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LABOR'S APPROACH TO THE RETIREMENT PROBLEM

The problem of retirement, as a concern of organized labor, does not differ in its essential elements, from the problem of retirement as a concern of other groups in our society. Any difference that may exist is not with respect to the nature of the problem, but, rather, with respect to how and to what extent action shall be taken to meet it. Even these differences in approach are more a matter of historical significance than of present day concern.

The retirement problem can be quite simply stated. We have an aging population with the proportion of old to young increasing; the expectations of living longer are increasing; and the cost of living longer is sharply upwards in trend. The problem is a greater one today than it was ten years ago. And it will be still greater in 1960 than in 1950.

The economic impact of the problems is accentuated by the lack of an organized and universal program assuring financial security to the worker when he is no longer able to work whether the reason be primarily age or incapacity. The individual worker is dependent upon his job to provide the wherewithal for existence of both himself and his family. When he can no longer work, because of age or disability, his income stops -- and when his resources are exhausted he must fall back upon public relief. Public relief is not security.

The worker cannot be expected to save enough from his current earnings for the time when he will be unable to work for reasons of age or incapacity. Even if the worker could be certain that he would be able to work until he reaches the age of 65 he would have to save approximately \$16,000 to purchase an annuity assuring himself of an income of \$100 a month until death. Even this income, when

added to his OASI benefit, would no more than provide a bare minimum of the necessities of life. But the fact is that a worker cannot save \$16,000 during the period of his working life. He has difficulty in currently providing himself and family with the essentials necessary for a decent standard of living without provision in the family budget for retirement savings. And, any savings that he may accumulate are quickly erased in a single illness, a long layoff, or by any one of many other common hazards.

A burden of debt is more generally the pattern of the working man than savings for any purpose -- whether it be for education of children, purchase of a home, or the proverbial "rainy day".

Added to the converging trends accenting the problems of the aging population is the increasing industrialization of our society. Today we no longer have farms to which our older people can turn and children are not generally situated so that parents can be taken into their households. Private and public charity has not and cannot compensate for the gaps which modern life has created in the traditional defenses against insecurity in old age.

When the Social Security Act was passed in 1935 there were hopes that public social insurance legislation was the solution to the problem. These hopes have not been realized. Those who framed and supported the Federal social security program had conceived of this legislation as the foundation for an integrated approach to provide economic security for those who had served industry and society. Instead, Old Age Assistance, the "means test" public aid program, which was conceived as a stop-gap and auxiliary program, is still, today, the basic approach to the problem; and county and state poor relief is the only universal provision for incapacity. Labor rejects these and any other program based on the "means test" idea. The social stigma and the connotation of "charity", whether it be private or public, is objectionable and cannot be reasonably called security -- either emotional or physical security.

Labor believes a well-integrated, comprehensive, and meaningful public social insurance program is the only truly satisfactory answer to the problems of workers who no longer receive pay checks because they are too old or too sick to work. The United States does not have such a program today. The aim, if we are interested in old age security -- and we all are -- is a governmental program which assures an adequate floor of protection for all workers. This floor of protection must represent for the majority of industrial and farm workers a modest standard of living that is consistent with our present day concepts of decency and adequacy. Federal government budget studies, adjusted for price changes to March, 1949, show that a modest standard for an aged couple living in Detroit would require \$143 a month. Considering that the average Federal social security benefit for an aged couple is somewhat less than \$43 a month the deficiency is approximately \$100 a month, even on the basis of this very limited budget.

Labor is not content with existing standards of security for the older worker. Nor are we content with the total absence of protection for the worker who has not reached 65 years of age and who is unable to work for reasons of incapacity.

What, then, is the alternative for millions of workers who reject poor relief standards and methods?

It is to be expected that organized workers would turn to their Union for action leading to an improved standard of workers' security. The Union was born out of the need of working people for a mechanism to attain those things which group action can achieve and which individual action cannot achieve. The Union is an economic and political organization reflecting workers' aspirations for higher standards of living and security.

