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PROCEEDINGS OF THE EMPLOYEES PENSION CLINIC

CASS THEATER, DETROIT, MICHIGAN

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PROCEEDINGS OF THE EMPLOYERS PENSION CLINIC, HELD BY WAYNE UNIVERSITY
IN COOPERATION WITH THE DETROIT BOARD OF COMMERCE AND OTHER DETROIT TRADE
ASSOCIATIONS AT THE CASS THEATRE, DETROIT, MICHIGAN, ON THURSDAY, NOVEMBER 17,
1949.

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CHAIRMAN: Harvey Campbell, Executive Vice President
Detroit Board of Commerce
Detroit, Michigan

MODERATOR: Frank Rising, General Manager
Automotive & Aviation Parts Manufacturers, Inc.
Detroit, Michigan

SPEAKERS: G. Gilson Terriberry
G. Gilson Terriberry Company
New York, New York

Edward L. Cushman
Wayne University
Detroit, Michigan

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MR. CAMPBELL: It is my privilege to open this meeting and to introduce the Moderator. He is a gentleman that you have known around Detroit for a long time.

Since 1940, Mr. Rising has been general manager of the Automotive and Aviation Parts Manufacturers, Inc. Prior to 1940, he was labor editor of Business Week, being one of the first labor reporters in the country. He has been city editor and newspaper reporter for a number of years. He is a very capable writer, he even plays Canasta. He is a graduate of the University of Kansas.

Frank Rising is a former D.S.R. commissioner. He was former industry member of the War Labor Board, the Wage Stabilization Board, and a number of other governmental bodies. At present he is Industrial Advisor to the University of Michigan and Wayne University. He is a very important gentleman, and his advice is always sought on subjects of this kind. He will open and close this meeting.

Now that I have eased the blow for him, your Moderator, Mr. Frank Rising.

MR. RISING: Well, thank you, Harvey, and Gentlemen.

I don't know any more about this meeting than anybody else does, maybe less. I suppose the thing to do about pensions and insurance is to listen and learn, and no one can argue against that.

It is hard for me to judge whether the pension pattern is going to take or not. It may and it may not, but in any event, after we get past that question, we come upon one on which we can all agree, and that is that very few of us, if any, know much about the subject, and what we are interested in trying to do today is to find out, is to learn.

We have a couple of exceptional men here today to talk about it, and I understand that there will be some opportunity for questions and answers.

Well, we have two men, and the first one, Mr. Terriberry, is not just an insurance salesman. As a matter of fact, he is an engineer, he is a mechanical engineer from Cornell, and for several years after he got out of school, he was engaged in the designing of special tools, and the study of tooling problems in the rubber and automotive industries.

About twenty years ago he organized the Terriberry Company, which is engaged in actuarial and consulting service to management, and he has acquired a tremendous reputation for knowing what it is all about. His clients include such well-known national outfits as the Coca Cola Company, Johnson and Johnson, J. C. Penney, Standard Oil of New Jersey, Beechnut Packing Company, Safeway Stores and numbers of others. As you will note from your program, he was the subject of one of Business Week's candid interviews only a short time ago. He is quite a guy.

We have heard him before, some of us, and I think it is very good of him to come out here to talk to us, because he is awfully busy. I mean that. He is the kind of man that we ought to see more of, because he knows the details of things, whereas we deal only in generalities, at least I do.

It is with considerable pleasure that I introduce to you Mr. G. Gilson Terriberry.

MR. TERRIBERRY: I would like first to go into a little over-all background of pensions and try at this point not to be too specific on detailed questions. I think the more practical way is to handle those questions afterwards -- then, at least, they are questions that are in your minds and not questions invented by me. However, I believe I can make a pretty good guess as to what some of the questions are likely to be.

First, let us consider this whole pattern of the demand for security. It is world-wide. It is not localized in Detroit or the United States. It is world-wide. In some foreign countries it has progressed much further than in the United States and in some instances definitely to the disadvantage of the whole economy of those countries.

There seem to be three long-range, world-wide patterns of this striving for security. One is to provide for old age, one for death and one for permanent disability. Then there are four short-range needs for security: security against industrial accidents, lack of work, temporary illness and medical care.

Now when we think of those seven needs we realize that they are not new. Something has been done about most of them. Sometimes it has been done

on a voluntary basis by industry and sometimes on a compulsory basis, such as unemployment insurance, workmen's compensation and so forth. We have arrived where we are today by a somewhat haphazard evolution. The real questions now are (1) How can this evolution take place in an orderly manner, and (2) Whether or not it should be done voluntarily by industry or by government or by a combination of the two.

This sudden rush for pensions brought on by union activity is creating confusion. The union approach and union publicity makes it sound very simple. The average workman thinks, "Oh, it is easy to get \$100 a month". But from the company's point of view pensions are a long-range problem and costly. Don't kid yourselves, the first year cost is not the ultimate cost. However, if management can design a pension plan to fit its company it can get many cost offsets. But a plan imposed by union demands may be so costly as to jeopardize the stability of the company and be dangerous both to the company and to its employees.

Now let's just skim through some of these dangers from the workman's point of view.

(1) The cost of pension plans is reflected in the cost of the products -- the goods that he buys. These costs are much like hidden taxes, unrecognized but real.

(2) To receive a pension that is worthy of the name a worker must have long service with the company. Does that mean in order to have security against old age a worker is to lose his freedom to change jobs? Are we tending towards immobilizing our labor force? Of course, the unions have an answer for that -- and it may be a good one: area plans, industry wide plans or what we technically call immediate vesting. He can then carry his pension on his back as he moves from one job to another.

(3) Under some of the plans recently proposed by unions the worker loses his right to withdraw from the union. We saw an agreement the other day in which a worker who is not continually a member in good standing and dues paying after he is retired loses his pension. That is a union proposal!

(4) It costs more to provide a pension for a worker over 40 or 45 than for fellows around 25 or 30. Will this create a social problem? What is that going to do to the already difficult problem of older men getting jobs?

