Univ Shelf

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Pensions Under Collective Bargaining

By

WILLIAM GOLDNER

Age	American Experience (1843-1858) Deaths Per 1000	Expectation of Life-Years	American Men Ultimate (Davis Extension) (1900-1915) Deaths Per 1000	Expectation of Life-Years	Commissioners 1941 Standard Ordinary (1930-1940) Deaths Per 1000	Expectation of Life-Years	1937 Standard Annuity-Male* (1932-1936) Deaths Per 1000	Expectation of Life-Years	United States Total Population (1939-1941) Deaths Per 1000	Expectation of Life-Years
[illegible]	14.54	20.20	12.54	20.53	[illegible]	20.64	10.02	24.01	11.59	22.22
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	23.24	12.49	21.48
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	22.49	13.46	20.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.75	14.51	20.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.02	15.64	19.31
[illegible]	19.89	16.72	19.02	16.93	19.43	17.10	14.61	20.30	16.84	18.60
57	[illegible]	16.05	[illegible]	16.25	[illegible]	16.43	15.76	[illegible]	18.12	17.92
[illegible]	[illegible]	15.39	[illegible]	15.58	[illegible]	15.77	16.99	18.90	19.49	17.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62	31.29	12.86	31.58	13.06	31.18	13.27	[illegible]	16.25	26.01	[illegible]
63	33.94	12.26	34.37	12.47	33.79	12.69	[illegible]	15.62	27.97	[illegible]
64	36.87	11.67	37.38	11.90	36.58	12.11	26.68	15.01	30.12	13.40
65	40.13	11.10	40.66	11.34	39.64	11.55	28.75	14.40	32.48	12.80
66	43.71	10.54	44.18	10.80	42.96	11.01	30.99	13.81	35.09	12.21
67	47.65	10.00	48.03	10.28	46.56	10.48	33.39	13.24	37.98	11.64
68	52.00	9.47	52.16	9.77	50.46	9.97	35.98	12.68	41.20	11.08
69	56.76	8.97	56.64	9.28	54.70	9.47	38.76	12.14	44.77	10.53
70	61.99	8.48	61.47	8.81	59.30	8.99	41.76	11.60	48.73	10.00
71	67.67	8.00	66.70	8.35	64.27	8.52	44.98	11.09	53.12	9.49
72	73.73	7.55	72.33	7.91	69.66	8.08	48.44	10.59	57.98	9.00
73	80.18	7.11	78.39	7.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.52
74	87.03	6.68	84.92	7.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.06
75	94.37	6.27	91.94	6.69	88.64	6.82	60.46	9.17	75.54	7.62
76	102.31	5.88	99.51	6.32	96.02	6.44	65.08	8.73	82.39	7.20
77	111.06	5.49	107.65	5.96	103.99	6.07	70.03	8.30	89.75	6.81
78	120.83	5.11	116.31	5.62	112.59	5.72	75.35	7.89	97.61	6.43
79	131.73	4.74	125.69	5.30	121.86	5.38	81.05	7.49	105.99	6.07
80	144.47	4.39	135.74	4.99	131.85	5.06	87.16	7.11	114.91	5.73
81	158.60	4.05	146.42	4.69	142.60	4.75	93.71	6.74	124.38	5.41
82	174.30	3.71	157.87	4.41	154.16	4.46	100.72	6.39	134.44	5.11
83	191.56	3.39	170.05	4.14	166.57	4.18	108.23	6.05	145.08	4.82
84	211.36	3.08	183.15	3.89	179.88	3.91	116.26	5.72	156.25	4.56
85	235.55	2.77	198.07	3.65	194.13	3.66	124.84	5.41	167.88	4.31
86	265.68	2.47	211.80	3.42	209.37	3.42	134.00	5.11	179.92	4.08
87	303.02	2.18	227.29	3.21	225.63	3.19	143.79	4.82	192.29	3.86
88	346.69	1.91	244.08	3.00	243.00	2.98	154.21	4.54	204.93	3.66
89	395.86	1.66	261.70	2.81	[illegible]	2.77	165.32	4.28	217.79	3.47
90	[illegible]	1.42	280.35	2.63	[illegible]	2.58	177.14	4.03	230.81	3.30
91	[illegible]	1.19	299.46	2.46	[illegible]	2.39	189.71	3.79	243.94	3.14
92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.21	203.06	3.56	257.11	2.99
93	[illegible]	.80	341.88	2.15	[illegible]	2.03	217.22	3.34	270.31	2.86
94	[illegible]	.64	363.64	2.01	[illegible]	1.84	232.20	3.13	283.44	2.73
95	[illegible]	.50	[illegible]	1.87	[illegible]	1.63	248.06	2.92	296.46	2.61
96			[illegible]	[illegible]	[illegible]	1.37	264.80	2.72	309.35	2.50
97			443.40	1.61	548.26	1.08	283.51	2.52	322.10	2.40
98			457.63	1.50	724.67	.78	305.78	2.32	334.75	2.31
99			500.00	1.34	1,000.00	.50	331.84	2.12	347.36	2.21
100			[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	2.13
101			[illegible]	1.07			397.58	1.74	372.98	2.04
102			666.67	[illegible]			[illegible]	1.55	386.34	1.96
103			1,000.00	.50			487.28	1.37	[illegible]	1.88
104							542.28	1.20	[illegible]	1.80
105							610.44	1.04	431.17	1.72
106							690.72	.88	448.20	1.64
107							[illegible]	.73	466.33	1.56
108							[illegible]	.67	485.39	1.48
109							1,000.00	.50	505.10	1.41

* For female ages over 10 use male five years younger.

INSTITUTE OF INDUSTRIAL RELATIONS
UNIVERSITY OF CALIFORNIA, BERKELEY

25c

(Popular Pamphlet)

PENSIONS UNDER COLLECTIVE BARGAINING

By

WILLIAM GOLDNER

Edited by Irving Bernstein

INSTITUTE OF INDUSTRIAL RELATIONS

UNIVERSITY OF CALIFORNIA · BERKELEY

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Foreword

THE INSTITUTE OF INDUSTRIAL RELATIONS of the University of California was created by the California Legislature for the purpose, among others, of conducting research and contributing to public information and understanding in the field of industrial relations. Governor Earl Warren in his "Annual Message to the Legislature" of January 3, 1949, declared that the Institute

> can be made a . . . practical means of bringing about better understanding in the field of industrial relations in California. . . . We should now make increasingly practical use of the information that has been developed by the Institute concerning the technique of collective bargaining.

One means of achieving this objective is through popular pamphlets which can be made available to labor organizations, management, government officials, the schools and universities, and the general public.

The Institute's popular pamphlet program is a statewide project, drawing together the facilities of both its divisions. The Southern Division has thus far published two pamphlets: *Collective Bargaining,* by Edgar L. Warren and Irving Bernstein, and *Making Grievance Procedures Work,* by Abbott Kaplan. *Pensions under Collective Bargaining* is a contribution of the Northern Division.

The quest for security in old age is a striking feature of our time. Pension advocates urge either (sometimes both) a governmental system or private plans. Experts differ over the advisability of establishing private pension arrangements in addition to social security. Mr. Goldner here does not write as an advocate of private pension systems. He accepts as a premise the actuality, namely, that private plans under collective barganing have been and are being accepted on a wide scale. Hence his emphasis is upon the problems and methods that confront management and unions in negotiating pensions. The Institute hopes that the pamphlet can serve them in handling this complex subject.

