

Pensions (1952)

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Pension Plans

In Collective Bargaining

by Louis S. Botto

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EDITORIAL NOTE

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The Institute seeks to serve all the people of Illinois by promoting general understanding of our social and economic problems and by providing specific services to groups directly concerned with labor and industrial relations.

The *Bulletin* series is designed to implement these aims by periodically presenting information and ideas on subjects of interest to persons active in the field of labor and industrial relations. While no effort is made to treat the topics exhaustively, an attempt is made to answer the main questions raised about the subjects under discussion. The presentation is non-technical for general and popular use.

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PENSION PLANS IN COLLECTIVE BARGAINING

By LOUIS S. BOFFO

COLLECTIVE BARGAINING negotiations were much in the newspapers this fall. Headlines reported: *Harvester asks Unions to Share Welfare Costs*;¹ *Steel Union Submits Figures to Back Claims Retired Workers Can't Live on Present Pensions*;² *Lewis Recalls 102,000 Miners to Pits*;³ *Ford and Union Agree on \$100 Monthly Pension Financed by Firm*;⁴ *Agreement Ends Goodrich Strike — '10-cent Package' for Pensions Will Be Used to Improve Present Welfare Plan*.⁵

The fourth round this year might well be called the "welfare round." One point is clear — the demand for health and welfare funds in collective bargaining is common in America today. These funds are used to provide workers with some protection in the form of general health insurance, life insurance, and retirement pensions.

Pensions are only one phase of health and welfare programs. But they present different problems from the many other types of benefits included in such programs. Retirement pensions are designed to meet the problems of old age, whereas other benefits apply to the current needs of workers — protection from loss of income and costs of services arising as a result of sickness or accident. Thus pensions involve long-term obligations in contrast to group life or health insurance and unemployment benefits which involve short-term obligations. Such insurance is usually rewritten at frequent intervals, while pension plans are not. The long-term nature of pensions makes them a more complex and difficult subject in collective bargaining.

There are many possible definitions of pensions. The term pension, as it is used here, will include any annuity payment made as a result of a formal program to persons retired from active employment because of age or other disability.

DEVELOPMENT OF PENSION PROGRAMS

Insecurity in old age is a basic problem of the American worker. His efforts to adjust to the emergencies of old age have met with varied success. Workers who have been able to save or invest enough funds for old age are few. The cost of insurance protection

has generally been prohibitive. Thus most workers, in spite of their efforts, are retired from active employment without adequate funds to meet their needs.⁶

Pensions have been used by industry, government, and unions as one way of meeting the emergencies of old age. As far back as 1874, pension plans were developed in the railroad industry; and there has been a slow, steady increase in the establishment of such industrial pensions over the years. Just how many of these plans are in existence today is not accurately known. A survey of 1945-1946 by the Bureau of Labor Statistics of the U. S. Department of Labor revealed that in the 15,636 manufacturing plants surveyed, 47 per cent had insurance or pension plans for plant workers. Life insurance plans were found in 37 per cent, health insurance in 30 per cent, but retirement systems were found in only 5 per cent.⁷

In order to maintain some sort of money income and to meet such unforeseen old-age emergencies as medical attention, hospitalization, and death, some workers have established pension plans through their union. The earliest pension plan of an American union under which benefits actually were paid, and for the support of which a specific fund was designated, was established by the granite cutters in 1905.⁸ Prior to this time, some unions had benefit programs such as disability benefits, homes for the aged and disabled, and lump sum retirement benefits; however, these programs are not generally classified as true pension programs. In 1932, about 930,000 union members were covered by trade union pension plans. This represented about 28 per cent of the total membership of organized labor in the United States and Canada at that time.⁹ In 1946, 15 unions paid old-age benefits amounting to \$10,705,348.82¹⁰ for that year.

Early legislative pension programs are of three broad types: federal, state, and municipal. Early federal programs were confined to military and civil service employees; state programs included teachers, state employees, and, in some cases, private citizens. Municipal employee plans were confined primarily to teachers, policemen, firemen, and other municipal employees. Agitation for government pension programs became active around 1900, but it wasn't until the 1920's that such programs were well developed. By 1934, just prior to passage of the Social Security Act, twenty-eight states had enacted old-age assistance or pension laws. In addition,

municipalities provided pensions for firemen, policemen, and other local government employees. In this same year, the Federal Government legislated the first Railroad Employees Retirement Acts.¹¹

As might be expected, many of these earlier plans were both crude and inadequate. Some have been criticized as being poorly financed, inflexible, and insecure.¹² These criticisms stem largely from the fact that the plans were not soundly funded; they did not adapt readily to changing needs, and they depended completely upon one organization for success. With the entrance of commercial insurance firms into the pension field in 1925, there followed a definite improvement in pension programs.¹³ However, since the total work force covered by these plans was small, the economic problems of old age still faced a majority of the American workers.

After the economic collapse in 1929, the government was under great pressure to assist the aged needy. In 1934, President Roosevelt appointed a committee on economic security whose duty, among other things, was to find some means whereby the federal government could aid the aged of the nation. The result was the enactment of the Social Security Act of 1935 providing the first national old-age insurance system in America. On January 1, 1948, "about 42½ million persons were insured under federal old-age and survivors insurance." By June of the same year, "nearly 2.2 million beneficiaries, representing 1½ million families, were receiving benefit payments at a monthly rate of 42.4 million."¹⁴

There can be little doubt that industrial pensions, trade union pensions, various government pensions, and old-age benefits under social security have improved the economic well-being of aged workers. There are indications, however, that there is a strong feeling among workers that old-age benefits under social security are, at present, inadequate and that supporting schemes (where none exist) are necessary.¹⁵ In some cases where existing schemes are in force, liberal benefit revision seems to be favored by the workers. As a result, there has been an increased interest in pensions, and many new plans have been adopted. The inadequacy of old-age benefits paid under social security—in view of higher living costs—has been one factor in the increased interest in pensions.