Out of this setting labor's two-way drive for social security has emerged; a drive on the legislative front and a drive on the collective bargaining front. Labor's position is that to the extent that adequate security for workers is not provided through governmental programs the problem of workers' security will be

taken to the collective bargaining table. Economic security for the worker when he is no longer able to work is as fundamental a concern of the Union as wages and working conditions.

In its two-way drive labor has not relinquished its position that the basic approach to the retirement problem must be through adequate Federal legislation and proper administration of public programs. Security for union members only, or for members of those Unions with sufficient economic strength to win their collective bargaining demands is not an adequate solution because the problem of insecurity is common to all segments of our society. It is only through inclusive Federal legislation and good public administration that all workers in America can be assured of an equitable retirement income based upon employment whether it be in industry or in other economic pursuits. The basic retirement income program must provide protection for all workers in the economy. Protection must be more stable, continuous and broader in scope than can be achieved in private and isolated pension plans.

At the same time that Unions adopt what is sound social and public policy, it must not be forgotten that good policy and high principles are not now putting money in the hands of retired workers for the purchase of housing, food, clothing and medical care. Nor do good intentions alone keep the retired worker from falling back on his local relief agency for his primary source of income a few months after his retirement. During the past ten to fifteen years we have witnessed the gradual loss of the effectiveness of our old age insurance program. Congress has repeatedly failed to amend the basic Federal Security Act to take into account changes in the cost of living and the changing makeup of the population.

The real value of the benefits has continually shrunk. In our industrial cities, where the cost of living is higher, the initially inadequate standard of benefits has become increasingly more inadequate. Coverage has been restricted. The purposes for which the legislation was enacted in 1935 have been in large measure negated for the millions of aged persons who are without any means of

support when their pay checks stop.

Opposition to improvements in the Federal social security program has come largely from the very groups with which Unions bargain about wages and working conditions. The failure to secure Congressional action has left no alternative for organized labor than to make the problem of workers' security a major collective bargaining issue. The legal basis for such action has been recognized by Federal court decisions. Management is confronted as never before with the concrete problems that retirement, disability, and health security are issues that must be met. So important are these issues that Unions have backed up their demands with all of the economic force that free labor in a democracy possesses.

In the past year labor has achieved a marked degree of success in the two-way drive for workers' security. Supplementary retirement income plans are recognized today as a legitimate responsibility of industry. The principle of supplementary benefits through collective bargaining has been established. And, likewise, it has been demonstrated that employer support for improvements in the public program is a direct result of the collective bargaining pressure for workers' security programs.

A reflection of employer interest in public programs is evident in the following remarks made by C. E. Wilson, President, General Motors Corporation, on November 19, 1949, in a public speech:

"If the present social security pensions were approximately adequate when the law was passed, they are certainly inadequate now."

"We are going to have pension plans in business and industry to supplement and improve federal plans."

"So there is a real reason for pensions in industry. Now, the problem is: How do we provide pensions soundly.... Adequate federal pensions on a sound basis would seem to be the real answer to the problem."

Ernest R. Breech, Executive Vice-President, Ford Motor Company, in a speech delivered on the eve of settlement of the collective bargaining demands of UAW-CIO for supplementary pensions, stated in a prepared speech delivered in

Youngstown, Ohio on September 27, 1949:

"The best way of providing for workers after their period of useful service is through the Federal Old Age Security legislation."

"The interest of all employees can, in our opinion, be properly served only by such a national plan..."

A year ago, before the current collective bargaining demands for workers' security programs, many management officials were unaware of the importance to labor as well as to management of an adequate governmental retirement income program supplemented through collective bargaining to meet the needs of particular groups of workers. Today we appear to have almost complete acceptance of the need for action on the legislative front and for some supplementation through collective bargaining of the basic floor of protection assured by government. This supplementation is necessary not only to bring the benefits to adequate levels, but to assure flexibility in meeting particular needs and to fill gaps that may exist.