(5) What real security is there for a worker in a pension plan? His security depends on the ability of the company to properly fund and maintain a plan. A plan that is not properly funded has no security. The plan must be actuarially sound. Maybe the unions, through lack of knowledge or experience, do not realize that they are promoting plans and making suggestions as to how calculations should be made that are certainly going to lead to trouble the first time there is economic difficulty.

(6) What will the workmen's pension dollars buy? Let us assume that a retired fellow has to live on his pension alone. Suppose he retires right now at age 65. The average length of life for a male age 65 is now between 14 and 15 years and this life expectancy is improving. On the average,

he may well live longer. But looking back only 10 years to 1939 we know we have been in an inflationary trend. Many things are contributing to the pressure for further inflation, such as housing, veterans aids, farm subsidies, government deficit financing and so forth. Pension plans that are economically unsound from the company standpoint are another push in that direction. His pension money may buy less and less.

A pension plan is in dollars -- dollars are put into a reserve and dollars come out -- not purchasing power.

The young employee may find his pension plan changed a dozen times before he gets to retirement to compensate for this loss of buying power. But each increase speeds up the inflationary spiral and penalizes the fellow already on a pension. If a pension plan is to provide stable purchasing power, this country should have as stable an economy as possible. Brakes must be put on everything that contributes toward the inflationary spiral -- and that includes economically unsound (too costly) pension plans.

From the company's point of view there are also problems. Whether a pension plan is established voluntarily by the company or as a result of union pressure, it is presumed to be permanent. The company gives its word -- and what will its word be worth?

The costs of a plan must stay within the ability of the company to pay if the plan is to continue. It must be actuarially sound. It must fit the company and it must be adequately financed.

The company must recognize that the first year cost is not the ultimate cost. Costs tend to go up. There are various ways of making the computations. Some methods of computation have a levelling effect on future service costs. A type of calculation, proposed by some of the unions, tends to reduce the future service costs by throwing more of the costs into the past service. But no matter where the costs are allocated they are still present and should be so recognized.

The amounts of money involved get pretty big. Right now, under present mortality experience, at age 65 for a male it takes roughly \$1400 to produce \$10.00 a month for life. But life expectancy of retired lives is improving so that from this fact alone costs will tend to increase since pensions are paid for life.

Interest rates must be taken into consideration in making calculations. Will they go up or down?

Tremendous amounts of money will be built up in reserves. Is an investment problem eventually going to grow out of these huge reserves? Washington may assist a little. Probably, there will always be enough government bonds to invest in but the interest rate is a little low.

Wage rates do not stay constant. When the wage rate goes up the costs of most plans increase.

Benefits are not static. Unions tend to demand increased benefits

which in turn increase costs.

Everything points toward the increasing costs of maintaining a pension plan.

Now somebody said to me, "Well if our competitor has the same costs we are not too badly off. We both will add it to the cost of our product and the public will pay for it". Well that is one angle of course -- and the inflationary spiral is given another boost. But are competitor's costs the same? Measured backwards to cents per hour, perhaps your competitor's cost is 8 cents and your cost is 12 cents. He has the advantage of a 4 cent differential.

All of these problems must be considered. A company must stop, look and study. You can't do that in five minutes or five hours or even in five weeks. It is a long study.

Undoubtedly, some of you have already initiated such a study months ago. Unless you have given thought to all these factors and know what your employment pattern is you cannot talk intelligently to your union about costs and the company's ability to bear them. If you don't have those facts at hand you are going to find the union pretty hard to talk to because they have been working at this for over a year. Their people are trained. They have learned a lot.

Faced with all these problems, maybe you have jumped to the conclusion that the way to get bailed out is to dump the whole thing on Washington -- let Social Security do it. Well, let's just look at that for a minute.

We believe in the free enterprise system and I understand that most of the unions believe in it. But the quickest way to kill it -- to kill our whole present system -- is to increase government control. If you want to hurry up the trend toward a socialist state just push this off on to Washington, too. Don't take any responsibility!

Is that the answer?

Of course the socialist state recognizes that the need for security is important but there is no way that a socialist state can provide it except through government monopoly and legislation.

Can't free enterprise provide security? If the managements will take some leadership and if they will study their individual problems, I think they can handle it. Unions are taking leadership. Isn't it time that management put their brains to work on it, too? If a union and management can just say, "Well, now let's forget our differences and let's make an objective study of our company's problem" they can do it through cooperation. I have seen it work. It hasn't been done very often but where it has, it has worked successfully.

Let's evaluate where we are today. We have government Social Security as a base. It is a sort of subsistence level of security. The proposed bill HR6000 will bring it up to date. I am in substantial agreement with it. It replaces the purchasing power of money that has been lost since

the passage of the original bill and broadens the base to include more people.

Earning rates and living standards are different in various parts of the country and for different types of occupation. Companies that employ skilled, highly paid workers need to add to this subsistence level for their employees. And there we have two layers of security -- a two layer cake.

There is a third layer on this cake. A layer that has made this country grow and should keep it growing. That is individual thrift. I think we should keep it like that. But if the government were given the entire job of providing the middle layer as well as the subsistence layer the incentive for thrift would disappear and with it the top layer. We would then have just one layer left.

Let us look at England. The other day I saw in the paper figures showing the number of people out of England's population of 50 million who are on the government payroll. On the assumption that one out of four of the total population are wage earners the percentages are as follows: 15% are in the government and armed services; 10% are either in local authorities or are in civil service and 20% are in nationalized industries. In other words, roughly 45% of the working population of England are on the government's payroll. And then we wonder why England can't progress!

There were 3 questions in the announcement of this meeting. I was not going to try to answer them at this point because they cannot be answered categorically. Each situation is different. But Mr. Cushman and I talked it over this morning and he thought maybe I should cover at least the first one.

What information should an employer have in order to discuss pensions intelligently?