In the current demands for pension plans, there are two other important factors which should be recognized. One has been the

enactment of tax regulations favorable to the establishment of pension programs. The Internal Revenue Codes have encouraged the establishment of pensions by permitting industry to deduct a substantial part of the costs from taxes. Wartime wage stabilization was another factor. During World War II, wage and salary increases were restricted under wage stabilization regulations. Section 10 of the Stabilization Act, however, defined wages and salaries in such a manner that pensions and insurance benefits in "reasonable" amounts were specifically excluded. The general policy of the Board on pension programs was generally to approve "reasonable" proposals when presented jointly by the parties. In dispute cases, however, the Board generally refused to order the initiation of such plans.

Pensions in Collective Bargaining

The result of these circumstances has been an increase in the demand for pension programs in union-management negotiations. Indeed, pensions are likely to remain in the bargaining setting along with other union demands. In the *Inland Steel* case, the N.L.R.B. held that under the Labor Management Relations Act of 1947, employers must bargain with their employees on pension or retirement plans if the employees request it. The substance of this ruling was that pensions are included in the term "wages" and that the age of retirement falls within the category of conditions of employment.¹⁶ The U. S. Supreme Court recently refused to review a ruling of the Seventh Court of Appeals which upheld the Board's decision.¹⁷

Pensions are not new as issues in collective bargaining. In 1911, a contributory pension plan was negotiated by the United States Brewers Association and the International Union of Brewery, Food, Cereal and Soft Drink Workers.¹⁸ This plan was never put into operation because it was defeated in a union referendum.

EXTENT OF PENSIONS TODAY

Although there were instances of employers and unions negotiating a pension program as early as 1911, agreements providing pension benefits are not too common. The Bureau of Labor Statistics of the U. S. Department of Labor recently estimated that

“more than three million workers — over twice the number in 1947 — were covered by some type of health, welfare, and/or retirement benefit plan under collective bargaining agreement by the middle of 1948.”¹⁹ The number of employees covered by a pension program is much less than this, as the figures mentioned earlier indicate. The Bureau of National Affairs in a recent survey of 1300 contracts found that 20 per cent provide for sick leave with pay, 30 per cent establish health and welfare funds, and 5 per cent provide for pensions.²⁰ In spite of the fact that pension plans are not numerous in comparison with other types of benefits, the growth within the last few years has been rapid. Records show that in 1945 almost twice as many new pension plans were established as in the entire period between 1932 and 1938.

Some industries in which pensions covered by union-management agreements are found are street-railways, clothing, chemical, paper, mining, textile, building trades, fur and leather, electrical machinery, food products, automobile, power, and communications. (Pensions in the railroad industry are provided by federal law.) While it is not possible to contrast all these plans in detail, it is interesting to note what provisions are made for a plan in some of the agreements.²¹

Automobiles

The recent agreement²² in the automobile industry between the Ford Motor Company and the United Auto Workers (CIO) provides for pensions of \$100 a month. The \$100 includes any benefits by the federal government under Old-Age and Survivors Insurance. The difference between the amount paid under Old-Age and Survivors Insurance and \$100 is paid for entirely by the company. It has been estimated that the cost to the company will be about 8¾ cents hourly for each eligible employee. The plan covers all hourly-rated workers in the bargaining unit. Normal retirement is at age 65 and mandatory at age 68, except that “the company at its own discretion may retire any employee at the age 65 or older by reason of the employee’s inability to perform work assigned to him.” Workers retiring sooner, with less than 30 years service, get a proportionately less amount at retirement; however, no pension will be paid to a worker under 60 years of age unless he is disabled. The agreement provides for joint administration by three members of the union

and three members of the company. The company, however, reserves "the sole right to select and contract with a qualified Bank or Trust Company to act as the trustee of the Pension Fund. Such trustee shall hold, and be solely responsible for, the investment of the Pension Fund; and the trustee shall make such benefit payments from the Pension Trust Fund as are specifically authorized by the Board of Administration." Payment under this agreement will start on April 1, 1950. The plan may not be reopened for negotiation before March 1, 1955, but any increase in Old-Age and Survivor Insurance benefits will lessen the amount of Ford's contribution to the plan.

Bituminous Coal

The retirement program in the soft coal industry is provided for as a part of the provisions setting forth the purposes of the trust created to administer the welfare fund. The purposes are defined in terms of making payments for four types of benefits, one of which is "benefits on account of sickness, temporary disability, death, or retirement." The pension fund is set aside out of the general welfare fund which is financed from a 20 cent royalty per ton of coal mined for sale or use. The trustees determine what portion shall be set aside from time to time "based on actuarial computations."

All soft coal miners are covered by the agreements — even those employed by operators not signatory to the agreements. The miner is eligible for \$100 per month at age 62 providing he has been employed 20 years in the industry. It should be pointed out that the \$100 figure is "subject to amendment or modification at any time as experience in the operation of the fund may dictate or require."

Shale Brick

The basic provisions in the agreement between the Glen-Gery Shale Brick Corporation, Wyomissing, Pa., and the United Brick and Clay Workers of America (AFL) are almost identical with those of the bituminous coal industry. The only major difference is in financing the fund. The money for this fund comes from the employer and the employees. Each contribute 2½ cents for each hour worked by the participating employee.