The establishment of programs under collective bargaining has already presented several fundamental policy questions and with experience additional questions will undoubtedly develop. The kinds of questions and the solutions which are adequate will, of course, vary from industry to industry. Programs under collective bargaining will recognize the differences growing out of unique circumstances. There have been, however, six major issues that the UAW-CIO, for example, has considered important in the 1949-1950 negotiations. These issues are:

- ✓ 1. Joint Union-Management responsibility for administration of of retirement and health security programs;
- ✓ 2. Fixed employer commitment for a specified allocation of money stated in terms of cents per hour;
- ✓ 3. Employer-financed; non-contributory programs.
4. Standard of benefits that together with Old Age and Survivors Insurance, or future Federal programs for benefits not now existing, will constitute a modest, but adequate, budget;
5. Integration with the Federal program in such a manner that private plans are, in real effect, supplementation of the floor of protection assured by government; and,
6. Actuarial soundness.

## 1. JOINT ADMINISTRATION

Prior to general acceptance by management of the concept that workers' security was as much a matter for collective bargaining as wages and working conditions the prevailing philosophy was that pensions and health security programs were the prerogative of the employer. Recognition that employee benefits are a proper subject for collective bargaining has led to changes in employer thinking on administration in the same manner that thinking on methods for program formulation has changed. Only a year or two ago the employer consulted his insurance broker or a pension consultant, and, without review with representatives of the employees, established programs which were offered to workers on a "take-it-or-leave-it" basis.

If a worker failed to participate he had no protection; if he participated he took what was available. It is reasonable to believe that many of these pre-collective bargaining programs were designed by the employers without full recognition of the preferences and needs of workers. Too often, in order to keep the cost low and thus to assure wider participation by employees, the resulting level of protection was too low to meet the worker's actual needs.

Today pension and other employee-benefit programs are established in a different setting. Previous concepts of desirable procedures for program formulation and operation must be re-examined in relation to the current practice of developing pension program policies in collective bargaining. Unions are asking that retirement benefits be provided as an economic gain which is frequently in lieu of a wage increase. Employer-payments to a pension trust fund represent monies which belong to workers. It follows logically that the workers should be effectively represented when the program is being formulated as well as in the operation of the plan.

The UAW-CIO believes that pension plans growing out of collective bargaining should be formulated and administered by a Board of Administration on which the Union and Management have equal representation and that this Board should have an impartial chairman selected from the general public. The Board should

serve in a policy-making capacity rather than as a full-time administrative body. Arrangements should be made by the Board for the day-to-day operation of the program. By the joint Board of Administration approach it becomes possible to limit negotiations to policy questions which affect costs and benefit levels and to leave the details of program formulation to a Board functioning outside of the bargaining atmosphere. Through the joint Board employer interests, as well as employee interests, are protected and strengthened. It assures democratic administration and a degree of employee participation and identification with the program that would not otherwise be possible.

## 2. FIXED EMPLOYER-PAYMENTS

In collective bargaining the Union can negotiate for a level of benefits without regard to the cost of their provision. Or, the Union can negotiate for a fixed cents-per-hour employer-payment into retirement and health security trust funds and develop a program within the limitation of funds available and in accordance with the general policies agreed to in collective bargaining. The UAW-CIO believes it is preferable to negotiate for a fixed employer commitment in terms of cents-per-hour rather than for a fixed level of benefits only. It is possible to determine prior to the conclusion of negotiations the approximate benefit levels which can be provided for a given cents-per-hour cost to the employer. It is not unreasonable, as a result of collective bargaining, to guarantee a fixed level of benefits with respect to the major outline of the pension plan and to stipulate in the contract a cents-per-hour cost to the employer which will remain constant throughout the life of a particular agreement.