First, the Company should make a study -- and this study is going to take quite a little while if it is to produce enough information to sell ideas to the union. The study should start with a history of the company's earnings before taxes. It should include -- and this is very difficult to do -- an estimate of what the company is going to do in the future. It would show the company's position in its field in relation to its competition -- whether it is the little tail on the dog or most of the dog. We would want to know whether the company is going to expand, stay the same size or shrink. In other words, it is necessary to project some idea of what the future is going to hold.

Now this can only be a guess, I know, based on judgment and experience. You must have had this sort of judgment or you would not still be in business!

If pension cost is to be measured as a percentage of payroll it is necessary to know what labor cost is as a percentage of total cost. It is necessary to estimate what pension plan cost you can stand and still stay in business.

You should make a very careful study of your employee's pattern including the age of hiring and the present age and service distribution. You ought to know how many old people with long-service are on your payroll. If

your company has been growing rapidly you will have many employees at younger ages with short service. But this group will represent a cost 30 years from now.

You will want to make a turnover study. To make such a study applicable to pension cost you must know the age, sex and length of service of the people who terminate. Of course, we know that turnover goes up and down with business cycles and that it differs by industries. You may also find that a pension plan may reduce your turnover. An actuarial study is then made to develop a turnover factor. In applying this factor vesting provisions of the plan are considered.

You should study your present payroll to see what hidden pension costs are now included in the payroll, represented by people who would have been retired if you had a plan. Practically all companies without pension plans are carrying retirement costs on their payrolls in the form of super-annuated or inefficient employees.

It is also necessary to evaluate the union attitude. Can you count on its cooperation? Can you cooperate with it? This often depends upon the relationship that has been built up over the years. Good relations are not built up over night even with the help of a pension plan. Good employee relations are like a fertile field. But it takes a long time to bring in a field that is barren.

You have other employees who are not in the bargaining unit. The plan should cover these employees as well as those represented by unions. You should know this cost too. And you may well find that you will actually save money if you retire some executives before they get too dodderly!

The plan must be actuarially sound. This you must insist on and I think some unions -- U.A.W. particularly -- will agree with you.

Of course the problem can be complicated by having a number of different unions. We have one client that has over 375 different unions. There are so many that it really isn't half the problem that it would be with six.

Much of your study must be made with and by policy-making officers. While these policy matters are being considered a complete listing of the payroll should be underway. This is necessary when actuarial costs are studied. It should include date of employment, date of birth, sex and salary. If costs are to be discussed with the union this should be broken down between wage and salary. The actuary will use this data as a basis to figure costs on different benefit assumptions.

There is a silly idea that seems rather prevalent that six cents an hour will buy the same pension benefits in all companies. There is no more relation between six cents an hour and the ultimate pension than there is between feeding everyone the same food and expecting them to grow to the same height. One company may have a lot of old employees with long service and another many young short service employees. The pension costs of the two companies would be entirely different.

If you use six cents an hour multiplied by payroll you will have so many dollars to pay with. You then start with cost and work backwards to benefits. As there are several different bases for actuarial calculations and for funding you will come up with many variables.

You can see that in order to complete this study, technical assistance is necessary.

The earlier you secure this assistance the less waste motion will go into gathering the information and considering your problem.

Thank's a lot. I will look forward to the questions.

QUESTIONS AND ANSWERS

MR. RISING: MR. TERRIBERRY, PLEASE DISCUSS THE RELATIVE MERITS OF PENSION AND PROFIT-SHARING PLANS?

MR. TERRIBERRY: Well, I suppose you realize the fundamental difference between a pension and a profit-sharing plan and are thinking of the profit-sharing plan that will produce pensions -- a deferred profit-sharing retirement plan.

A pension plan is based on a formula which determines the benefit. The cost to produce this benefit is then figured. The company then establishes a reserve that will produce this benefit. The cost may be borne by the company alone or by the company and employees.

Under a profit-sharing plan, a formula is developed based on company profits -- this produces annual amounts to be credited to each employee, amounts varying with the profits. These amounts are accumulated and then are used to buy whatever benefit they can at retirement.

For older employees it is too late to pick up enough benefits under a profit-sharing plan. They are too near retirement age. Under a pension plan, the annual cost for an older employee is greater than for a young one. These costs are determined individually -- not across the board as a percentage of earnings as in a profit-sharing plan. You ask which is best? I don't know. It depends on what you wish to accomplish. In general, unions resist profit-sharing plans.

For small companies a combination might be used. A minimum pension plan with minimum costs produces an underlying pension. The cost of this is fairly low. On top of that is a profit-sharing plan that in good profit years, when the company can afford it, will produce additional funds for benefits. The plans are actually kept separate but each produces a pension benefit. The final pension, of course, is not predetermined.

MR. RISING: WOULD YOU CARE TO COMMENT ON THE ADVANTAGES AND DISADVANTAGES OF JOINT PARTICIPATION, MR. TERRIBERRY?

MR. TERRIBERRY: I am not sure whether that means joint administration or joint contributions. I think it means joint contributions. In other words -- a contributory plan versus a non-contributory plan.

A contributory plan is a cooperative plan. Employee contributions are, in effect, savings. Mr. Murray says that any contributions to a plan are equivalent to a wage cut. I don't see why, if employees save money, they have had a wage cut. If they bought a bond or put it into the savings bank it wouldn't be a wage cut. Why, then, is this a wage cut? The employee always gets his money back with interest no matter what happens, either at retirement or as a death benefit or on separation of employment -- so he can't lose.

There is no doubt that the employees take a greater interest in a contributory plan. Their contributions act as a break against demands for wild increases in benefits because bigger benefits require bigger contributions. They also realize more fully the value and cost of the benefits.

I think most industrial relations people agree that a contributory plan creates better relations and is actually more effective and stays more effective. Many employees come to us when we are installing a non-contribution plan and say, "We would like to put some money into the plan. We would like to use this as a vehicle for savings and to increase our pensions".