Garments

The Affiliated Dress Manufacturers and the Joint Board of Dress and Waistmakers Union of greater New York (I.L.G.W.U.-AFL) previously established a welfare fund which was broadened in 1947 to include retirement benefits for aged workers. The fund is administered by the union²³ and is financed by the employer who contributes 4½ per cent of the weekly wages (before tax deductions). One per cent of the total 4½ per cent is set aside for pensions in a retirement fund. A council of 12 members, six representing the manufacturers and six representing the unions, determines the types and amounts of retirement benefits which the union members shall receive within the resources of the fund.

In another agreement between the Merchants Ladies Garment industry and the I.L.G.W.U., the pension benefit is fixed at a maximum of \$600 annually for employees who are 65 years of age and are employed by a member of the employers' association. The contribution by the employer is 3 per cent of the weekly payroll. The fund is jointly administered, and the total number of men to be retired is determined by the board of trustees. However, the union retains the right to specify the percentage of workers retired from each craft.

Retail Trade

An agreement between John Wanamaker, Inc., New York, and the Retail, Wholesale and Department Store Union (CIO), Local 9, simply states that "the Employer shall, during the term hereof, maintain in full force and effect its 'Plans for Retirement Pay and Death Benefits' to the extent therein provided." This plan is funded with an insurance company.

Steel

The recent agreements in steel were based on a settlement between the Bethlehem Steel Corporation and the United Steelworkers of America (CIO).²⁴ This settlement was in turn based on the recommendation of a 10-cent pension-insurance "package" by a presidential fact finding board which investigated the dispute. The non-contributory nature of the pension program recommended by the fact finding board became an issue over which the parties were

deadlocked. This issue was apparently resolved by compromise. The company agreed to pay the full cost of the pension program (as it had done in the past) while the union agreed to contribute to the fund providing other insurance benefits.

The Bethlehem plan provides for minimum pensions of \$100 per month, inclusive of federal Old-Age and Survivors Insurance after 25 years of service with the company, its subsidiaries, or predecessors. Normal retirement is at age 65; however, employees may continue in employment with the company at its discretion. The benefits received are based on earnings and service. The base period for computing earnings is the 120-month period (10 years) next preceding the month of retirement. Average monthly earnings over this period are computed. The monthly pension payment is then one per cent of this average monthly earnings figure multiplied by the number of years of continuous service. For example, an eligible employee whose average monthly earnings in the 10-year period prior to retirement is \$350 would get, after 30 years continuous service, \$105 a month. Smaller pensions for employees with as little as 15 years service are permitted on a pro rated basis depending on the number of years service below 25 years at age 65. Under this provision the minimum pension payable to the retiring employee is \$65 per month.

This pension plan is financed entirely by the employer. The rate of contribution is determined by the needs of the fund, since the company has agreed to keep the fund actuarially sound at all times.

Administration of the plan continues as it was before this current agreement, i.e., by appointees of the company. Disputes over operation of the plan will be handled through the regular grievance machinery outlined in the collective bargaining contract.

The plan remains in effect as long as the contract remains in effect and is not to be changed during that time. In the event of contract expiration, the company reserves the right to act, in regard to pensions, as it has in the past. The present contract runs from October 31, 1949, to December 31, 1951. Before becoming effective, however, the plan must be approved by the stockholders by March 1, 1950. If the stockholders do not approve the plan, the agreement is not in force.

After the Bethlehem Steel agreement was signed, all of the important basic steel companies, including U. S. Steel, settled with

the United Steelworkers on substantially the same basis. The plans provide pensions of \$100 a month inclusive of Old-Age and Survivors Insurance to eligible employees at age 65. Eligibility requirements differ slightly in the agreements. Financing, except for federal Old-Age and Survivors Insurance, is entirely by employers. Administration of the plan, if it is a new one, must comply with provisions of the Labor-Management Relations Act of 1947.

Local Transit Industry

In an agreement between the Capitol Transit Company, Washington, D. C., and Division 689 of the Amalgamated Association of the Street, Electric Railway and Motor Coach Employees of America (AFL), all aspects of the pension plan are set forth in detail. It is jointly financed by contributions of four dollars a month by each employee and eight dollars a month for each employee by the company. Every employee is required to participate in the plan, and he is entitled to his full contribution plus interest if he leaves the employ of the company prior to retirement. Benefits of \$50 a month for life are provided to those employees who have 25 years of service. Retirement is voluntary at 65 and at the discretion of either party at 70. Administration of the plan is in the hands of a six man committee, three representing the employees and three representing the employers. The fund is administered by a trustee who is selected and appointed by the company subject to approval by the union.

In an agreement between the Akron Transportation Co. and the Transport Workers Union (CIO),²⁵ the contract simply provides:

The existing arrangement whereby payments are made to persons who have been relieved from active duty will be continued throughout the period of this contract. Payments at the rate now being made will be continued to April 1, 1950, for all persons now receiving them, and at the rate of \$75.00 per month until April 1, 1950, to any person who may be relieved from active duty after April 1, 1949, and before April 1, 1950. In each case, the amount received by the employee as social security, if any, shall be deducted from the amount payable to him.