Charles A. Gulick, Professor of Economics, and Van D. Kennedy, Assistant Professor of Industrial Relations, of this University have been helpful in clarifying the structure of this pamphlet, in sharpening the arguments, and in reconciling differing points of view. The constructive suggestions of Albert Brundage, labor attorney, Thomas Cordry, welfare and pension consultant, Parker Jameson, management representative, and George A. Pettit, Assistant to the President, University of California, are gratefully acknowledged. Mrs. Anne P. Cook assisted with editing the manuscript. The viewpoint expressed is that of the author.

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I. Background of Pension Developments

In the last two or three years old age pensions have become an increasingly frequent subject of collective bargaining and labor disputes. This growing interest in privately negotiated retirement systems is the result of a combination of developments in our society. The most important background factors are:

1) The progressive shift from an agricultural to an industrial economy; the typical farm family frequently includes and supports grandparents; in industrial centers, the family is smaller and the "old folks" are left to arrange their own support.
2) A maturing population, the older sectors of which are increasing absolutely and relatively to the rest of the population; as these older citizens become larger proportions of our population, their problems become more generally recognizable, their votes become more numerous, and their programs become more influential.
3) A world-wide quest for security.
4) The growing interest among trade unions in pension plans.
5) The aggressive selling of such plans and annuities by insurance and trust companies.
6) The influence of the wartime excess profits tax, which made the net cost of installing a pension plan very small.

7) The effect of higher taxes and lower rates of return on investments which make it more difficult for the individual to put aside funds or to earn sufficient return to retire.

1. BARGAINING ON PENSIONS

Some companies have had pension plans for many years and some of these plans resulted from collective bargaining. However, it is only since World War II that pensions have become a prominent subject of labor-management negotiations. Wartime taxation and wage policies together with the high profits and tight manpower conditions which led to those policies are the primary explanation.

During World War II the Federal government imposed a high rate of taxes on the excess profits of private corporations. The regulations of the Bureau of Internal Revenue provide that contributions by employers to properly qualified pension plans are a deductible business expense and not subject to taxation. The regulations also contain safeguards to prevent pension plans being used solely as a means of tax avoidance or of benefiting a favored few employees. At the same time the wartime stabilization legislation, which set up price, wage, and salary controls, exempted reasonable contributions for pensions from the stabilization program. This meant that pension plans could be inaugurated or expanded despite wage and salary restrictions to the extent that such plans were "reasonable." Reasonable plans were those which conformed with the regulations of the Bureau of Internal Revenue, United States Treasury.

The combined effect of these conditions was to induce many employers to inaugurate pension plans. Firms which were in a good profit position and faced with high levies under the excess profits tax found that the actual cost of installing a plan was relatively light. The pension plans were, in turn, one effective means of holding and attracting labor in a market characterized by a labor shortage and a freeze on wages. As a consequence, Internal Revenue approved more plans during stabilization than had been approved prior to that time. The Pension Trust Division which was set up in Internal Revenue in the early thirties to administer pension plan tax regulations, had approved about 1,500 plans by October 1942. During the war, however, over 4,200 plans won acceptance. In 1945 and 1946, there was a considerable drop in the number of plans approved.

Another effective stimulus to the pension movement was the 1946 coal strike settlement, the so-called Krug-Lewis agreement, which included a health and welfare plan for miners. The program covered: (1) medical, health, and hospital services, (2) disability and widows' assistance benefits, (3) death benefits, and (4) old age pensions. Coming as the result of a bitter strike and at a critical point in the postwar reconversion period, the plan aroused wide public attention and served other unions as an example and an argument in their negotiations.

Unions gained a very material advantage in the matter of pension bargaining when the National Labor Relations Board decided in the *Inland Steel Case* that employers could not legally refuse to bargain over pension plans. The board's decision was an interpretation of the Taft-Hartley Act: "We are convinced and find that the term 'wages,' as used in Section 9 (a), must be construed to include emoluments of value, like pension and insurance benefits, which may accrue to employees out of their employment relationships." This interpretation has been upheld by the courts.

By the time the third postwar round of wage increases was beginning to be negotiated, the national economy was developing a peacetime stability and balance. Unions found that substantial wage adjustments were becoming harder to get. Employers discovered that they could successfully negotiate for reasonable settlements. The prospect of even tighter bargaining during the fourth round stimulated some unions to look for alternatives to wage adjustments. Some employers, too, recognized that the movement for private pensions could serve advantageously as an offset to fourth round wage adjustments. This thinking by union leaders particularly, and by a few representatives of management, contributed substantially to bring pensions to the bargaining table.

The pension movement received another major boost in 1949 when the Steel Industry Fact-Finding Board recommended as a settlement of the basic steel dispute that instead of a wage increase the parties negotiate pension and welfare plans. Following this report a series of pension agreements occurred in rapid succession in steel, in auto, in rubber and in a number of other industries. By 1950, therefore, old age pensions had become one of the most important subjects of collective bargaining in the United States.

2. OBJECTIVES OF EMPLOYERS AND UNIONS

The problems which may arise in the negotiation of retirement systems can be understood more clearly if we have in mind the objectives which employers and unions wish to satisfy in a pension plan. In general, the following objectives are important to both parties.

1) Provision of orderly retirement of older employees.
2) Creation of advancement and promotional opportunities for younger workers by removal of older ones from the labor force.
3) Encouragement of harmonious labor-management relations.
4) Reduction of labor turnover.

In addition, the employer has certain objectives which spring from his position as employer.

1) Fulfillment of his social responsibilities to his employees.
2) Substitution of the definite obligations and known costs of a retirement plan for the unknown costs of informal pensioning.

On the other hand, the union has certain goals which are characteristic of its position.

1) Provision of coverage in the plan for all union members.
2) Assessment of costs exclusively on the employer.

It is clear that there is not a complete mutuality of interest in the goals of unions and employers. Even among the objectives which are common to both parties, differences of interpretation may arise, and between their separate individual goals there are real possibilities for conflict.

II. Technical Aspects of Pension Plans

In bargaining over pension plans the parties must decide a series of difficult questions. One set of questions has to do with the technical details of plans. A second set involves the way in which plans meet the requirements of the law. A third set concerns industrial relations, the special problems of unions and management. This chapter deals with the technical problems.

1. PENSION PLANS DEFINED

In essence a pension plan consists of five basic elements. The requirements or proper functioning of each of these elements must be carefully worked out if the plan is to be sound and is to satisfy all participants. The five basic elements of a plan and the essential role which each plays in the total plan may be summarized as follows:

BASIC ELEMENT	ROLE IN THE PLAN
1) A group of workers eligible for membership in the plan.	The characteristics of this group together with the terms of the plan (item 5) will determine to a large extent the ultimate liabilities which the plan must meet.
2) A group of retired persons who are receiving benefits.	This retired group receives the pension payments, usually a given amount paid monthly for life.

3) A method of raising funds with which to pay benefits.	Suitable financial arrangements must be made which are adequate to meet present and future benefit requirements.
4) A group of policy-determining and/or administrative persons.	This group establishes the policies of the plan, certifies eligibility, writes checks, invests funds, maintains control.
5) A set of policies and rules.	These govern amount of benefits, eligibility requirements, retirement privileges and the other conditions under which the plan will operate.

In connection with each of these elements many details must be worked out. A few examples may be cited. Standards have to be established for eligibility, minimum length of service, minimum age requirements, special wage or occupational criteria, and union status. Rules have to be worked out governing the retirement of employees or their separation before retirement. The nature of a worker's rights to accumulated funds upon pre-retirement separation must be determined. There may be provision for disability in addition to retirement. Financing arrangements require careful planning. The bases for payments into and out of the fund have to be established. The contributions of employer and employee must be worked out. Other problems involve the administration of the fund, the investment policy, and actuarial estimates of the fund's operation.