I am not at all sure that the pressure for non-contributory plans isn't coming from the top part of the union rather than from the bottom. A contributory plan is a little more difficult to change at the bargaining table. On the other hand, the employee gets larger benefits and in the event of termination he has some money available.

In a non-contributory plan, of course, all eligible employees are automatically in the plan. There is no problem of selling it to the employees. As a result many companies do not make enough effort to educate the employees on their benefits. After the plan has been in effect a little while the younger employees forget all about it. It is only the people who are close to retirement that seem to remember there is one. It is very easy to change a non-contributory plan in bargaining.

There are fewer administrative details and records for the company to keep in a non-contributory plan. One union is particularly stressing this saving, which is actually so minor as to be negligible. Until this pension plan rush started with the Steel people there were more contributory plans than non-contributory plans. The National Industrial Conference Board reported in October that out of 255 plans in companies employing 1.5 million workers, 58.8% are contributory.

MR. RISING: This question asks, Mr. Terriberry, WHAT CAN MANAGEMENT DO TO START GETTING INFORMATION BEFORE CALLING IN SOMEBODY FROM THE OUTSIDE?

MR. TERRIBERRY: I thought I covered that pretty well by telling them to study their earnings, to make an estimate of their future, to forecast

whether they are going to expand, what cost they could stand and still stay in business and to determine labor costs as a percentage of their product cost. The employee pattern study cannot be done very well without outside technical help but they can study these other matters.

They can start getting and listing information. If the company is sizeable this information ought to be put on punch cards. Maybe before the cards are actually punched they better be sure that they have all of the necessary information in addition to the general information concerning date of birth, date of employment, sex and salary.

For instance, in determining the date of employment, you have to decide whether you are going to take it from the last time there was a lay-off or whether you are going to include breaks in service. Usually, this is determined by seniority provisions. This accumulation of data can all be gotten under way.

MR. RISING: IS A PENSION PLAN FEASIBLE FOR A COMPANY WHOSE EMPLOYEES VARY FROM 50 TO 500 DURING THE YEAR?

MR. TERRIBERRY: We have some construction companies that vary in this manner. We have a plan that covers the core of employees. This core is made up of engineers and staff and is quite constant. When they build a project some place they may hire, perhaps, a thousand people locally for a period of six or eight months. Then they are off to another location and another large group of employees.

On the other hand, if this question concerns a regular staff that runs from 50 to 500, a plan also could be worked out if the same people come back after the lay-offs. They could be given approved absences, picking them up for additional benefits after their broken service.

MR. RISING: THIS NEXT QUESTION INDICATES THAT APPARENTLY I DID NOT MAKE IT CLEAR WHEN I SAID THAT YOU NEEDED ROUGHLY \$1,400 TO PRODUCE \$10.00 A MONTH FOR LIFE FOR A MALE AT AGE 65.

MR. TERRIBERRY: In other words to pay a male age 65 \$10.00 a month for the remainder of his life would require a reserve of about \$1,400. This amount could be a cash payment made at the time of retirement or could be built up gradually over the years with accrued interest.

MR. RISING: IS THE FORD PLAN ACTUARIALLY SOUND? HOW ARE THE RESERVES BEING INVESTED?

MR. TERRIBERRY: I believe you are going to have to talk to the Ford Company and their actuary for that one.

MR. RISING: This question is a little tough. WHAT EFFECT PERCENTAGE-WISE DOES VESTING BEAR ON THE GROSS COST OF A GROUP ANNUITY OR TRUSTEED PLAN (1) 50% AFTER TEN YEARS OF SERVICE, (2) DUE TO DISABILITY?

MR. TERRIBERRY: I don't think that can be answered specifically. Early vesting tends to increase the cost in most plans because you lose the

turnover credits when an employee leaves with a vested interest. In other words, there is a reserve set up actuarially for Mr. X. If he terminates service before he gets to retirement or before he gets to the vesting point, that reserve is no longer needed so it stays in the fund and is used as a credit against the next year's cost. But if he left with a vested right there is no credit to the fund.

Disability under a pension plan means that in the case of total or permanent disability the employee will receive an income. This may add materially to the cost of the plan since payments are made before he reaches retirement age.

MR. RISING: This question is similar to the one Mr. Cushman had. DOES THE ESTIMATED 8-3/4 CENTS AN HOUR FORD CONTRIBUTION INCLUDE PAST SERVICE FUNDING COST AS WELL AS CURRENT SERVICE COST?

MR. TERRIBERRY: We don't know although we have talked with some of the actuaries who did some of the work on it. We are not sure. I rather doubt it under present Social Security rates but I do not know,

MR. RISING: PLEASE DISCUSS THE FINANCIAL EFFECT OF THE USE OF LENGTH OF SERVICE VERSUS SENIORITY DATE IN DATA FOR ACTUARIAL USE.

MR. TERRIBERRY: It would depend on which gives employees the most years of credit -- the length of service or seniority. I mentioned that if an employee has been off in the past and has not broken seniority you do not usually call that break a termination when figuring years of past service. You might give years of credit with or without deducting for time off.

Some companies keep "net" service records: If the fellow works for five years and is off a year and then comes back they move forward his original date of employment one year for the year he missed. By measuring from this date of employment the actual number of years worked is arrived at. Everybody seems to keep their records differently.

Whichever one of these methods would give the longest past service would naturally cost the most.

MR. RISING: IN YOUR DISCUSSION YOU STATED THAT THE PENSION IS JUST ANOTHER FACTOR IN THE INFLATIONARY TREND. DO YOU FEEL THAT THE DECREASED PURCHASING VALUE OF A DOLLAR WILL TEND TO INCREASE THE DEMAND FOR HIGHER PENSION?

MR. TERRIBERRY: It will probably increase the demand for higher wages and higher everything.

MR. RISING: DO YOU THINK IT PRACTICAL FOR A SMALL COMPANY WITH 75 EMPLOYEES AND SALES OF A MILLION DOLLARS PER YEAR TO INAUGURATE A PENSION PLAN AS NOW PROPOSED BY THE UNION?