Railroads

The current Railroad Retirement System is the result of federal legislation first enacted in 1934.²⁶ This law was declared unconstitutional in 1935 by a five to four decision of the Supreme Court.²⁷

In 1935, Congress enacted a new Railroad Retirement Act²⁸ which was amended in 1937.²⁹ This amended act provides the basis for the current Railroad Retirement Program. It covers over two million employees of railroads, express companies, sleeping car companies, and their subsidiaries. The basis for financing the retirement plan is the Carriers Taxing Act of 1937.³⁰ This act was incorporated into the Internal Revenue Code in 1939. Financing of the retirement program is by a tax borne equally by the employee and employer on the first \$300 of monthly compensation. The initial tax rate was 5½ per cent set for 1937. This rate was to 7½ per cent by 1949 after a series of ½ per cent increases every three years. Subsequent studies of the program revealed the need for a higher tax schedule if the fund was to be maintained. As a result, a new tax schedule was initiated at the rate of 11½ per cent for 1947 and 1948, 12¼ per cent for the next three years, and 12½ per cent thereafter.³¹ The employer collects the money initially by payroll deductions and forwards it to the Bureau of Internal Revenue to be paid into the Treasury. The Congress then appropriates to the Railroad Retirement account enough money to provide for payment of claims. Benefits are related to average monthly wages and are calculated by taking 2 per cent of the first \$50 of average monthly wages, 1½ per cent of the next \$100 and one per cent of the balance up to \$300 a month. The total of these three is then multiplied by the number of years of service to obtain the amount of monthly pension payment. The maximum pension is fixed at \$120 a month. Retirement is voluntary at age 65 or at 60 with 30 years of service. If retired at age 60 after 30 years of service, the monthly payment is reduced by one-eightieth for each calendar month the retiring employee is under 65. A minimum is also provided for employees with 20 years service. The basis for this minimum is a graduated scale of percentages of the employees' monthly compensation. The administration of the plan is by the Railroad Retirement Board created by Section 10 of the amended act of 1937. There are three members on the Board with staggered terms of five years. These members are appointees of the President subject to advice and approval of the Senate. One member of the Board is recommended by the employers, another is recommended by the employees, and the third is the public representative.

Thus it can be seen that there is no "pension pattern." Benefit

payments vary from an amount to be determined by the resources of the fund to payments of \$100 per month. The plan may be financed jointly or by the employer. Administration may be handled unilaterally, jointly, tripartitely, or by an outside agency such as an insurance company. Coverage in the case of mining is the whole industry; in garments, certain market areas; and in other cases, it is restricted to certain members of an individual firm. It seems that variation in plans is normal. According to Walter J. Campbell, Associate Editor of the magazine *Steel*, "The Treasury department in the past six years has processed about 8000 pension plans. No two were alike in every respect. Pension plans are tailored to fit the requirements of the companies for which they are intended."³²

UNDERSTANDING A PENSION PROGRAM

What does a pension program mean to an organization and the personnel involved? Clearly the significance of such a program will be different to the employer, the union, and the employee. The following analysis attempts to point out the meaning of a pension program for each group.

Employer's View

The major interests of the employer in pensions are probably in increased efficiency through retirement of older employees, attraction of new employees, reward for service, encouragement of continuity of service, reduction in turnover, improvement of morale, increased employee loyalty, increased output per worker, opening of avenues of promotion, and reduction of strikes. Probably no pension program accomplishes all these things, but certainly some of these benefits are possible.

Some employers have been critical of bargaining on pensions.³³ Some of their criticisms follow:

1. Unions may insist on economically unsound demands.
2. The technical factors in setting up a pension plan are so numerous and complex that an attempt to bargain on them would be a waste of time.
3. Bargaining on pensions might overburden the collective bargaining process and, hence, increase the number of grievances.
4. Unions may press for a pension in firms that are unable to support a pension program.

5. In an organization containing more than one bargaining unit, it is unsound and impracticable to negotiate a pension plan separately with each union.

6. Bargaining on pensions is not necessary, and it may be undesirable because industry is already establishing plans at a record-breaking rate. It may deter many firms, which had intentions of establishing a plan, from going ahead because they are uncertain of bargaining in these matters.

7. Bargaining in good faith, as required by law, could not be enforced in connection with bargaining on pensions. The problems are more subtle and complex; hence any investigation attempting to prove willful disagreement would be most difficult.

8. It is impractical to bargain on matters where it is advisable or necessary to obtain stockholders' approval.

9. Retirement as a matter of negotiation will defeat one of the basic objectives of a pension plan — to retire aged workers who are less efficient workers.

10. Rigidity in industrial cost will result from any obligation to pay out large sums of money over a long period of time.

11. Pensions foster a false sense of security because the employer's ability to pay may be lessened if demand for the product decreases; thus those employees let out of employment lose their coverage and security.

12. Pensions are long-term obligations, and it is a fallacy to think of pensions as wages because wages are paid currently for work performed.

Worker's View

Workers are interested in pensions chiefly as a protection against old age. In the past, most workers viewed pensions as gifts or rewards for long, efficient, and faithful service. This gift concept is probably accounted for by the fact that under most early plans, the employer did not obligate himself by contract to pay any pension.³⁴ Union demands thus far this year, however, would indicate that a great number of workers are supporting pension demands in collective bargaining. Walter J. Couper of Industrial Relations Counselor, Inc., New York, in an address before the American Management Association said: "We must recognize that from the viewpoint of employees and, I think, the general public,

it seems eminently reasonable to give employees a voice about a matter which touches their welfare and the welfare of their families as closely as benefit programs do.”³⁵

Union Position

Unions are interested in pensions as a means of aiding their membership to obtain adequate old-age protection. Besides providing for the membership's needs, a union may win or strengthen the loyalty of its members if a pension program is successfully negotiated. This probably accounts for some unions' desire for a program. Just how many unions are in favor of bargaining on pensions is difficult to determine. In the past, some large unions were opposed to welfare programs generally.³⁶

Unions which favor bargaining have given the following reasons:

1. Pensions are wages and are subject to bargaining as are other wage items.
2. A negotiated pension plan will remove the notion of paternalism sometimes attached to pensions.
3. A sounder plan will be provided if those who are affected by the plan have a voice in its direction.
4. Bargaining will insure the establishment of plans that might never have been established.
5. Liberalization of benefits to fullest extent would be impossible without union pressure.
6. Industrial peace will be more easily secured by enabling unions to have a voice in matters concerning the workers' welfare.
7. Pensions are needed to stabilize industry.