It is important to note here that the passage of time is the essential background of a pension plan and is the factor which must be reckoned with in working out most of the above details. It is over time that liabilities and funds accumulate, interest compounds, members age and retire, policies and rules change, benefits are paid, and people pass away. It is one of the inherent complexities which add to the difficulties of pension bargaining.

2. PENSION PLAN COSTS

How much will a pension plan cost? Estimating cost is extremely difficult because no standard formula can be used. Cost estimates are established on the basis of assumptions covering ten or more factors. Some of the assumptions are very difficult to verify objectively. Others involve forecasts into the future about which there is not very much certainty. Each plan, in fact, has its own special conditions. A first principle, therefore, is that there is no fixed cost for a given set of benefits. The costs of each plan must be determined by operating conditions. Estimates of actuaries are revised constantly in the light of changing circumstances.

To visualize the elements of cost it is necessary to segregate those which relate to the past from those which will occur in the future. The gross cost of a plan will consist of (a) the expense of benefits based on past service—that performed by employees prior to installation of the plan, and (b) the cost of benefits based on future service—that performed after installation of the plan.

In many instances the problem of providing benefits earned by past services is the main issue. The liquidation of this large expense item, however, can be made less burdensome by spreading payment over a period of years. In fact, Internal Revenue does not allow a company to take more than ten percent of past-service cost as a tax deduction in any one year. Hence many companies fund the liability over a period of ten, twenty, or even forty years.

Even after a fixed package of benefits is determined, actuaries with the same professional competence and ethics can vary as much as twenty-five percent in estimates of cost. To understand this range of variation it is necessary to analyze the factors which enter the cost estimate. Two types of information are required: One is specific data about the company and group to be covered, including the age distribution of the company's labor force, the distribution of ages at hiring, the average level of wages, and the age of the company. The second is general information, including the following:

1) Mortality rates and tables.
2) Rates of labor turnover in general.
3) The rate of interest earned.
4) The expenses of administration.

A discussion of each of these factors will provide an understanding of the elements of cost estimating.

a. *Mortality rates and tables.* The average lifetime of Americans, or the number of years that we can expect to live, has been increasing steadily for many decades.

There is every indication that this trend will continue. Insurance companies and pension plans use tables which predict the average life span. These tables are compiled from data covering the deaths of insured persons throughout the nation. Summaries are compiled on a national basis by the insurance companies and, from these, actuaries create mortality tables.

The cost of a pension is based in part on how long it is paid. If a person lives longer than expected, the cost is increased. This is just the opposite from life insurance; the policy is not paid off until the insured dies. If the insured lives longer than anticipated, more premiums and interest accumulate and the cost is decreased.

In the first pension plans set up by insurance companies, life insurance mortality tables were used to estimate costs. This led to substantial losses because the average lifetime was increasing. To remedy this, insurance companies developed special tables for annuities and pension plans. The table on page 12 shows comparable data from several in current use.

During the 1930's and 1940's life expectancy increased between 1 and 2 percent per year. To take account of this shift, actuaries frequently advance the ages on the mortality tables to older levels. As a hypothetical example, we can adjust the data given in the table and observe the effect. Instead of 6.27 years of average future lifetime at 75 as indicated in the American experience table, each number in the age column might be advanced 10 years. Then, the expected future lifetime would be 17.40 years at age 65, 11.10 years at age 75, and 6.27 years at age 85. Another conservative practice is to anticipate a future lengthening of the average life

YEARS IN AVERAGE FUTURE LIFETIME
SPECIFIED MORTALITY TABLES FOR SELECTED AGES

The average individual is expected to live the following number of years:

At age specified here	American experience table	American annuitant's table (ultmate) (male)	Combined annuity table (male)[1]	1937 Standard annuity table (male)[2]	1941 Commis-sioners standard ordinary table
25	38.81	41.71	44.52	46.53	42.12
35	31.78	33.57	35.49	37.38	33.44
45	24.54	25.77	26.89	28.78	25.21
55	17.40	18.62	19.19	21.02	17.78
65	11.10	12.49	12.74	14.40	11.55
75	6.27	7.70	7.78	9.17	6.82

[1] Females four years older than the specified ages will have the same life expectancy as shown in this column.

[2] Females five years older than the specified ages will have the same life expectancy as shown in this column.

span with progressively larger adjustments of age the further into the future the projections are made.

The first major source of variation in costs, then, is the differing ways in which mortality tables can be used. For example, the 1937 Standard Annuity Table can be used as it stands, or it can be adjusted for improvements in mortality. Some actuaries advocate specially constructed tables which take into consideration future improvements in length of life.

Changes in life expectancy affect those who work as well as those who are retired. When persons die before retirement less money is needed to pay the pensions of the survivors. This is called "discounting for mortality." Thus, the range of mortality estimates has an important effect on costs before expenditures for pensions are made as well as after they start. Variations in cost estimates because of the use of different mortality tables can amount to 10 or 15 percent.

b. *Labor turnover.* Turnover includes voluntary quitting of jobs, separations for cause, and long-term layoffs. The measurement of turnover is important to cost estimating because, like the mortality effect, it removes workers from the group eligible for membership in a plan. "Discounting for turnover," in fact, is more important in reducing costs than "discounting for mortality." There is a lack of information on labor turnover. Factors which affect turnover include, among others, age, occupation, wage scales, and the stage of the business cycle. Turnover rates vary between departments, establishments, industries, areas, and nations.

Turnover is higher for wage earners than white collar workers. Even among wage earners, unskilled workers have higher rates than skilled workers. Industries with very low rates of turnover include public utilities and petroleum refining. At the other extreme, food manufacturing, metals mining, and the hotel and restaurant industry have high turnover rates.

The most cautious method of cost estimation would ignore turnover and assume that each worker presently eligible will remain in service until retirement. Low estimates of turnover, in the absence of specific experience based on study of personnel records, require large funds with resulting high costs. The standard technique of actuaries with the largest insurance companies is to use the actual and recorded turnover experience of big corporations as a basis for estimating. These estimates are based on low rates of turnover, therefore, and yield conservative, or high, estimates of cost.

We may conclude that variations in estimates of labor turnover have a significant effect on estimates of cost.

c. *Interest earned.* Accumulated interest earned on a fund set aside for pensions can pay a substantial portion of the ultimate pension cost, since many expenditures need not be made until some time in the future. For instance, $100 at 2 percent interest will double in 35 years. The same amount at 3 percent will double in 23 years. Accumulation has the same effect when applied to annual contributions. At 2 percent interest, $1.00 put into a fund annually will become $100.00 in 56 years. At 3 percent, such an accumulation will take only 46 years, and at 5 percent, 36 years. Most pension plans, therefore, are set up on a funded basis to take advantage of this factor.

Variations in the rate of earnings have an important effect on actual costs. Thus, if an expected rate of return of 2.25 percent per annum is used as an estimate, and the realized rate is 2.50 percent, an increase of 11 percent in earned income has resulted. The commonly accepted actuarial practice is to estimate earnings on pension funds at the rate of 2.25 to 2.50 percent. Actual earnings in recent years have ranged from 2.70 to 3.00 percent and even higher in some cases. Earnings of 3.00 percent exceed those of a 2.50 percent estimate by almost 17 percent. Furthermore, as a matter of caution, some actuaries advocate the downrating of earnings to offset the increased costs resulting from improved mortality ratios. These variations result in additional wide ranges of cost estimates.

The UAW-CIO 1949 pension proposals to both Ford and Chrysler provided: "Investments are to be restricted to interest bearing obligations of the United States Government reducing to a minimum the possibility of capital losses and to relieve the trustees insofar as possible, of responsibility for investment management."