MR. TERRIBERRY: No one can answer that categorically. Does this company make money? Can it stand the costs? Is it a marginal producer? The answers to these questions together with a cost study of the proposed plan would give you the answer. I wonder what the union attitude would be if you could show them that if you had to add that cost you would go out of business.

MR. RISING: Mr. Cushman is on next, and I want to remind you that both he and Mr. Terriberry are available for questions. You are supposed to have cards on which you can write questions, and note the name of the individual to whom they should be addressed.

Ed. Cushman is going to talk to us about collective bargaining aspects, which is quite a subject. I don't think I need to introduce Ed. very much to this crowd. I remember on a few occasions when I have described him to others, I am fond of saying that he is the only individual I know, who is just as close a friend of management as he is of the labor unions. Almost everyone else, in fact I would say everyone else that I know of, is labelled a little bit as being pro-union or pro-management or pro-something, but Ed. is very fortunate in that he has never had a direct connection with either side of our quarreling labor relations world, and over the past few years particularly, his being here has been of great help to us whenever we would need a strictly impartial, factual, objective agent.

He is also pretty far-sighted, because he insisted that we put on a series of six weeks of discussion of pension problems last year. We did it. A number of you men that I can see here today were in those audiences, and we at least got a little head start, although the problem now threatens to overwhelm us.

With that much, then, a reminder of who and what Ed is -- he is Director of the Wayne University Institute of Industrial Relations; he has a long background of government service, he was chairman of the War Manpower Commission here during the war when John Lovett and I and Chester Culver and Victor Reuther and various others tried to keep people working at what seemed to be the best jobs that they could find.

Ed, will you take on, then, and discuss for us what you can see in the collective bargaining aspects, which I take to mean the problems you can see and what, if anything, we can do about them?

MR. CUSHMAN: Mr. Rising, and folks, as you can see, Mr. Terriberry and I are the long and short of it here, and I guess this may be the short end of this presentation.

In talking to a group of management folks it seems like "bringing coals to Newcastle" for me to talk about the management problems concerned in negotiating with the union. I know that a number of you have already been in negotiation, some of you have been preparing for negotiation, and I assume that all of the rest of you are informed in some way about the subject or you wouldn't be here. I do think, however, that some of my comments, based upon visits with quite a large number of union and management officials, may be of some interest to the group.

I thought perhaps that most of my comments might relate to the UAW-CIO, and its demand for pensions, because that is the union that most of you folks are dealing with, or will be dealing with in this particular regard. I also thought that perhaps the most helpful role that I could play would be to bring to you something of not only their demands, but something of their thinking and something of the procedure that they expect to follow and have been following.

I have here a number of their publications which I will use in the question and answer period or otherwise. This one here, which is a fairly good-sized document, I think there are some 170 pages, is a presentation that they made to Chrysler Corporation, and another one of these is a handbook that the UAW is using in training its own personnel in this whole matter of collective bargaining in relation to pensions, and what the UAW calls the "health security" program.

I might say, however, that my problem in trying to get something across to you folks from the standpoint of the kinds of negotiations you may have with the union, is somewhat different from the one that I will have on December 3rd, when we are conducting a one-day conference for union officials on the same general subject.

I am making a further assumption that you folks are not too much interested in an academic discussion of the subject, as to its fundamental economic and social, psychological, sociological and other implications. I think that is a fair assumption, isn't it, Frank?

MR. RISING: Yes.

MR. CUSHMAN: I might say, that as Frank mentioned, a year ago we did do a course on pensions, because we believed that it would be a problem of increasing importance to folks in management and labor. We believed that, from many indications that we had from labor and management. We believed that also because of the fact that the basic problems confronting our American economy in this whole field of an aging population are increasing.

I assume that most of you are well aware of the fact that today there are twice as many people sixty-five years of age and over, as there were as recently as 1920, and the present number, it is anticipated, will double again by 1980. Furthermore, life expectancy, beyond sixty-five, now extends an average of approximately fifteen years. I think it is significant that of those persons now twenty years of age, one-half will still be living at the age of eighty. I wish I were twenty again!

Furthermore, the population trend away from a rural economy to one that is increasingly urban and industrialized, means that old age problems are not only vastly more complex, but much more expensive to deal with. It is not surprising, therefore, that unions as well as other segments of our society are increasingly turning their attention to this whole problem of an aging population. The most surprising thing about it, in fact, insofar as the manifestation of that interest in industrial pensions, is that so many managements are surprised.

I think that it is important that we point out that today's clinic is sort of a "once-over-lightly" treatment. We cannot actually get into as many details as we would like to. I would like to say that in addition to the program that we did last year, and some we have done so far this fall, that we intend to do several more of a much more intensive nature right throughout the course of the year.

During the past three years, our Institute has been studying this

whole problem of aging, particularly with relation to pensions, and my comments are based upon those studies and visits with management and union officials.

The UAW, over a year and a half ago, directed a major part of its attention to this matter of pensions. About that time, a separate Social Security Department was established. That department now has grown to some size, and includes a number of professional people. I think it is interesting to note that they now have on their staff four actuaries. They have an attorney who has specialized in this aspect of legal work, and they have a number of other professional persons who have been concerned with this problem. One of the things that has impressed me is the fact that the UAW is very decidedly concerned about establishing actuarially sound programs, and I say that because I am thoroughly convinced that that is true.

They have just as much of a selfish interest in not having these programs backfire as you have or as anyone else has. They are mindful of all of the problems that result from the kind of program that John L. Lewis and the United Mine Workers established, which to say the least was not only not sound actuarially, but wasn't administered uniformly with equal treatment for all of the beneficiaries. As I understand it, a miner in one particular situation may receive benefits, whereas a miner under exactly the same set of circumstances may not receive benefits at all.

I am convinced and I am sure that you people are in hopes that my conviction is true, that the UAW is going to work toward soundly established plans from an actuarial and administrative standpoint.