If only benefits are negotiated, without regard to the cents-per-hour cost, it would mean that one employer might have a 15¢ per hour cost for a given standard of benefits and another employer a 5¢ per hour cost for the same standard of benefits. Employers in competition with each other have during the past decade tended to increase their wage rates by the same, or nearly the same,



amount. As a result the competitive balance has been maintained among employers insofar as affected by economic gains won by labor. This balance would be disturbed if Unions negotiated for standard benefits without regard to cost. The UAW-CIO has taken the position that the cents-per-hour cost of the workers' security program should be specified in the contract with the employer and that payments should be a fixed commitment. This means that in certain details the benefit structure may vary somewhat among employers and that the period of amortization of the accrued liability may, likewise, vary.

As Federal programs establish a higher floor of protection or provide benefits that are now non-existent, expenditures from trust funds required to provide the initial benefit structure will be reduced. When this situation occurs the accrued liability may be amortized over a shorter period or other adjustments can be affected by the Board of Administration or through collective bargaining. Many labor-management contracts for pension benefits are being established on a five-year basis with an earlier reopening by mutual agreement of the parties. Although five years is a very short time in which to evaluate the trends in a pension plan, if the fixed-employer payment during the first five years did not fund the benefits as planned or resulted in payments into the pension trust fund in amounts larger than allowable as current tax deduction, necessary adjustments between the Union and Management can be worked out.

The fixed employer commitment for payment of a given cents-per-hour amount into a pension trust fund or a health security trust fund does not remove employer incentive for an expanded public program. As public programs are strengthened during the next few years the pressure for supplementation through collective bargaining will be lessened. And, the employer is aware that the public program is on a contributory basis.

### 3. EMPLOYER-FINANCING

The issue of non-contributory pensions has been for all practical purposes settled in major negotiations in steel and auto and elsewhere. C. E. Wilson, President of General Motors Corporation, succinctly summarized the thinking of management on this question when he stated on November 15, 1949 in a public speech:

"Pension plans recently negotiated by labor unions which have been on the non-contributory basis have been referred to as free pensions. Actually they are forced savings plans as the cost of these plans could otherwise have been paid out in wages with the same effect on costs and prices."

From the Union's point of view non-contributory pensions result in the protection of every worker -- not just those who feel they can afford to participate. Non-contributory pensions mean, too, that more benefits can be purchased with the employer dollar paid directly into the pension trust fund than if paid to the worker and checked-off. To purchase a dollar's worth of benefits the worker must receive approximately \$1.20 because he pays withholding taxes on the wages which are checked off. The same dollar's worth of benefits can be provided through employer financing for a net cash much less than a dollar. In addition, the employer is allowed full deductibility in computation of taxable income for all monies paid into a qualified pension trust fund.

Employer-financed or non-contributory collective bargaining programs are more efficient from the employer's and the Union's point of view. They mean greater effectiveness in accomplishing protection for the older and incapacitated worker and they mean more benefits for the funds available.

### 4. STANDARD OF BENEFITS NECESSARY FOR A MODEST AND DECENT STANDARD OF LIVING

What should constitute an adequate level of benefits is not as difficult a decision as it may at first seem. We must start with the assumption that the amount of benefit should be sufficient to accomplish the purpose for which it is intended. The worker does not have protection unless he knows that his

benefit will permit him to retire and maintain a modest standard of living. Benefits must be substantially higher than the public relief standards of the community in which the worker is living. Unions cannot accept benefits that are so inadequate that they must be supplemented by public relief agencies. Benefits that are too low will not accomplish the purposes intended by the Union or the objectives which management wishes to achieve through the establishment with the Union of a retirement plan.

The Bureau of Labor Statistics and the Federal Security Agency have jointly prepared a modest budget standard for an aged couple. This budget varies in the amount of money required in different cities and different sections of the country. It does not take into account the standard of living of a particular worker before his retirement. For lack of a better yardstick of what it costs to maintain an adequate family standard of living we can accept the budget approach as criteria in determining benefit levels. However, it must be kept in mind that if such a benchmark is used we must review periodically the assumptions and content to make adjustments for expanding concepts of adequate living standards.

