e.g., A. T. and T., Coca-Cola, International Paper, and Schenley, provide specifically for the limitation of investments to securities which are legal for life insurance companies in New York. Investments in common stocks have been largely restricted to "blue chips," and relatively few funds have ventured into real estate mortgages. The combined investment portfolio of trusteed funds administered by New York banks totalling $7.5 billion was distributed as follows in early 1955: United States Government Securities -- 18.4 per cent, Corporate and Other Bonds -- 57.0 per cent, Preferred Stock -- 3.1 per cent, and Common Stock -- 21.5 per cent.

In view of the purpose underlying the creation of reserves, the conservative bias exhibited in the investment of pension funds is entirely reasonable. But despite the justification for this orientation, at least two unfortunate effects occur therefrom which assume importance for the years ahead. One is that increasing competition among pension funds (and others as well) for safe investments tends to reduce yields and thus to augment the present cost of future benefits. The other result is that the continued growth of pension reserves adversely affects the supply of venture capital.

Private pension funds channel the savings of individuals and corporations, which might otherwise be available for investment at risk, into low risk uses. As a consequence, the rates of technological progress and economic growth are likely to be retarded, and the continued maintenance of high levels of income and employment may be rendered more difficult. The potential significance of the problem posed would loom less large were it not for the concurrent expansion of life insurance companies and other institutions which also direct funds primarily into safe uses.

As long as inflationary pressures exist in the economy, the deflationary effects (except where the prices of high-grade securities are concerned) of this investment channel are beneficial. For the long pull in a (hoped for) peace-time economy characterized by substantially reduced military expenditires, however, the impact may well be detrimental. Some authorities argue that the adverse influence of pension funds upon the supply of venture capital is partly mitigated by the tendency for employee expenditures on consumption items to be both stabilized and stimulated by the presence of pension programs. Whether such is the case cannot readily be ascertained.

What then can be done by fund administrators to resolve the longer-run problems of adequate yields and adequate supplies of venture capital without straying too far from the fundamental principle of safety? The larger funds, by virtue of their ability to utilize specialized management and to spread the risk through diversification of investments, can undoubtedly exhibit more initiative than has thus far been shown. One possibility for higher yields is real estate and real estate mortgages. Insurance companies, it may be noted, are already heavily in this field. A further is good quality (but less than blue chip) common shares.

While higher investment yields are probably obtainable in many instances, it is unreasonable to expect that private pension reserves will become important sources of venture capital unless one of two things occurs. The Federal Government must either agree to underwrite risky investments (much the same as is done in the housing field); or the nature of pension benefits must change. Since our predilection is to avoid Government participation wherever possible, let us consider the second alternative.

To simplify the issue, let us assume that O.A.S.I. benefits are sufficient to furnish a minimum layer of protection and that the intent of private pension programs is truly to provide a painless and profitable method of saving and investing. If such is the case, the fixed benefits which feature the private pension plans of today might well be replaced by variable annuities which depend upon returns to investments. With this element of inflexibility removed, the range of opportunities available for the investment of pension reserve is substantially increased. By the same token, the ability of private pension plans to afford protection against purchasing power changes is also improved.

Whether the future of private pension plans lies in this direction cannot really be said. But whatever the conclusions, unions should not ignor the problems associated with the investment of pension reserves.

Before directing attention away from the investment of pension and welfare fund reserves, one final remark might be made. This is that pension reserves should not be employed to serve two masters. They should not be utilized by corporations to foster control of other corporations (as has, for example, been suggested in the case of the acquisition by the Bethlehem Steel fund of 183,000 shares of Cleveland-Cliffs which in turn owns 176,000 shares of Youngstown Steel). Nor should the fund assets be used by unions to foster union activities (as has been suggested in the case of certain Teamster fund investments). Extended operations of this character defeat the objective underlying the creation of reserves.

The remaining item to which major consideration is given is the impact of pension programs upon corporate flexibility. The point in raising this matter is essentially that union health and corporate health are closely related. It simply does not pay to kill the geese that lay the golden eggs.

Private pension plans, as presently constituted, may impose excessive future burdens upon corporations during periods of financial stress in at least three ways. In the first place, many programs provide for unspecified future costs. Some 18 per cent of the plans adopted during the 1950-1952 period, for example, base benefits on an average of wages for the final years of service, while another 10 per cent make partial use of this base.

Secondly, even where future costs are reasonably well specified, provision may not be made for the full funding of past service liabilities. A potentially misleading feature of pension programs is that benefit payments tend to increase until the plan approaches maturity. Failure to create adequate reserves may thus lead to additional payments at a time when they can be ill-afforded.

Thirdly, the bulk of pension costs is for older employees who have acquired seniority rights which protect them in periods of declining employment. The consequence is that annual contributions to pension funds are, in many instances, relatively fixed.