I think one of the most significant developments in this connection is the joint study that General Motors and the UAW are making of their particular problems in this regard. As you know, the General Motors study group is not a bargaining group. It is supposed to be a study group, and my distinct impression is that the UAW is approaching it from that point of view. I understand that their meetings to date have been more or less organizational in nature, and have been concerned with outlining the path that they shall follow in making those studies. Personally I think that this is at least potentially one of the most constructive approaches that have been taken to industrial relations matters here in the Detroit area.

Now specifically, the UAW program has the following objectives:

First, pensions that are financed entirely by the employer. They state that they will not agree to any pension programs where the employee is a contributor.

Secondly, they are asking for benefits amounting to one hundred dollars as a minimum per month, including the Federal old age insurance benefit, to be paid at age sixty-five, for employees with thirty years of service, or sixty-eight dollars per month, whichever is larger.

That is somewhat different from the Ford settlement, but they are asking for one hundred dollars minimum monthly pension, including social security, or sixty-eight dollars per month, whichever is larger.

Third, they are asking for what they consider to be appropriate graduated monthly benefits, that is pensions for employees with less than thirty years of service, and under sixty-five years of age at retirement.

Fourth, they are asking for certain minimum provisions for early retirement, and incapacity retirement. In connection with incapacity retirement benefits, the union is asking for sixty dollars per month after fifteen years of service, up to one hundred dollars per month after twenty-five years of service.

Now my understanding is that the UAW considers its key demands to be as follows:

First, that ten cents to twelve cents will be provided by the employer in new money for pensions and for health and welfare programs. Further, it is my understanding that the UAW considers that pensions and "health security programs", as the UAW calls them, will be treated as a single package, with a total cost per hour for the entire package, if it were to meet their standards, amounting to approximately fifteen cents per hour for most employers.

In general, the expectation seems to be that about seven cents of that would be needed for the average employer for pensions of the type that the UAW is requesting, and about eight cents would actually be needed for all of the items in the so-called "health security" program.

Although one of the UAW key demands, as I indicated a bit earlier, is that the pension programs be non-contributory, I am of the impression that the UAW would agree to employee contributions to make up the balance for the health security program, between the cost being provided by the employer and the amount necessary to meet the minimum UAW standards. The union is asking that the new money for the health security programs be payable immediately, and that the new money for the pension programs be payable not later than March 1, 1950.

As an example, I might mention that in the Chrysler case, as most of you know, the amount that is being requested of Chrysler for this total package is 11-1/2 cents, with seven cents going to pensions, and four and one-half cents to the so-called health security program.

A second key demand beyond this matter of the ten cents to twelve cents that I mentioned a moment ago, is that there shall be joint administration of the program by a board of trustees, consisting of equal representatives of the company and the union, with an impartial chairman to resolve any differences that might occur.

Third, the UAW is insisting on trusteed plans as against insured plans, based on their belief that the use of a trust fund provides cost advantages, and for other reasons.

Fourth, the UAW-CIO is asking that all workers under the collective bargaining contract be covered by the pension program.

The approach of the UAW to collective bargaining, is to present the

employer, after preliminary discussions, with a detailed statement of the arguments in favor of pensions, together with proposals relating to financing, coverage, eligibility, benefits and costs. In other words, to work out this proposal, the first request to a company by the UAW is for the kinds of census data that Mr. Terriberry referred to, namely for information as to the age and seniority composition of the work force and so forth, but if the employer refuses to make that information available, the UAW, as it did in the Chrysler case, will make a survey to get the best available information that it can as a basis for computing costs and making their estimates and recommendations.

In addition to the information that Mr. Terriberry mentioned, I might say that they also are asking for information on marital status and dependency, because of its relationship to the health security program.

The UAW is willing to make available to employers any of the work schedules and data on which they make their estimates.

The UAW approach is to attempt to include in the collective bargaining contract itself, specific provisions for these principles that I mentioned: that is, the establishment of the trust fund, and of a board of trustees, with the expectation that the details will be established by the joint board of trustees. Their approach is similar in regard to hospital and medical care and related benefits: that is, it is similar in the sense that they are asking for provisions in the collective bargaining contract for a joint board of trustees to be given the responsibility for working out the schedules of benefits, for making arrangements for provision of benefits, and for the operation of the program.

Now as I understand it, the priority and bargaining on hospital and related care and medical benefits will be given to securing an agreement on the cents per hour to be devoted to these programs. After that has been done, the board of trustees is then expected to work out the details of the program, using such carriers for the programs as that board determines. The UAW is insisting, as I understand it, that whatever carrier is used, ninety-three per cent of the premium dollar must go to benefits or surplus. In other words, a minimum standard that they plan to insist on is that at least ninety-three per cent of the premium dollar must go into benefits or surplus.

Now the UAW itself is, according to my understanding, planning to offer certain central administrative services in connection with these programs -- services of an actuarial nature, such as in the designing of the program, an annual audit, the evaluation of the program, forms, agreements, and so forth. They plan to submit these to the Board of Trustees not on a bargaining basis, but in competition with existing insurance companies, trust companies or banks. They believe that they can provide these services with a total cost for entire administration that is estimated at one per cent, which they claim is about one-eighth of what an insurance company would normally charge, and from one-third to one-fourth of what a bank or trust company would charge.

As I understand it, their program is underwritten by a combination of three existing insurance companies, and it will guarantee ninety-three per cent of the premium dollar in benefits or surplus.

As far as health and medical care and related programs are concerned, the UAW is working out agreements with Blue Cross, Blue Shield and other medical groups, medical care groups. Interestingly enough, the UAW is currently negotiating with state medical societies for schedules of fees.

For those firms which sign up with the UAW central administrative services program, as I understand it, the cost of individual companies will be based upon the individual experience of those companies, but there will be pooled administration, and a pooled mortality basis for computing costs. In addition, it is my understanding that the UAW will propose that there will be reciprocity of service credits for workers transferring from one company to another, when both companies are using the UAW central administrative services. This is designed, of course, to deal with the problem of workers changing from one employer to another.