The yield on long-term government bonds in December 1949 was 2.20 percent per annum, having decreased from 2.44 percent in December 1948. The final settlement at Ford, however, gave the company control over funding within the provisions of the Internal Revenue Act. It is possible that the company expected to earn a return higher than 2.20 percent on government bonds.

d. *Expenses of administration.* Administrative costs are a minor item, running around 2 to 3 percent of the payments to a fund. The Social Security Department of the UAW-CIO estimated in the Chrysler negotiations that of a total cost of 7.00 cents per hour for pensions, only 0.15 of 1 cent (slightly over 2 percent) would be necessary for administration. The insurance companies use similar estimates, although they have an extra margin of reserve. This arises from the insurance practice of adding to the total costs a loading factor of 8 percent for sales commissions and a reserve for contingencies.

e. *Tax deductions as an offset to pension costs.* The discussion so far has centered on the factors used to estimate gross costs. Equally important are actual out-of-pocket costs to the employers who install and pay for part or all of a fund, and to the employees who may contribute in part to a fund and who ultimately receive its benefits.

Tax exemptions are an important offset to gross costs. Only contributions to pension plans which have been approved by the Bureau of Internal Revenue are tax exempt. The financial advantages of tax exemption depend primarily on a firm's level of taxable income. Firms which operate at a loss obtain no advantages from tax exemption. Firms with low net earnings have very little tax offset against pension plan contributions. High profit firms gain the largest advantage.

The varying aspects of tax exemption reinforce the principle that there is no standard formula for determining costs. Each case must be evaluated in terms of the special conditions which apply.

3. TYPES OF FUNDS

The cost of a pension plan is also related to the type of fund in which the accumulated monies are kept. In setting up a plan the parties have a choice as to the extent to which it shall be funded and as to the nature of the funding arrangement.

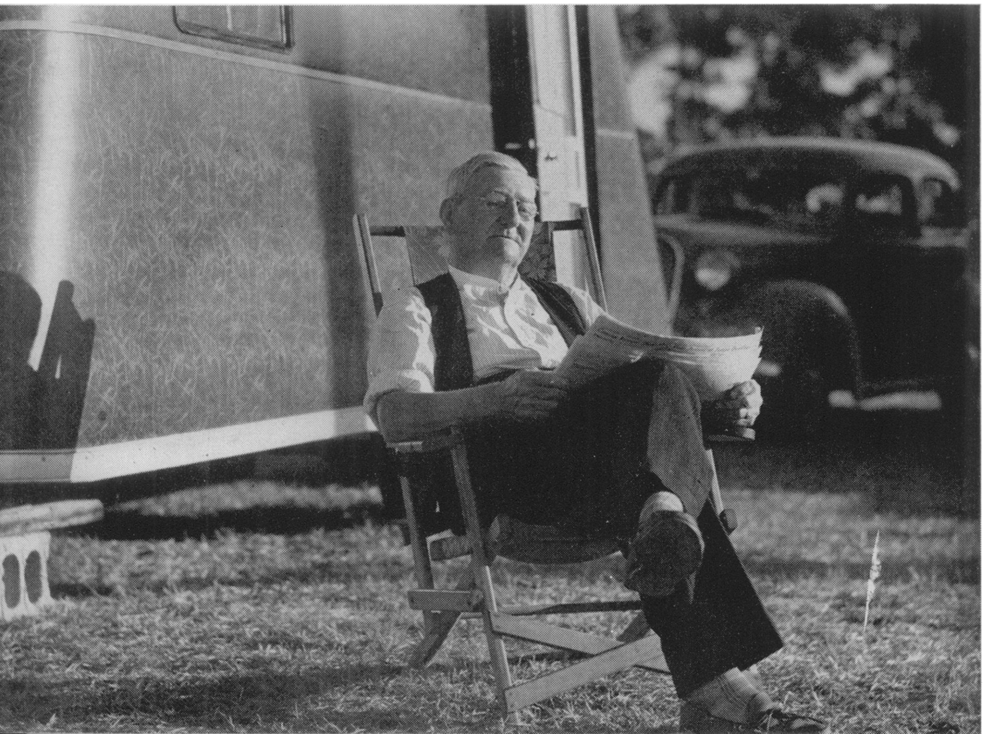
With regard to extent of funding, there are nonfunded plans, partially funded plans and fully funded plans. A *nonfunded plan* is one that is set up on a pay-as-you-go basis. No monies whatever are set aside, the company simply pays pensions to its retired employees out of cash reserves. This plan contains grave risk, since the obligations rise year after year and employees have little protection against sudden cuts or total loss of benefits.

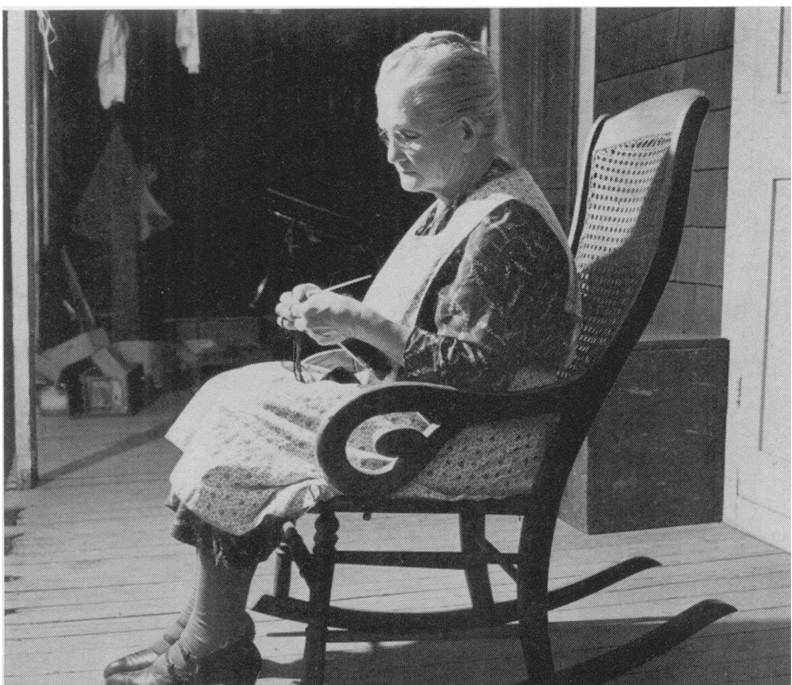
A *partially funded plan* is one in which a reserve is started by employer and/or employee contributions to cover only future service liability; no payments are made for the pre-plan service of employees. Pensions for past service are simply paid out as the need arises. When the last man with past service dies (say after sixty years) the plan automatically becomes fully funded.

A *fully funded plan* is one in which a reserve is accumulated to cover both past and future service liability, including the pension benefits to be paid each year. This reduces risks to a minimum.

In addition to the extent of funding, all plans either partially or fully funded may have one or a mixed group of funding arrangements. These can be described as follows:

1) A *group annuities plan,* in which the company turns the liabilities over to an insurance company, commits itself to pay the premiums each year, and let the insurance company gradually purchase deferred group annuities to be paid to employees as they retire.
2) A *trust fund* (or self-administered plan), in which the necessary funds are annually deposited with a trustee, which may be a bank, an individual or a group chosen to handle the fund. Either pension benefits are paid out directly by the trustees as they fall due, or a paid-up annuity is purchased from an insurance company at the time of retirement. The trusteed plan—and to some extent the similar deposit-administration plan—allows a company to vary the size of its annual contributions as profits rise and fall; in bad years payments into the fund can be omitted entirely.
3) A *combination plan* or *individual retirement income plan,* in which the company creates a trust fund out of which it pays premiums to an insurance company for individual annuity policies.
4) A *deposit-administration plan,* also handled by insurance companies, in which the annual premiums paid by the company are accumulated with interest in a fund until the employee retires, at which time the insurance company draws out enough to buy a paid-up annuity at the going rate.