Who Pays?

The answer to the question of who pays is far from settled. In some cases, pension costs are viewed as additional labor costs of the employer. In others, pensions are considered a substitute for additional current wages for the employee. Some hold the opinion that the cost of such plans are borne by the consumer — particularly when the fund is financed by means of a royalty device on the product.

The same controversy is seen in opinions on who benefits from pension plans. The benefits cannot be determined in terms of money

alone nor in terms of one group. Increased efficiency, improved morale, reduced labor turnover, and payroll savings are benefits that the community, as well as the employer and the employee, may share.

PENSION COSTS

The financial outlay to initiate and maintain a pension program represents the total cost. Although these costs are difficult to estimate beforehand, an approximate forecast is usually possible. This is frequently the place at which the actuary can serve an important function. The sum total of his estimates will be estimated costs or "valuations."

What are the factors affecting costs over the lifetime of a plan that an actuary considers in arriving at an estimate of the total financial outlay? The most important of these are:³⁷

1. Mortality rate among employees covered under the plan before and after retirement.
2. Rate of interest earned by the funds.
3. The age and rate at which retirement takes place.
4. The rate of withdrawals from the plan.
5. The ages and rates at which new employees are hired.
6. Amount of money paid to employees during their period of employment.
7. Sex distribution of employees.
8. Schedule of benefits intended.
9. Method of funding, i.e., of accumulating resources to pay the pension.
10. Expense of administering the pension plan.

Since these costs are estimates, there will be cases of overestimation or underestimation. Murray W. Latimer, an expert in the field, makes this point clear in a report to the Trustees of the United Mine Workers.³⁸

Data relating to the ages, lengths of service, and number of miners are, of course, desirable. But these factors, without more, will not give an accurate indication as to what the pension load of the miners' welfare fund would be initially or in the years to come. That load would be the result of individual decisions made by tens of thousands of individuals having a wide variety of conditions to face and a host of considerations to take into account. If every remotely relevant fact were collected about every miner who has worked in an American coal mine since 1776 and all the actuaries now alive were to do nothing for the next ten years but make estimates of

what the proposed pension plan would cost, they would still not know the answer. All their data would not tell them what the miners themselves would think, and that, in the final analysis, would be controlling.

The shortest, quickest, cheapest, and, in fact, the only way to find out what a pension plan costs is to try it out — and for several years. The collection and analysis of data for the railroad retirement system cost many millions, and none of the estimates were borne out. Some were too high, some were too low — and if the life of the system depended upon the infallibility of prognosticators, it would never have left the ground. And so it is with all pension systems.

In view of the fact that all circumstances cannot be anticipated, the parties to a pension program generally want to provide enough flexibility in the plan to adjust the costs to actual experience.³⁹

Initial Cost

The initial cost of the plan will depend primarily on the method of setting up the fund and the estimates made of mortality, rates of interest, withdrawal rates, wage scales, benefits intended, and expense of operating the plan. The method of funding may be determined by what the employer or a combination of the employer and employee are able to pay, economic conditions, and particularly the amount of benefit the parties intend to provide.

It is important to recognize that the method of funding involves the funding of both past and future services. The fund must have enough money to pension employees who are eligible to retire at the time the plan is started, as well as those who will become eligible within a few years, on the basis of services rendered in the past. Money to be paid for services rendered in the future will build up in the fund over the years. Past service credit can be funded by setting aside at the beginning enough money to cover all past service, but this is seldom done because the financial outlay in most cases would be too great. The amount of past service that can be funded initially will depend upon the amount of money available and the anticipated schedule of payment.

It is not uncommon to find what appears to be a wide discrepancy in the estimates of initial cost for a certain group. The reasons for a discrepancy can generally be found in the differences in assumptions regarding expense, mortality, interest rates, turnover, contributions, benefits, and method of accumulating the fund.⁴⁰ If the person or persons making the estimates were to use the same assumptions, the initial estimate of cost would be the same.⁴¹

Cost of Operation

Once a pension plan is initiated, the factors estimated by the actuary become operative. The original estimates may be affected by a number of things such as change in interest rates, mortality, administrative costs, turnover or other unforeseen circumstances which influence total receipts and disbursements.

Adjustments will be necessary to the extent that the original estimates are not in accord with experience. In this connection, there is a need for both unions and management to keep accurate records as the plan operates so that the experience over the years can be more useful in developing a sound plan.

In an insured plan, the effect of a cost change is generally borne by the insuring agency. If a plan is going to cost more than originally estimated, the insurance company stands to lose by the amount of their miscalculations. Generally, insurance firms add an amount to the estimated premium to cover contingent expenses. This is technically known as a "loading charge." If costs are overestimated so that more money is paid into the fund than is needed, many insuring agencies refund part of the surplus in the form of dividends.