I want to make it clear that in discussing the UAW program here, that I am not arguing the pros and cons of its elements. I think you folks will hear from the UAW in that regard rather extensively, if you haven't already!

In regard to the relationship of these private plans to governmental programs in this field, I think the UAW has made it clear that their position is in favor of liberalization of the Federal old age and survivor's insurance program as the fundamental basis for meeting these problems. They believe that their agreement with the Ford Motor Company, which permits variation in the amount of contribution by the company, based upon what happens to the federal program, is a clear-cut indication of their conviction in that regard.

It is interesting to note that a number of management people have taken a position in favor of the liberalization of the federal program. Mr. Ernest Breech, who is executive vice-president of the Ford Motor Company, explained the philosophy of that company in regards to its recently-negotiated plan with the UAW at a meeting in Youngstown, Ohio, a short time ago, and in that talk Mr. Breech said, I think most of you are probably aware of this, he said:

"Our first decision was that over the long pull, the best way of providing for workers after their period of useful services, is through the federal old age security legislation. This mechanism has been set up. Under social security the government collects contributions from both, acting only as an agent of the employers' and employees' old age pensions, and manages and pays out these funds. The interests of all employees can in our opinion be properly served only by such a national plan, which among other things can assure workers that benefits will follow them when they move from job to job. Present social security benefits can and should be made more adequate to the extent that our productivity can foot the bill."

On Tuesday, as I am sure you are all aware, Mr. C. E. Wilson of General Motors Corporation, speaking before the American Bottlers of Carbonated Beverages said:

"Adequate federal pensions operated on a sound basis would seem to be the real answer to the problem. Such federal pensions must give more consider-

ation to the requirements of skilled and semi-skilled workmen and white collar workers. However, federal pensions must not be too big, or the cost will be too great."

Mr. Wilson further stated: "We are going to have pension plans in business and industry to supplement and improve federal plans," and he indicated, as did Mr. Breech, that this need for permitting workmen to change jobs without danger of losing their pensions, was behind his comment in regard to the federal program.

Obviously I don't know what the particular problems are of your particular companies, but the one thing I do know is that the companies that are dealing with the UAW-CIO will be asked to provide programs along the lines indicated.

I believe that a presentation similar to that of Chrysler is either being given to Briggs today or tomorrow, and it is my understanding that they will have similar documents ready for presentation to at least one hundred companies by Thanksgiving week-end, designed to deal with those particular companies, and from then on, I assume that the employers who have contractual relationships with the UAW will be hearing from them.

I do believe, however, that one of the most important elements of dealing with this whole matter of negotiation with the union is for the employers to secure the kinds of data and information about your work forces that you need on which to make up your minds.

Now I want to make it clear that I know that every individual company has a choice of policies as to how it is going to react to these demands, and I think that that is logical and sensible and proper, but I do want to indicate that I think that you will find that these demands will be before you.

I hope that these comments regarding the UAW program, which I will be glad to expand on insofar as I can during the question and answer period, may be of some help to you. I think that it is important that as much consideration be given as rapidly as possible to these problems before decisions are made when you are all up against the gun and the time element situation, which I am afraid is all too frequent.

Thank you.

MR. RISING: Thank you, Ed. Now, gentlemen, if you have any cards or if anyone would like to bounce up out of the audience and pop a question, we will take one. It is a little easier to do it by cards.

The first question that I have for Mr. Cushman is: "In your opinion, will the UAW-CIO strike for pensions?"

MR. CUSHMAN: Well, I don't know any more about that than I suspect you folks know who are dealing with them. I would say that it depends on the individual situation, but I personally have the opinion that there is a pretty good chance that they will. I think it is a matter that has top priority on their agenda of demands, and I think that the forces involved in the situation

mean that it is entirely possible that strikes for pensions may occur.

The second question is: "Do you think the UAW might go to the steel type of pension," which according to this questioner, provides greater benefits. I don't know whether they would go to the steel type of pension, and I am not sure exactly what the aspects of the difference are that the questioner had in mind, but in a number of the steel plants, you already had a pension plan in existence, in which the new agreements have been net additions to the old program.

The third question is: "What are the three insurance companies that are approved by the UAW-CIO?" Let me say this isn't a matter of their being approved, as I understand it. These three insurance companies have joined together in helping to underwrite the UAW proposals that I mentioned a bit earlier, a proposal to submit the use of their central administrative services, or call it what you will, as far as social security programs and so forth are concerned.

I don't happen to know what the names are, of those three companies, but I am sure you can find out all right. I mean there is nothing secret about any of the things I talked about. The reason I have mentioned these things to you is that I feel that one of my roles in this community is to try to interpret the problems and the attitudes of the union group to management, and vice versa, and I hope that it was of some value.

MR. RISING: There is one question here which is addressed to both of these men, which I would like to answer myself. It reads as follows:

"The question of financial security is so academic, variable, and depending upon constantly changing economics, that it seems to revert itself back to the only true solution, individual thrift. Why not spend the money earmarked for financial security in educating the worker in the simple fundamentals of money finance, and secure economy?"

Well, the interesting thing about that was that when I first read it, I stopped on the first side of the page where it winds up, "Why not spend the money earmarked for financial security," and I thought that man has quite an idea, at that, because that is what does happen to social security money insofar as I can discover.

I don't think there is much chance of educating the worker to the simple verities of money, finance, economy and so forth. You haven't got a great deal of a chance in this kind of a drive, to even do much objective discussion. In many cases you are overwhelmed. Mr. Terriberry muttered there, "That is the big trouble," and it is the big trouble. He touched on that in his talk.

The majority of people who are enthusiastic and so heartily emotional and so on about pensions and old-age security at this time, and perhaps at all times, are swept along by their emotion, and to them it is a question of, as Mr. Terriberry said, "How much insurance will six cents an hour buy?", an unanswerable question.