Group annuities occur most frequently in small to medium size firms. For larger firms self-administered plans and trust funds are more feasible. Individual policy plans seem to occur only among smaller concerns, especially those with fewer than the fifty-worker minimum necessary to qualify for a group annuity contract. However, it is difficult to specify just the number of employees which distinguishes the firm for which group annuities are most applicable from the firm which can best use a trust fund arrangement. There is a minimum size below which a trust fund cannot operate with efficiency.

Apart from size, several other points must be considered. The major argument in favor of group annuities is that insurance companies are financially stable and give employees assurance that their promised pensions will, in fact, be paid.

The opposing point of view holds that trusteed plans reduce costs and adapt themselves to the special circumstances of each company. This is true, however, only under three circumstances. The first is that the trusteed plans earn a higher rate of return than insurance companies on their funds. Secondly, they must operate at administrative cost levels below the loading factors of insurance companies. Finally, their mortality experience must be more favorable than the average for the general population. If one or more of these conditions are met, then some advantage accrues to a trusteed plan over the other types of funds.

4. VESTING

A factor critical to the attainment of several of the objectives of pension plans is vesting. Vesting refers to the rights which a participating employee holds to the monies in a pension plan when his employment is terminated prior to retirement. The practice of vesting is based on the concept that the employer's contribution is, in effect, a deferred wage payment. The extent to which this principle is not fully accepted accounts for differences in vesting. These differences have a direct and large cost effect; costs increase with more complete vesting.

Provisions range from *no vesting* at all to *full immediate vesting.* In the former the departing employee can claim only those funds he has contributed up to the time of his severance. If those leaving have no vesting rights, the employer contributions remaining in the fund help to pay for the benefits of others, which reduces ultimate cost. At the other extreme full vesting means that the whole pension benefit for every contemporary member must be funded to the total amount of a full accrued equity. This equity includes contributions of the employer and employee, and interest earned on these contributions. The practice of "discounting for turnover" is not possible under a policy of full vesting.

In between the extremes are the systems of *deferred vesting.* In such plans the employee's equity is postponed pending the satisfaction of certain conditions. They may be one or a combination of the following:

1) *Service.* The criterion may be that an employee who has 5, 10, 15, or 20 years' service may, upon termination of employment, receive all of the employer's contribution. Or sometimes, only a portion of the equity is granted on attainment of the service criterion.
2) *Age.* This test may provide that an employee who attains a specified age, say 45 or 50, will receive full or proportionate rights in his equity.
3) *Membership.* The length of time that a person has been a member of the plan may be used to define the limits of vesting rights.
4) *Years prior to retirement.* The sole test may be that an employee must be within 5 or 10 years of normal retirement, in which case complete vesting will be allowed upon severance.
5) *Disability.* Occasionally, under pension plans which make no direct provision for disability, there may be provision that the entire value of the employer's contribution shall be vested in the disabled employee regardless of his age, service, membership, or other conditions which may normally restrict the amount or time of vesting.

A survey of 217 newly adopted pension plans made by the Bankers Trust Company in 1950 indicated that 19 percent had no vesting provisions; 31 percent allowed vesting on completion of a period of service; 5 percent vested on the attainment of an age, usually 55 or 60; 38 percent had a combination of service and age; 3 percent had immediate vesting without age or service requirement; 3 percent had vesting only on layoff; and 1 percent had incomplete data.

III. Pension Plans and the Law

FROM THE DISCUSSION of tax effects on pension costs it is apparent that bargaining on pensions is directly affected by government regulations and the law. From other viewpoints, too, legal considerations are significant. The pension subject probably calls for more reconciliation with government regulations than any other issue in collective bargaining. The following discussion, therefore, outlines the statutes and regulations which are involved.

1. TAFT-HARTLEY ACT

Section 302 of the Labor Management Relations Act provides the following basic conditions under which payments can be made by an employer to a union for welfare or security objectives:

1) The contributions must be held in trust for the employees and their heirs, and must be for health, pension, disability, accident, and unemployment purposes only.
2) The detailed basis on which such payments are to be made must be specified in a written agreement.
3) The employers and employees must be equally represented in the administration of the fund, and in case of disagreement, an impartial umpire will decide the issue.

4) Payments made for pensions must be made to a separate trust from which the funds cannot be diverted.
5) The fund must be audited annually.

Thus the law requires of industries covered by it that payments be for specified purposes, including pensions. Such payments must be held in trust, which means the appoinment of a trustee. The details of the pension arrangement must be written, with the parties jointly participating in the administration of the trust fund. Finally, for pensions, as distinguished from other welfare issues, a separate trust fund must be established. This latter provision apparently is designed to guarantee the separate handling of the more difficult problem of funding pension plans.

2. INTERNAL REVENUE CODE

The importance of tax exemption has already been mentioned with reference to the cost effect of pension plans on employers. To qualify for tax benefits the plan must meet the requirements of two sections of the Internal Revenue Code: 165(a), on qualified plans, and 23(p), which defines reasonable business expenditures.

The importance of qualifying under 165(a) is twofold. First, it permits the employer to deduct contributions from his income. Second, the employees are not subject to tax on money deposited in the fund to their credit by the employer until the pension or other benefits are distributed. In the meantime the fund may accrue interest without taxation.

In order to obtain these benefits the plan must meet the following requirements:

1) There must be a trust, contract, or other legally binding arrangement.
2) It must be for the exclusive benefit of the employees or other beneficiaries.
3) Until the purposes of the plan have been fulfilled, it must be impossible for the principal or income of the trust to be diverted from these benefits to any other purpose.
4) The trust must generally include substantial portions of the establishment's personnel. It cannot be for a handful of executives.
5) It must not discriminate in favor of officers, stockholders, supervisory personnel or highly paid employees.

Section 23(p) bears upon pay-as-you-go plans in which the problems of diversion to a fund and accumulation of interest are not present. In this type of plan the cost of direct pension payments out of the firm's income is a deductible business expense. The most important application of this section comes in writing off the past service liability of a plan just inagurated, or of one which has been liberalized. This liability cannot be liquidated at a rate greater than 10 percent per year under this section.

In addition, the Bureau has issued a long list of rulings which define in much greater detail the specific cases allowable as deductions. In the establishment or changing of plans, therefore, the parties should proceed with caution. Careful analysis of Treasury rulings is a necessary preliminary to taking any of the following actions:

1) Reducing the amount of pension benefit received by a retired employee by the aggregate of unemployment insurance which the employee may receive from the state.
2) Granting reëmployed former participants credit for prior service with the employer.
3) Providing that the employer may at any time during the continuation of the plan require the employees to contribute.
4) Excluding employees within the general coverage of the plan from participating in any year that they perform less than 26 full weeks of service or, alternatively, earn less than $1,200.
5) Providing that a participant in a profit-sharing trust shall not have the right to question the amount of profit certified as being available for contribution to the plan.
6) Providing for employee contributions to the plan only in the event the employer fails to contribute.
7) Cutting down the amount of the employer's contribution that vests in employees.
8) Cutting down the amount of vesting in the case of employees who quit their jobs voluntarily.

3. "WAGES" UNDER SOCIAL SECURITY

Contributions to the government for unemployment insurance and for old-age benefits are made under provisions of the Insurance Contributions and the Unemployment Tax Acts. Those statutes require that contributions be based on wages. Hence it is important that collectively bargained pension plans do not include hourly wage equivalents. Under some conditions relating to the distribution of benefits, such wage equivalents might be added to the hourly wage rate; thus larger contributions would be required from both employer and employee under the Acts mentioned.