In a plan that is not handled by an insurance company, the effect of a cost change is borne by the parties. In view of this, the expense of administering this type of plan takes on more significance. The more tangible expense items encountered are fees for the service of an actuary both in starting a plan and in later analyses; legal fees for services in interpreting laws, securing Treasury approval of the plan, and in drafting the trust agreement; medical fees, if disability allowances are permitted; trustees' fees for administering the plan; and finally, expenses involved in the maintenance of records and staff to keep the plan in operation.⁴²

Exact cost, then, varies and cannot be determined until a program has been tried out for several years. General estimates of cost as a percentage of payroll or in cents per hour are frequently made as a rule of thumb. For example, H. Charles Kwasha, in an address before the American Management Association, estimated a plan may cost "anywhere from ten cents to upwards of twenty cents per hour."⁴³ Because there are so many variables to be considered in each plan, estimates without a knowledge of basic assumptions made are of doubtful validity as a measure of what a plan will actually cost.

NEGOTIATING A PENSION PLAN

The foregoing is a general picture of a pension program. Assuming that the parties agree to negotiate a plan, the following major problems confront them.

1. What kind of plan is to be selected?
2. Who is eligible to participate in the plan? Who is eligible to retire?
3. What benefit formulas will be used?
4. How will it be financed? Will the employer pay all the costs or will the employees share the burden?
5. When does an employee commence to build up a right in the fund?
6. Should the plan be set up separately or be included in the union agreement?
7. Who will administer the fund?

Choosing the Plan

There is no one plan that fits the need of every firm or industry. The final choice of the plan and the provisions that are written into it will depend upon an analysis of several factors. Considering the long term nature of the program, it is of great importance that the analysis be sound. One way to contribute materially to the plan's soundness is to have someone who is thoroughly familiar with the pension field handle the actuarial details. Pension consultants, some insurance firms, and other actuaries render services along these lines.

Legal assistance can be helpful throughout the development of a program. Requirements of various sorts must be met by the parties involved. Legal counsel can be particularly helpful in securing Treasury approval of the plan and in setting up a pension trust if this device is used. The following is a list of other laws and regulations which may affect a given plan.⁴⁴

- I. Federal.
 - A. Taxes.
 1. Estate taxes.
 2. Income taxes.
 3. Social Security taxes.
 4. Unemployment taxes.

- B. Government Contracts.
- C. Labor-Management Relations Act of 1947.
- D. Fair Labor Standards Act.
- E. Investment Company Act of 1940.
- F. Securities Act of 1933 and the Securities Exchange Act of 1934.

II. State.

- A. Taxes.
 - 1. Estate and inheritance taxes.
 - 2. Income and other tax laws.
 - 3. Unemployment taxes.
- B. Debtor and creditor laws.
- C. Insurance laws.
- D. Labor laws.
- E. Accumulation rules.
- F. Perpetuity rules.

Authorities frequently suggest the following factors be considered in selecting a plan:

- 1. Type of industry.
- 2. Size of plant.
- 3. Number of employees.
- 4. Mortality rate of employees.
- 5. Peculiar hazards and factors favorable to a long life.
- 6. Composition of the work force; percentage of male and female employees.
- 7. Ages and rate at which retirement is contemplated.
- 8. Labor turnover.
- 9. Salary and wage scale during the period of employment.
- 10. Extent of benefit sought.
- 11. Earning capacity of employees.
- 12. Financial relation of the firm to other firms.
- 13. Various financial risks frequently involved in the question of pension funds.

Eligibility

The question of eligibility raises two sets of problems. The first concerns the question of who is eligible to join; the second, who is eligible to retire.

In the past, eligibility requirements have usually been restricted in a number of ways, for example, by excluding some groups from coverage, by salary or wage limitation, by requiring a waiting period, by defining "employee" in such a manner as to include or exclude certain groups and by setting age limits. In collective bargaining, it may be difficult to negotiate eligibility restrictions because frequently the workers may feel they are trading a cents-per-hour increase in wages for a pension. Exclusion of workers who do not have five years of continuous service, for example, may mean that as many as half, or even more, of the union membership would be ineligible under the plan. Those who are not eligible under many circumstances might conceivably favor a wage increase instead of a pension.

In the case of a plan where nonunionists are employed or where there may be other bargaining agents as in the case of a craft union within a plan organized by an industrial union, there is another problem. Should the plan cover all employees or only those in the bargaining unit negotiating a plan?

Eligibility for retirement presents another kind of problem. At what age should retirement begin? Should attainment of a certain age be the only requirement? Should there be a provision stating conditions for retirement prior to normal retirement age? Should retirement be compulsory, at the discretion of the employee, or at the discretion of management?

Benefit Formulas

The amount of benefits to be paid is a fundamental feature of any plan. This amount may be determined in four basic ways: the fixed-benefit system, the money-purchase formula, the flat-percentage pension, and the flat pension.

The fixed-benefit system is related to service. The amount of pension to be received will be a fixed percentage of earnings for each year worked. For example, at a rate of one per cent, a man who has been employed for 20 years will get 20 per cent of his earnings. A man who has been employed for 25 years will get 25 per cent of his earnings, etc. Earnings may have a number of meanings. The precise definition would be determined by the parties.

The money-purchase formula is one under which a specified part of the employee's earnings is contributed each year. This sum,

together with any money deposited by the employer, is used to purchase an insurance contract which provides for a certain pension. In this case, the amount of the pension, of course, is specified in the contract purchased.

Under the flat-percentage pension, every employee receives a uniform percentage of his earnings over a specified period. The percentage may be something like 20 per cent, 25 per cent, 30 per cent and in some cases as high as 50 per cent.

The flat pension is not related to earnings. Under this system, any employee eligible to retire receives a flat amount regardless of his earnings, for example, \$50, \$75, or \$100 monthly. This type of benefit is one that is currently sought by such unions as the CIO United Automobile Workers and United Steel Workers.