To avoid the unspecified future costs and inflexibilities so often associated with private pension programs, as well as to provide additional incentive, many corporations have introduced deferred profit sharing plans. As contrasted with the 350 deferred profit programs existing in 1942 and the 2,500 in 1946, the present total falls in the 9,000-10,000 range. The popularity of these plans is well attested by the fact that there are some 120 concerns which do nothing but offer advice to companies setting up deferred profit sharing plans.

The bigger companies have thus far demonstrated the strongest preference for deferred profit sharing. Among the Profit Sharing Council member companies with over 1,000 employees, for instance, 59 per cent have deferred payments programs; 25 per cent have combined cash and deferred payment programs; while 16 per cent offer only cash payments. Among council members with less than fifty employees, 54 per cent pay cash; 18 per cent offer combination plans; while 28 per cent have deferred programs.

These facts notwithstanding, deferred profit sharing programs (for employees in general) appear to be much more appropriate for small corporations than for large corporations. By virtue of their limited financial strength and relatively uncertain outlook, small firms need all of the flexibility they can muster. From this point of view, then, deferred profit sharing programs are eminently desirable substitutes for private pension plans which provide for specified benefits.

Let us now look at deferred profit sharing from the employee's viewpoint. Employment with small corporations is often less certain and less remunerative than equivalent jobs with large firms. Wherever such is the case, some form of employee earnings participation makes good sense in order to compensate for the greater risk and the smaller current pay. If the company is unsuccessful, well, this is the chance the employee took (somewhat like investment in common stock). If the operation is profitable, the deferred benefits will -- on the other hand -- exceed those derived from fixed-benefit programs.

Deferred profit sharing programs thus provide maximum flexibility for those corporations which require flexibility. They afford the employee an opportunity for higher benefits than would otherwise be the case. And in addition, such plans conform nicely with the avowed purpose of private pension plans, i.e., provide a painless and profitable--although with some risk in this case -- method of saving and investing.

Large corporations probably do not need the degree of flexibility associated with deferred profit sharing plans. It is nevertheless beneficial to both employers and unions for those costs connected with pension programs to be specified and for unfunded past service liabilities to be eliminated as rapidly as possible. The conclusion is that, as indicated earlier, future negotiations which deal with pension matters might well emphasize current cost to the corporations, rather than the size of future benefits.

Lest the complaint be levied that the orientation has been unduly restricted in scope, brief reference is now made -- as a terminal gesture -- to several other aspects of private pension plans which have recently come to the fore. Scattered evidence of mismanagement and misuse of pension and welfare fund reserves has occasioned proposals for both Federal (or state) regulation and full disclosure of asset uses. My personal hope is that private pension plans will, in the future, provide for more adequate reporting to the participants and other interested persons. The objective in mind is not only to minimize objectionable practices, but also to furnish reliable data with which to evaluate more precisely the over-all effects of private pension plans.

A further topic of primary interest is that of employee mobility. Attention is directed to the pension program put into effect last May (1955) by the Western Conference of Teamsters as a possible indicator of what is to come. This plan covers 90,000 drivers in 11 Western states and is claimed -- incorrectly, I believe -- to be the only pension plan operative in the country under which a worker can transfer from one company to another and still retain retirement benefits (provided, of course, the new employer also contributes to the fund).

Despite the beneficial effect upon employee mobility, extension of private plans to multifirm coverage has certain hurdles to overcome. An important obstacle is the presence of companies with widely varying financial capacities. A lesser impediment is the reluctance of employers to take action which might augment employee turnover.

To toss out yet another idea: a few signs are visible which suggest that efforts may, in the future, be made to link retirement plans (deferred profit sharing or otherwise) to G.A.W. American Velvet Company, at Stoningham, Connecticut, has already requested permission of the Internal Revenue Service to amend its deferred profit sharing plan to allow workers to draw $10 a week (in addition to the $30 per week received from unemployment insurance) in the event of lay-off. Kwikset Locks, at Anaheim, California, has arranged for its employees to receive from the trust fund monthly installments amounting to one-half the rate of pay at the time of lay-off, provided the period exceeds three months and until the individual's share of the fund is exhausted.

Nor are these the only possibilities for change. Provision might be made, with somejustification, for the extension of emergency and other loans to employees from pension reserves. Provision might also be made for the gearing of pension benefits to the specific needs of individual employees. Well, we could go on and on, but the foregoing ideas appear to be sufficient food for thought.

What the future will bring remains to be seen. In view of the present size and growth rate of pension fund reserves and the expansion in coverage, private pension plans apparently not only have a tremendous future, but also exert and will continue to exert a significant influence upon the economy. The basic point advanced for your consideration is that, by virtue of their importance, private pension programs should be so adapted as to minimize the economic impact.