Contributions to plans qualified under Section 165(a) are exempt from consideration as wages. However, if plans are more detailed and provide for distribution of funds for purposes other than old age, sickness, and disability, such provisions would make the use of a wider wage base mandatory. For instance, a fixed and permanent right to a death benefit written into a plan might cause the base for social security tax purposes to be broadened.

4. "REGULAR RATE OF PAY" UNDER THE FAIR LABOR STANDARDS ACT

The base on which overtime is calculated under the Fair Labor Standards Act (Wage-Hour Law) is related to pension plan bargaining. Section 6(d)(4) provides that the term "regular rate of pay" shall not be deemed to include "contributions irrevocably made by an employer to a trustee or third person pursuant to a bona fide plan for providing old-age, retirement, life, accident, or health insurance or similar benefits for employees. . . ." The effect of this exemption is to exclude pension contributions from the rate of pay used to calculate overtime, and thus, the amount which the employer must pay for overtime is not increased.

In January, 1950, the Wage-Hour Administrator issued a comprehensive set of interpretations to clarify the law including the amendments enacted by Congress in 1949. These interpretations included important new provisions relating to pension plans.

Under the new interpretations, all pension plans that qualify under Section 165(a) of the Internal Revenue Regulations are bona fide under the Wage-Hour Law. A possible exception to this blanket exemption occurs in the case of trust funds. If payments are made to a single trustee, the trustee cannot be the employer or one of his officers, representatives or affiliates. If payments are made to a group of trustees, the majority cannot be officers, representatives or affiliates of the employer. Under collective bargaining the effect of the latter provisions appear to tie in with the pension plan provisions of the Taft-Hartley Act.

Another section of these interpretations specifies that "no employee has the right to assign his benefits under the plan nor the option to receive any part of the employer's contributions in cash instead of the benefits under the plan." This closes an important gap which could develop in the administration of this statute. However, vesting is not hampered under this provision if all other provisions under the act are met. The purpose of this interpretation appears to be important to the future liberalization of vesting provisions. The Administrator apparently does not want the interpretation of the law to act as a bar to such liberalization if and when it takes place.

Writing the objectives of a plan into a pension agreement, therefore, requires careful consideration of overtime and the interpretations of the Wage-Hour Law.

5. OTHER LEGAL PROBLEMS

There are additional legal problems, some of which are indicated below:

1) The California Retirement Systems Act includes a rule against the establishment of perpetuities. The drafting of the trust instrument must take into consideration this Act for pension plans operative in California. (See Constitution, State of California, Art. XX, § 9, and Calif. Stats. 1945, ch. 1035.)
2) Dependent on the authority delegated to corporation executives by stockholders, stockholders' approval may be involved in some pension plans.
3) The liability of officers of the pension fund trust must be explored. Such persons may be faced with vested rights as long as thirty years in the future.

IV. Bargaining on Pensions

THE ASSUMPTION in the following discussion is that union and management have decided that the agenda for negotiations shall include a pension plan. Both parties are receptive to its establishment and the question is: What guide posts need to be considered?

1. THE COLLECTIVE BARGAINING CONTRACT

Should the pension plan be incorporated into the collective bargaining agreement? Normally, bargaining settlements are made part of that instrument. There are several characteristics of pension plans, however, which raise some question regarding the advisability of this procedure. For one thing, a pension plan is a long-term commitment, extending thirty years or more into the future. Secondly, changing the terms of a pension plan presents greater difficulties than changing wages and hours. A pension plan, for example, requires permanence and continuity in its payment and interest accumulation functions.

The Bureau of Labor Statistics, has found that

> the details of most . . . plans are seldom outlined in the collective bargaining contract. Usually, the agreement will only indicate in general terms the method of financing and

methods of administration.... Other collective bargaining agreements contain a commitment by the company to pay retirement allowances in accordance with a separate retirement allowance plan, which is jointly negotiated and signed as a separate agreement.

The desirability of a separate agreement to cover the pension plan appears sufficient to outweigh the cost and complication of doubling the number of contracts. This solution, however, can be particularly difficult in establishments with a number of separate bargaining units.

The advantages to be derived from the separation of agreements are evident in the situation that exists during a strike. Benefits under practically all pension plans are accumulated on the basis of continuous service. Once the chain is broken the employee has to start over again.

The National Labor Relations Act recognizes that men do not lose their right to be considered employees by striking. This principle has had application, however, only in the establishment of equitable procedure for rehiring employees after the conclusion of the strike. No definite rule has yet been established regarding the restoration of pension rights under similar circumstances.

This discussion indicates the solution. A specific agreement regarding the rights of employees under several types of breaks in service might be spelled out. Long illnesses, labor disputes, absence for educational refresher courses, and other causes might be considered. A separate statement of the obligations of the employer and employee would make it unnecessary to carry a conflict to the government and the courts and would help eliminate future controversy. At the same time, the bargaining agreement would remain as the basis for current labor-management relations. The pension plan would not be endangered if a work stoppage were to take place.

2. WAGE EQUIVALENTS

It is a practical impossibility to buy "so much worth" of pension plan. The factors contributing to this difficulty have been suggested in the discussion of costs. A package of "eight cents worth" of pension cannot be converted to benefits for all members of a union without discrimination. The rational approach requires spelling out the details of the benefit provisions in negotiations and then estimating the cost. These estimates may then change from year to year as the plan operates.

Another difficulty is that the wage equivalent does not apply in the same amount to everyone covered by a plan. In this sense it is not an "across-the-board" increase but a complex system of differentials when considered in wage equivalent terms. The differentials in a pension plan arise from differing costs for the same amount of benefit for different classes of persons. For instance, for the same benefit the cost to a pension fund of a person presently forty years of age will be higher than for a person twenty-five years of age. The wage equivalent for the forty-year-old is therefore higher than for the younger person.

This argument should not be construed as an attempt to break down the insurance principle. The essence of this principle is the pooling of risks, good and bad, high cost and low, older worker and younger one. But it is misleading to refer to differing costs and benefits in terms of a single wage equivalent.

Finally, there is an even further degree of oversimplification in using wage equivalents where anticipated social security liberalizations are offset against benefits negotiated under a private pension plan. Such a plan will operate at a present cost level, which can roughly but not accurately be translated into a wage equivalent. In the future, if the government program is liberalized, the cost structure of the bargained plan will shift to a lower and equally unpredictable level.

In negotiating pension plans, therefore, emphasis should be placed on the benefit provision. The costs should be understood to vary within a not too narrow range. This approach has the additional advantage of avoiding possibilities of running afoul of the definitional standards of wages for social security tax provisions and for the calculation of overtime.

3. THE BARGAINING UNIT

A problem which may rise out of the pension issue is that of the appropriate unit for collective bargaining. The original National Labor Relations Board rulings covering the definition of unit followed the principle that the history of collective bargaining was the most important determining factor. This meant that for unions which were already established the units in existence were recognized as proper.

This principle was modified by time and the changing conditions which the NLRB had to face. Varying standards were established to meet the different problems that arose. The range of disputes which the Board was called upon to resolve in the establishment of the appropriate bargaining unit involved establishments newly organized, craft and industrial unions, the emergence of wartime labor and manpower problems, and the postwar readjustment period.

Some of these rules were firmly established in the Labor Management Relations Act, and in addition, several conflicts in interpretation were resolved by writing specific provisions into that law. The new provisions dealt with professional persons, members of crafts, and plant guards. For professionals to be integrated into a unit which includes nonprofessional employees, a majority of the former must vote for inclusion. Similarly, craft units have to vote against separate representation to be included in a larger unit. Finally, guards cannot under any circumstances be members of larger units or of separate units affiliated directly or indirectly with an organization that includes other employees.