Many different combinations of these formulas are possible. The major problem facing the parties is to determine the type, amount, and details of the benefit provision which will provide the greatest benefit for the worker within the resources of the fund. In this connection, Old-Age and Survivors Insurance may serve as a "jumping-off" point. For example, if the desired benefit at retirement is \$100 per month and the average yearly earnings of the employees to be covered is \$1800, then the primary monthly benefits from Social Security will be \$42, assuming 40 years of employment. The amount to be funded by the parties would be \$58 per month per employee. Of course, this is an extreme simplification of what the parties are faced with. Employees' service and earnings may vary considerably. Therefore, their old-age benefits under social security as well as the total amount of money to be funded will necessarily vary.

Financing

The big issue in bargaining is likely to be over the matter of "who pays how much." The plan may be financed entirely by the employer, or it may be contributory. If it is contributory, the employee makes some contribution to the fund. According to the Bureau of Labor Statistics, "the present trend is toward complete financing of the plan by the employer, or toward lowering the employee's share of the cost in a contributory plan."⁴⁵ Some points to consider if employee contributions are a feature of the plan are that the employee contributions cannot be deducted from taxes, that

the plan may require registration under the Securities Exchange Act of 1933 unless membership and contribution are compulsory, that liens by the employee or his survivors may be created against the plan, and that employee contributions may be subject to specific legislation such as state debtor and creditor laws.⁴⁶

Provision for Payment

Once the source and amount of money is determined there are two basic ways to provide for payment of benefits under the terms of the plan: the unfunded method and the funded method.

In the unfunded method, the payments are made “out of pocket” from the resources of the group sponsoring the program. In some cases, reserve accounts have been created from which these payments are made. In either case, no money or assets are segregated from the control of the sponsoring group. Many early pension programs used this method. Today few plans are unfunded.

In the funded method, the amount of money or assets used to cover the cost of the program are segregated from control of the sponsoring group. Usually, money is paid into this fund and accumulates over the years. There are two basic ways of funding a program. It may be funded with an insurance company, or it may be self-administered. Insurance funding is handled by individual or group annuity contracts. An employer or group sets aside from the assets of the business a sum of money which purchases a certain amount of pension at the age of retirement. Whenever an eligible employee reaches retirement age, he is paid a pension in accordance with the terms of his insurance contract. In the self-administered plan, a determined amount of money or assets is deposited in a “pension trust” which is set up as an outside agency (other than an insurance company). Money in the “pension trust” is accumulated over the years and is invested, usually in government securities. When an eligible employee reaches retirement age, he is paid from this fund.

Various combinations of the funded methods are possible, and the parties to a program may find it advantageous to use combined methods.

Employees' Right in the Fund

When does an employee begin to build up a “right” in the fund? When does he come to have a vested financial interest in it so that

if he leaves the company's employ before he is eligible for regular pension benefits, he is entitled to financial reimbursement? This problem is an important one in determining the cost of the program.

It is important also in gaining acceptance of the plan, particularly when the program is an issue in collective bargaining and the employees feel they are trading a wage increase for pensions. The plan may be rejected if vesting requirements are such that a large number of employees are excluded from building up a right which can be claimed if a worker is laid off or leaves voluntarily.

The amount of vesting permitted, however, will have to be consistent with a sound program. The danger of an extremely liberal vesting provision is that the fund will not have sufficient money to pay claims as they come due. A sound plan must be able to pay these claims and remain solvent.

The Contract

After the parties agree to what the plan should include, the formal provisions of the plan are written. The immediate question is whether to incorporate the plan into the contract as a part of the agreement or set it up separately. This question is related to the issue of items within the plan that the parties agree are negotiable. This may be the entire plan or only a part of it. If the entire plan is not a part of the collective bargaining agreement, reference may be made to the plan in the contract in terms of an agreement to have a plan, its purpose, and how it is to be financed and administered. The details of the plan may then be written separately.

Whether the plan is insured or trusted, or is written in the contract or separately, the following elements are covered in most plans:

1. Eligibility for membership and receipt of income.
2. Retirement for age or other disability.
3. Retirement benefits.
4. Employer and employee contribution.
5. Vesting rights.
6. Method of funding.
7. Mode of settlement of benefits.
8. Provision for termination and modification of the plan.

After Negotiation

Once the plan is put into operation, the major problems that develop are in administration. Administration of a pension program means two things: administration of the fund and administration of the plan. Administration of a fund negotiated under a collective bargaining agreement must conform to the requirement of Section 302 (c) of the Labor-Management Relations Act of 1947. This section requires that unions and management must have equal representation on the administrative board. To handle deadlocks, provision for settlement by a neutral party must be included.

Administration of the day-to-day details of the plan may be handled by the union, the employer, a committee of both, or by the administrators of the fund. Insurance companies may administer these details in cases where the plan is funded by them. There seems to be no general rule as to the best method of administering the plan. Probably the guiding consideration is the expense involved under each method for the intended plan. There is no complete evidence to prove that one method is cheaper than another under all circumstances.

Economic Considerations

There are broad implications to any widespread industrial pension movement. Some authorities condemn pension plans as being economically unsound. The major objections are frequently based on the following contentions:

1. Pensions do not permit the fullest utilization of labor resources, inasmuch as mobility is reduced and many workers are retired who are fully capable of producing wealth.

2. To create a pension fund, the parties necessarily do not spend all their money. This results in oversaving which makes it impossible for consumers to purchase all goods produced.

3. Pensions make the availability of capital for investments more difficult because large sums of money are tied up in funds. Thus, industrial expansion is retarded.

4. Old age is a social problem outside the province of any one industry or firm, and it is too costly to handle on an individual basis. The problem can be handled only by government on a national basis.