I had a notice last week from four automotive parts companies which are widely separated, which have no connection with each other, and which were not in touch with each other, and the same thing happened in each of these companies. They made agreements with their locals, they were UAW-CIO locals, for new contracts, embodying wage increases, improved insurance plans and no pensions, plus a moratorium on pension discussions for five years.

These agreements, after being made with the locals, were kicked over, according to the companies involved, by the International, that is the locals came back after trying to get International approval, and reported no deal, the International wouldn't agree to it. So in addition to all the problems that Mr. Cushman and Mr. Terriberry have talked about, and goodness knows they are so many as to make your head swim, you also are up against the problem of not being able to conduct collective bargaining on these things. You are up against a forcible, top-level edict.

MR. CUSHMAN: The next question is: "Please amplify your remark stating that the UAW desires trust operation rather than insurance funding."

I don't know that I can amplify it, particularly. As I said, that is the position that they seem to take quite strongly, and they argue that it will cost less to administer, and therefore more money will go into benefits. Whether that is true or not, I don't know, I am not a pension expert. I want to make that very clear.

"What is the union's position on employees who have reached now sixty-five years, and have served twenty-five to thirty years with a company? How far back is the company obligated to go?"

Well, as far as the union's desires are concerned, they want them to pick up past service in its entirety.

"Please discuss briefly the pros and cons of non-contributory pensions versus contributory pensions." I think in the light of Mr. Terriberry's comments, we might skip that. I think the principal argument of the union relates primarily to the fact that the non-contributory pensions do not have to pass through the income tax process.

Mr. Terriberry thinks I should explain that. He is better equipped to explain all of the technical aspects of this than I can, but if the money is paid in wages to the worker and the worker then contributes, that means that his wages have already been subject to income tax and have been reduced by that amount, whereas if the money is paid directly by the employer as a contribution, it is not subject to income tax deduction, assuming that it is a plan that is approved by the Bureau of Internal Revenue.

Another one is: "What attitude should a company take in this matter, who does not have a union shop?" Well, I think that the company will have to make up its own mind in that regard. I don't see that there is much relationship, perhaps I am wrong in this, between the union shop issue and this particular issue. I think there is some, but I don't see how that would affect a company's position.

Another question: I just don't know the answer to this, perhaps somebody here does, it says: "How far does the average company cover in the matter of life insurance, as to weekly benefit, and hospital benefit." I don't know what the actual facts are.

MR. RISING: There isn't any average. There isn't any such thing as an average. There are a lot of studies that have been made, by the Conference Board and Princeton University and the American Management Association and others, of what the current contracts show in the way of health and welfare benefits. Nobody can answer that question in terms of averages.

Ed, here are a couple that are somewhat alike. I wish you would take a crack at those while you are still here. First this one.

MR. CUSHMAN: The question is: "Is there a difference in attitude towards pensions by the CIO and the AFL?"

The answer is yes. A number of the unions of the American Federation of Labor, for example, as in the building trades, as of the moment, insofar as I understand it, do not seem to be as much concerned or interested in this particular problem, and the CIO itself, although there is a general viewpoint that pensions are desirable, and they have been placed rather high on the agenda of demands at the present time, there are some differences as to how important it seems to some of them as against others, and also as to which particular types of pensions are more desirable.

So there are some very distinct differences between the AFL and the CIO, and also within the CIO and within the AFL. You understand there are a number of unions that have had pension plans for a good many years. There are some that administer their own pension programs, and historically that has been true in the labor movement. The German trade labor union movement, for example, started primarily as a social welfare group. People were concerned with sickness and old age and other benefits, and only later became an actual collective bargaining group. So this isn't a matter of new interest to unions, but the kinds of interest differ between unions to a considerable degree.

Frank says these two are cousins. "The Ford plan sets up eight and three-quarters cents per hour in a fund. What happens to this fund if social security payments are increased to one hundred dollars, obviating the necessity for payment out of Ford's trust fund?"

I understand that the provisions are that the Ford contributions go down as the federal program goes up.

MR. RISING: That is what I understand, but that isn't what the UAW understands.

MR. CUSHMAN: There seem to be some differences of opinion as to what that means.

Now: "Section 2 of the memorandum of agreement between the Ford Motor Company and the union, dated September 28th, says that for the duration

of the pension agreement, beginning March 1, 1950, the company agrees to pay into a pension fund eight and three-quarters cents for every hour for which an hourly rated employee covered by the contract receives compensation for the purpose of providing the benefits set forth herein. Since the company assumes the responsibility to make contributions from time to time to the pension fund in an amount sufficient, based upon estimates made by a duly qualified actuary to provide monthly benefits specified in Section 5, taking into consideration as therein provided primary old age insurance benefits under the federal social security act as now in effect or as hereafter amended, it may vary these payments accordingly. Past service benefits shall be funded in such manner as the company in its sole discretion shall determine."

Well, that is what the memorandum of agreement says. That is my reply to the question. As to what it means, I understand there are some differences of opinion about it.

The other question reads as follows:

"Suppose in fifteen years, federal old age pension benefits hit one hundred dollars, has Ford or any other company negotiated as to what becomes of the moneys accumulated at that time in the pension fund?"

My impression is (I would like to get Mr. Terriberry's comment on this) that the funds that are in there shall remain there, but that future payments would be varied. I don't see how under the federal tax laws or under the plan as set up --

MR. TERRIBERRY: They will never get a nickel back.

MR. CUSHMAN: Mr. Terriberry confirms my opinion. He says Ford won't get a nickel back out of any nickel they put in.

MR. RISING: Thank you, Mr. Terriberry and Mr. Cushman. We are at the point where the meeting should adjourn. I would like to say before we leave, that we are very grateful to Ed and Wayne University and Mr. Terriberry for putting this program on, to the Board of Commerce for helping us get it announced, and helping us put it on, and I do hope that all of you have your names recorded some place, because these notes of the meeting should be very helpful. You will get a lot more out of reading it over several times than if you listen.