Why is the foregoing important in a discussion of pension plan problems? The relevance of these criteria for appropriate unit is that the optimum basis of coverage for a plan, in terms of pooling risks, may differ from the bargaining unit determined under NLRB rules. It may, for example, be desirable to include the special groups excluded by the LMRA provisions outlined above. In the opposite case, it may be desirable to exclude from the plan employees who are in the bargaining unit. Finally, a situation may develop in which the different interests of the groups covered by a plan may stimulate the separation or amalgamation of units. This may in turn lead to jurisdictional disputes. This situation might, for example, develop rapidly as a consequence of the purge of left-wing unions by the CIO.

4. HOURS OF WORK

The long-term downward trend in hours worked promises to create problems in the administration of pension plans. They can arise in the following fashion: Many pension agreements define the obligations of the employer to finance the fund at the rate of a given number of cents per man-hour worked. Hence a progressive reduction in hours would result in lower contributions to the fund. Such a decline would force reëvaluation of the level of contribution and might affect the overall liquidity of the fund.

5. PIECE RATES

A related problem arises where piece rates are paid. If the contributions are in terms of a proportion of the payroll, the incentive aspect of piecework is slightly counteracted. Under such conditions the worker earning higher wages because of greater production contributes more to the pension fund than the slower worker. The benefit level, however, is constant for both kinds of employees.

The only solution which maintains the incentive schedule would involve a weekly lump sum uniform for all incentive workers regardless of earnings. If records of hours worked are maintained, then a uniform contribution per man-hour would have the same result. It is recognized that the latter solution would leave the problems mentioned in section 4 above unresolved.

6. GRIEVANCE PROBLEMS

The administration of a pension plan calls for a large number of decisions affecting individual members of the system. Age has to be proved and certified. Service must be authenticated. Union membership may be required for some minimum period. Contributions have to be audited. Coverage under several pension plans may have to be proved, with times, places, companies, wage rates, and other such factors documented. Changing policies may leave gaps in eligibility or create duplications. These are only suggestive of the problems of administration.

Administrative decisions cannot be arbitrary; hence they should be protected by the establishment of organized channels of appeal. If such channels are to work fairly, manuals of operation must be assembled and standardized so that consistent rulings can be made.

It is inevitable that grievances will arise out of the operation of all these procedures, particularly with regard to the determination of eligibility. Further, it is too much to expect that administration can function without some possibility of partiality. This may be in favor of or against the interest of union members. Foresight in planning to meet the contingencies suggested is of great importance.

A well-designed grievance procedure is therefore a mandatory requirement of a collectively bargained pension plan. The parties must decide, as well, whether the regular grievance machinery can handle the special problems of pension administration or whether a specialized grievance team should be established.

7. REOPENING CLAUSE FOR CHANGES

It has been emphasized that a pension plan is dynamic; changes inevitably occur. Actuarial evaluations of the plan may show that contributions are inadequate to cover benefits. The level of benefits may become obsolete in terms of the price and income levels of some future inflation or deflation. New groups may become eligible for membership; new plants may be included in coverage. Shifts in the government pension program may force reconsideration of private plan provisions.

The anticipation of such changes and provision for their consideration through a reopening clause are necessary attributes of a workable pension plan. The reopening clause covering pensions, however, might well be separate from that dealing with other contract provisions. Finally, factors which are the basis for reopening must be clearly defined.

8. TERMINATION OF THE PLAN

Although the assumption underlying the establishment of a plan is that it will operate continuously, it is necessary to anticipate its demise. The life span of unions and the mortality rate of business are notoriously variable. Dips in business activity may have a mortal effect on pension funds. Unemployment may eliminate whole groups of persons eligible before they have reached retirement age. The government might take over private plans.

The Internal Revenue Code affords minimum standards of protection for those persons who have rights to money in a pension plan. These rights should be positively spelled out in the pension agreement so that the problems involved in the liquidation of the fund in case of its demise can be handled with a minimum of difficulty.

9. Important Provisions of Leading Negotiated Pension Plans

Main provision	General Motors United Auto Workers (CIO)	Ford United Auto Workers (CIO)	Bethlehem Steel United Steel Workers (CIO)	National Electrical Contractors Assn. International Brotherhood of Electrical Workers (AFL)	Bituminous Coal Operators United Mine Workers (Ind.)
Eligibility requirements	Age 65 with 25 years service for full pension. Age 65 with 10 to 25 years service for prorata pension.	Age 65 with 30 years service for full pension. Age 65 with less than 30 years service for prorata pension.	25 years service for full pension. 15–25 years service for prorata pension.	IBEW member for 20 years attaining age 65.	UMW member attaining age 60. 20 years service in coal industry.
Contributions	Company pays entire cost.	Company pays 8.75 cents per man-hour. May vary payments.	Company pays entire cost.	1% of gross payrolls paid by employer.	Employers pay per ton assessment into fund.
Normal pensions	Minimum of $4.00 monthly for each year of service including Social Security primary benefit. For service from 25 to 30 years, company's obligation is $1.50 monthly per year of service before Social Security is added.	$100 monthly at 65 less Social Security primary benefit.	1% of average monthly earnings during last 10 years of service, times years of service. Minimum full pension is $100 monthly. Deduct portion of Social Security benefits for which employer paid.	$50 monthly.	$100 monthly.
Vesting	None	None	None	None	None
Retirement provisions	Normal retirement at age 65. Automatic retirement at 68 except with company permission.	Normal retirement at age 65. Compulsory retirement at age 68. Retirement possible at age 60 and 30 years service with company consent.	Voluntary	Voluntary	Voluntary
Funding	Trust fund with future service fully funded and past service funded over 30 year period.	Trust fund with future service fully funded and past service funded at company discretion.	Trust fund partially funded or not funded at corporation's discretion.	Trust fund not funded.	Trust fund not funded.
Administration of fund	Company has right to select qualified Bank or Trust company to act as Trustee of Fund.	Company has right to select qualified Bank or Trust company to act as Trustee of Fund.	At corporation's discretion.	National Employees Benefit Board including one public member.	Tripartite Board of Trustees.
Administration of plan	Joint Board of Administration with impartial umpire.	Joint Board of Administration with impartial umpire.	Corporation-appointed General Pension Board administers. Joint committee of 10 members, ½ from union, ½ from management, provided with information to evaluate operation of plan.	National Employees Benefit Board augmented by Local Administrative Boards.	Tripartite Board of Trustees.

V. Concluding Remarks

THIS PAMPHLET has emphasized the complexities of pension bargaining. The introduction of a negotiated pension plan into a plant or firm for the first time is a difficult and time consuming process. A pension plan commits management to one of the largest financial obligations which it can undertake, extending, as it does, far into the future. It also requires both union and management to make difficult decisions in new and uncharted problem areas.

First of all, bargaining motives become mixed and confused when pension plans are being considered. Within unions the interest of different age groups may be in direct conflict. The older members of the organization, for example, may prefer higher pension benefits, while the younger people insist on wage increases. Further, if it should become clear that union pressure for higher money wages has the effect of inflating the price level, older members might seek to protect their vested interest as a fixed income group by reducing that pressure. A similar split might occur over a policy of shorter hours if this should result in reducing pension contributions.

Second, the nature of a union and of the industry in which it operates has an important bearing on its policy toward pension plans. Large unions with strong bargaining power, dealing with a few large employers and having steadily employed membership, will tend to advocate plans. In contrast, weaker unions and unions dealing with small diversified employers and negotiating for a more fluid labor force will have less interest in pensions. Such conflicting interests may lead to new forms of interunion rivalry. Employers are also in differing camps. Small and marginal enterprises may find pension demands almost impossible to meet. Large, prosperous, and older firms are in a better position to support plans. This will furnish unions with the opportunity to "whipsaw" these groups.