#### 5. INTEGRATION WITH FEDERAL SOCIAL SECURITY BENEFITS

The fundamental objective in approaching the retirement problem is to strengthen and expand public social insurance programs. Private pension plans should be designed to accomplish this objective rather than to impede the development of a basic social security system. To maximize employer incentive for a public program the method of integration of the private pension plan with Federal social security must provide for some manner of offset in the cost of private plans as public programs absorb an increased part of the load. This offset, however, should not cancel out the economic gains won by labor through collective bargaining.

Direct integration can be achieved by automatic reduction in the amount of benefit paid under private plans as public program benefits are increased. This method is not objectionable if the level of benefits from which the deduction is

made is maintained in accordance with an adequate standard. Another method that should be explored is a modification of the full offset formula to provide that as public program benefits are increased the offset shall be a percentage of the increase in benefits provided under public insurance. Still another possibility is that as employer contributions increase for public insurance the payments to the private fund are decreased on a percentage basis.

The important issue is that recognition be given to the need to relate the collective bargaining programs to expansion of benefits provided through government in such a manner that the validity of the private as well as the public approach can be enhanced.

#### 6. ACTUARIALLY SOUND PLANS

Even though it means lower immediate benefits UAW-CIO believes that pension plans established by collective bargaining must be constructed on sound actuarial assumptions. Workers want retirement income security. This objective cannot be achieved unless the plans established are financially sound. Unions cannot accept plans that permit the possibility of a retired worker's benefit being discontinued because of the lack of funds. Past service liability under private pension plans must be amortized over a reasonable length of time and future service must be funded by payments into the pension trust fund as such credits are accumulated. Only if this is done can the income of workers who have retired be secure.

Likewise, it is to the employer's advantage that a program be established which fixes a level cost to him and creates reserves so that when obligations become payable funds will be accumulated to meet the cost. While funded pension plans that are actuarially sound from the first day cost more initially in relation to benefits provided, over a period of years the ultimate costs to the employer are less. A fixed level cost permits management planning. Moreover, it is only through a financially sound plan that the employer can be assured of the advantages of a retirement program.

There are many other specific issues that might be considered. There has been much discussion, for example, about such issues as compulsory retirement versus voluntary retirement, the effects upon the employment of older workers that might result from wide-spread establishment of private pension plans, the effects upon the mobility of labor, whether rights should be vested prior to retirement, flat benefits versus benefits geared directly to earnings, and the effects of these programs on the level of consumption, profits, income and employment. Some of these issues cannot be fully resolved until we gain more experience with the operation of private retirement plans; some can be clarified by serious study and still others can be worked out only as we build and strengthen the private programs in light of the changing needs of workers. Our first labor-management contracts left much to be desired by both parties. Our first pension plan agreements do not entirely satisfy either management or labor. In the current negotiations the ground work is being laid in relation to basic principles; and around these central ideas we can build from time to time as pension agreements are opened for discussion and analysis.

Present negotiations for workers' security programs establish a new and significant area for labor-management cooperation through collective bargaining and in the joint administration of the programs. These programs are evidence of maturity and increased social responsibility of both unions and management. Through the programs established under collective bargaining there will come experimentation with various administrative problems and methods for the provision of benefits and services.

The greatest contribution made by labor's drive for workers' security programs may well prove to be the necessary motivation for meeting the problem of retirement income for our aging population. And, out of this drive for retirement security will undoubtedly come a new look at other workers' security problems -- disability benefits, hospital-medical care services, and survivors benefits.

We are in 1950 on the threshold of a new era in the development of a full measure of security for the workers of America and for their families. In the

next several years we will have a happier people and a sounder economy because we had the courage and determination to meet the economic problems of old age, sickness and premature death.