Unfortunately there are no data available upon which the pension development can be evaluated in terms of its total effect. It is not possible to determine the validity of many of these objections. The Social Security Administration is building up a significant amount of data from which social programs can be evaluated. To date, this information is too limited to enable one to generalize. Some economists have indicated that old-age insurance has increased the mobility of the workers.⁴⁷ It is possible that industrial pensions would tend to decrease the workers' mobility. There has been no evidence that employer and employee contributions to social security have hindered capital formation, investments, or consumption. However, generalizations about industrial pensions on such a limited basis is not possible.

The responsibility of caring for aged workers is a part of the broader socio-economic problem of social security which is yet unsolved. Some of the problems confronting the nation as a result of the rising proportion of the aged are becoming increasingly clear. Professor Seymour Harris of Harvard University recently outlined some of these problems in an article in the New York Times.⁴⁸ Regarding the economic implications he said:

First, the country will have to support an increased proportion of old. . . . Obviously of economic significance is the fact that the old consume without producing. . . . If each citizen 65 and over would receive \$1,000 in goods and services yearly, then the cost to the nation of an adequate program for the old should be about \$11 billion annually today, and about \$18 billion by 1975 and \$21 billion by 2000. (This leaves out of account the needs of the young old.) . . .

Second, these \$11 to \$21 billion will drain substantial resources from the economy. . . . The important issue is not how much is saved for old age but what the old receive and should receive in goods and services. . . .

Third, the quest for security in old age raises the issue of oversaving. . . . Many explain depression by oversaving: the money not consumed (saved) does not always find an outlet in investment and, therefore, is hoarded. The result? Producers do not sell all they produce, and hence incur losses. . . .

Fourth, as the proportion of those 45 and over rises, the young will experience difficulties in rising to the top. . . .

Fifth, the deployment of resources for a mature population will be substantially different from that for a young one. The old spend relatively less on clothing, accessories, jewelry, housing and household operation, automobile travel, outdoor sports, dancing, education, foreign travel. They spend more, however, on medicine, railroad travel, religion, institutional care, and other services of various kinds. . . .

A changing pattern of demand, buttressed by appropriate public policies, will also influence the regional development of the country.

In an effort to meet some of these problems, social legislation of a more liberal and comprehensive nature may be passed in the future. If such legislation were passed, it would doubtless affect industrial pensions, but to what extent would still be conjecture.

Social Considerations

All the social implications of a pension program are too numerous to be considered here. A few major points, however, should be mentioned. First of all, with a greater development of private pension plans in industries there may be some agitation from those industries for removal from coverage under the Social Security Act. Secondly, even with well developed private pension plans, a great number of workers would still not be covered. This would indicate that private pensions are not the solution to the old-age problem. In this connection, those who favor a national approach to the problem have emphasized the point that welfare funds are supplementary security measures. Arthur J. Altmeyer, Social Security Administrator Commissioner, said recently:⁴⁹

I think some of us tend to forget at times that the effectiveness and value of supplementary security measures are largely dependent upon the existence of a basic program which can be supplemented. The multiplication of many special and limited plans is no real substitute for a basic program. This issue was debated at length in 1935 when the original Social Security Act was under consideration. There was considerable support for proposals which would have permitted the substitution of separate employer retirement plans for coverage under the basic public program. It was recognized that they would make difficult or impossible the assurance of basic security to workers who changed employment, and that there would still be room for special retirement plans to supplement the basic program.

A final word of caution. Throughout this bulletin, pensions have been treated as a method of meeting the problems of industrial workers of advanced age. It cannot be overemphasized, however, that pensions are designed *only* to assist aged workers to meet some of their economic needs. It cannot be claimed that they are the solution to what is being recognized increasingly today as the social problem of old age. How to provide the necessary life satisfactions for its older members and to utilize their continuing, even if diminished, energies and desires for creative work — that is an important but highly complex problem for this country. Obviously, pension schemes as they are now conceived may or may not be an aid to the solution of this broader issue.

SUMMARY

Although the establishment of pensions for retired industrial workers through union-management collective bargaining is not altogether a new development, most industrial pension plans until very recently were established unilaterally by trade unions or by management.

The present interest in pensions has been the result of such factors as:

1. The low level of social security benefits and the high cost of living.
2. Favorable tax legislation.
3. Wage stabilization policy in reference to benefit demands.
4. The N.L.R.B. ruling in the Inland Steel Case.

Bargaining over pensions raises several peculiar problems different from those involved in negotiating other aspects of the collective agreement. Parties to the agreement are confronted with the varied problems of selecting, financing, and administering a plan. In addition, regulations governing eligibility, amount of the benefit, retirement provisions, and vesting rights must be agreed upon. Handling these problems requires considerable familiarity with the intricacies of a pension program, as well as the guidance of experts in the field.

The fact that pension plans have become a significant new issue in collective bargaining has raised the question of how these limited firm or industry-wide pension arrangements fit into the now well established old-age insurance program set up by the Social Security Act. Is a dual system of retirement pensions desirable? If not, which direction offers the greatest promise of providing adequate protection to the greatest number in the most economic manner? This bulletin has not attempted to answer these important questions of public policy. To date, it would appear that current retirement benefits payable under the Social Security Act are insufficient to meet the economic needs of retired workers, and that, therefore, the industrial pension plans are usually viewed by unions and managements as supplementary to the basic system — that is, to “make up the difference” in need.

Notes

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7. Evan Keith Rowe and Abraham Weiss, "Benefit Plans Under Collective Bargaining," *Monthly Labor Review*, Vol. 67, No. 3 (September, 1948), p. 230.
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