Third, the social consequences of a system of private pension plans may not be entirely desirable. They may serve to intensify the inequalities in our treatment of our older citizens. Limited coverage, differences between union and nonunion workers, differences between unions with pensions and those without, differences in the adequacy of benefits—all are possible sources of unequal treatment. In addition, the existence of these plans can impede the movement of workers by greatly increasing the stake which a worker has in keeping his job with a given employer. Free movement of workers in our society has gone along with the free movement of enterprise. To hamper such movement might have the effect of impeding change and slowing economic progress.

Fourth, pension plans may introduce serious economic problems. The establishment of huge funds, which must be invested in safe, risk-proof securities, may drain off venture capital and act as a deterrent to business spending and the maintenance of high employment. Private pension plans are neither universal enough, adequate enough, nor flexible enough to provide a cushion of spending if it is needed.

There are several points to make on the opposite side of the issue. For one thing, the private pension movement may help to bring about broader coverage and more adequate benefits in the governmental social security program. This is particularly likely if public benefits are offset against the private plan, thereby reducing costs. Second, reasonably small supplementary private plans with fairly planned severance rights can enhance the adequacy of benefits with no harm to the economy. Retired workers living in areas which have a high cost of living could reasonably benefit under such a scheme.

The number of pension plans is rapidly increasing in response to the factors mentioned earlier in this pamphlet. No matter what their attitude toward pension plans is, unions, employers, and the government must now face a new and important trend in the areas of industrial relations and individual security.

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2½m-8,'50 (853s)

Mortality Tables

Age	American Experience (1843-1858) Deaths Per 1000	American Experience (1843-1858) Expectation of Life-Years	American Men Ultimate (Davis Extension) (1900-1915) Deaths Per 1000	American Men Ultimate (Davis Extension) (1900-1915) Expectation of Life-Years	Commissioners 1941 Standard Ordinary (1930-1940) Deaths Per 1000	Commissioners 1941 Standard Ordinary (1930-1940) Expectation of Life-Years	1937 Standard Annuity-Male* (1932-1936) Deaths Per 1000	1937 Standard Annuity-Male* (1932-1936) Expectation of Life-Years	United States Total Population (1939-1941) Deaths Per 1000	United States Total Population (1939-1941) Expectation of Life-Years
0	154.70	41.45	27.85	60.80	22.58	62.33	11.31	68.49	47.10	63.62
1	63.49	47.94	7.39	61.52	5.77	62.76	5.11	68.27	5.21	65.76
2	35.50	50.16	4.81	60.98	4.14	62.12	3.32	67.62	2.67	65.10
3	23.91	50.98	3.85	60.27	3.38	61.37	2.16	66.84	1.88	64.28
4	17.70	51.22	3.55	59.50	2.99	60.58	1.50	65.99	1.51	63.40
5	13.60	51.13	3.32	58.71	2.76	59.76	1.23	65.08	1.32	62.49
6	11.37	50.83	3.13	57.91	2.61	58.92	1.24	64.16	1.17	61.57
7	9.75	50.41	2.94	57.09	2.47	58.08	1.25	63.24	1.05	60.65
8	8.63	49.90	2.76	56.25	2.31	57.22	1.25	62.32	.96	59.71
9	7.90	49.33	2.53	55.41	2.12	56.35	1.26	61.40	.91	58.77
10	7.49	48.72	2.37	54.55	1.97	55.47	1.26	60.48	.90	57.82
11	7.52	48.08	2.30	53.67	1.91	54.58	1.26	59.55	.92	56.87
12	7.54	47.45	2.30	52.80	1.92	53.68	1.26	58.63	.97	55.92
13	7.57	46.80	2.37	51.92	1.98	52.78	1.26	57.70	1.07	54.98
14	7.60	46.16	2.49	51.04	2.07	51.89	1.26	56.77	1.22	54.04
15	7.63	45.50	2.64	50.17	2.15	50.99	1.26	55.84	1.39	53.10
16	7.66	44.85	2.86	49.30	2.19	50.10	1.27	54.91	1.57	52.17
17	7.69	44.19	3.16	48.44	2.25	49.21	1.28	53.98	1.73	51.26
18	7.73	43.53	3.48	47.59	2.30	48.32	1.29	53.05	1.88	50.34
19	7.77	42.87	3.75	46.75	2.37	47.43	1.31	52.12	2.03	49.44
20	7.80	42.20	3.92	45.93	2.43	46.54	1.33	51.18	2.17	48.54
21	7.86	41.53	4.02	45.11	2.51	45.66	1.36	50.25	2.30	47.64
22	7.91	40.85	4.12	44.29	2.59	44.77	1.40	49.32	2.42	46.75
23	7.96	40.17	4.18	43.47	2.68	43.88	1.44	48.39	2.50	45.86
24	8.01	39.49	4.25	42.65	2.77	43.00	1.50	47.46	2.56	44.98
25	8.06	38.81	4.31	41.83	2.88	42.12	1.56	46.53	2.62	44.09
26	8.13	38.12	4.35	41.01	2.99	41.24	1.63	45.60	2.67	43.21
27	8.20	37.43	4.39	40.18	3.11	40.36	1.72	44.67	2.75	42.32
28	8.26	36.73	4.41	39.36	3.25	39.49	1.82	43.75	2.85	41.44
29	8.34	36.03	4.43	38.53	3.40	38.61	1.94	42.83	2.95	40.55
30	8.43	35.33	4.46	37.70	3.56	37.74	2.07	41.91	3.07	39.67
31	8.51	34.63	4.48	36.87	3.73	36.88	2.21	41.00	3.20	38.79
32	8.61	33.92	4.51	36.03	3.92	36.01	2.38	40.09	3.35	37.91
33	8.72	33.21	4.59	35.19	4.12	35.15	2.56	39.18	3.51	37.04
34	8.83	32.50	4.68	34.35	4.35	34.29	2.76	38.28	3.69	36.17
35	8.95	31.78	4.78	33.51	4.59	33.44	2.98	37.38	3.90	35.30
36	9.09	31.07	4.94	32.67	4.86	32.59	3.22	36.49	4.12	34.44
37	9.23	30.35	5.12	31.83	5.15	31.75	3.47	35.61	4.36	33.58
38	9.41	29.62	5.32	30.99	5.46	30.91	3.74	34.73	4.62	32.72
39	9.59	28.90	5.56	30.15	5.81	30.08	4.04	33.86	4.91	31.87
40	9.79	28.18	5.84	29.32	6.18	29.25	4.36	33.00	5.24	31.03
41	10.01	27.45	6.16	28.49	6.59	28.43	4.70	32.14	5.59	30.19
42	10.25	26.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	31.29	5.99	29.35
43	10.52	26.00	6.94	26.84	7.51	26.81	[illegible]	30.44	6.43	28.53
44	10.83	25.27	7.42	26.03	8.04	26.01	5.90	29.61	6.91	27.71
45	11.16	24.54	7.94	25.22	8.61	25.21	6.36	28.78	7.44	26.90
46	11.56	23.81	8.52	24.43	9.23	24.41	6.86	27.96	8.01	26.10
47	12.00	23.08	9.18	23.62	9.91	23.65	7.40	27.15	8.62	25.30
48	12.51	22.36	9.89	22.83	10.64	22.88	7.98	26.35	9.28	24.52
49	13.11	21.63	10.70	22.06	11.45	22.12	8.61	25.56	9.99	23.74
50	13.78	20.91	11.58	21.29	12.32	21.37	9.29	24.78	10.76	22.98

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* For female ages over 10 use male five years younger.