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"CAN PENSIONS PROVIDE MEANINGFUL RETIREMENT INCOME?"

LCR Interviews a Pension Actuary

by Teresa Ghilarducci

Private pensions currently provide only 5% of all retirement income (including Medicare expenditures). Furthermore, most of these benefits go to the wealthier elderly; 88% of the elderly don't receive benefits from private sector employers at all.

Will private pensions plans grow in significance? Only 50% of the private workforce is covered by pension plans (65% of male workers, 25% of female workers); less than half of these workers are vested. The crucial questions facing unions negotiating plans are: What proportion of their members will eventually become vested, and if vested how much is the final benefit?

Teresa Ghilarducci of the LCR Board interviewed pension actuary Robert Steinhorn about the trade-offs in every pension plan and the limitations unions face in demanding universal vesting and adequate benefits. Steinhorn was formerly with Price Waterhouse and now heads Steinhorn & Associates, consulting actuaries in Oakland.

Q: Mr. Steinhorn, in 1981, President Carter's commission on private pensions recommended mandatory pensions for all private sector workers. Other experts agree that high turnover of some workers, particularly women and minorities, bar most employees from ever vesting and thus collecting any benefit. Should unions take the initiative and make lowered vesting rules their highest pension priority?

A: Not necessarily. It depends on the demographic make-up of the group and their desire for pension income. Certainly, accelerated vesting favors shorter service workers; however one must be willing to pay for this improvement, perhaps by reducing the normal retirement benefit. Some unions may prefer to improve pensions for longer service workers and ignore the problem of vesting for shorter service employees. Improving one aspect of the plan may favor one group over another.

Q: It still seems to me that since U.S. workers move from job to job that vesting is the most important plan improvement.

A: I know this is a common notion but some employees don't move; adequate retirement benefits under their plans are crucial. For mobile workers, vesting isn't enough. They may reach retirement age with vested benefits from several plans that together yield an inadequate benefit.

Q: Why?

A: For example, one of my clients worked 29 years at a major East Bay shipping line. He vested when he changed jobs in 1969. The vested benefit was frozen in 1969 dollars. So that his pension benefit in 1983 is about \$335. His retirement income will mainly come from Social Security. My point is even though the ideal system combines many vested benefits from past jobs, the older pieces are outdated and the sum of the parts doesn't equal a meaningful benefit.

Q: So it seems unions face tough trade-offs. In your experience do plan sponsors come to you aware of the trade-offs and knowing what groups they want to favor?

A: We make employers aware of the trade-offs when we project benefits for each type of worker. However, they do have definite ideas about their goals. Corporate sponsors come to us wanting to provide good benefits for the highest paid management employees and, secondly, competitive benefits to all the rest. Unions and employers may have different pension goals.

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Q: But the only goal should be sufficient retirement income, say 50% of final pay, for both long and short service employees?

A: Ideally, yes. However to serve both groups would require increased company contributions. One way to deal with both the vesting and benefit adequacy problem is to decrease the years of service required for sufficient benefits from the current average of about 30 to somewhere between 10 and 20. For a typical defined benefit plan this could increase annual costs by 40%.

Q: How can unions best influence pension design?

A: Unions can survey their members both objectively and subjectively to determine retirement income needs. The union then faces the task of refining these conflicting needs into a single pension improvement proposal.

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