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PENSIONS UNDER COLLECTIVE BARGAINING

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FOREWORD

This is the second in the series "Issues in Labor-Management Relations." This series was initiated last year by the Public Program of the Institute of Management and Labor Relations in response to the frequently expressed opinion that what the social studies teacher needs is a resume or summary of current developments in this field.

The purpose of this article is to present briefly the pertinent facts about one of the recent developments in labor-management relations--pensions under collective bargaining. We hope that you will send us your opinion as to how these articles can be improved so that they will best meet your needs.

The research and preparation on this topic have been done by Mr. Dertouzos, who is a member of the staff of the Institute of Management and Labor Relations. Credit should also be given to those members of the staff and social studies teachers who read the first drafts and made helpful comments and suggestions.

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PENSIONS UNDER COLLECTIVE BARGAINING

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For many years, the people of the United States have debated and discussed the economic problems of older people. The purpose of this article is to describe and to comment on one of the methods devised to provide economic security for the aged. We shall be primarily concerned with private pension plans which have in recent years been made the subject of collective bargaining and have been incorporated into collective bargaining agreements.

I. THE BACKGROUND

In every community, at any given time, there are sizeable numbers of people who do not directly contribute to the production of the goods and services needed by the community to support itself. The size and composition of these "non-producing" groups vary from country to country, and within any country from time to time; but the fact remains that at any given time the food and clothing, the houses and other buildings, the thousand and one amenities of life are made available to the entire community through the productive efforts of only some of the population. When we point out that in our own country the major groups that do not generally produce goods and services for sale are the housewives, the children and the aged, it will be seen that we are not deploring this situation. As a matter of fact, the wealthier a community becomes, the better able it is to support these groups. In this paper we are concerned with the economic position of the aged members of the community when they no longer earn income through the labor of their hands or brains.

The "Three Legged Stool"

There are three principal ways in which the economic needs of the non-working aged may be met: through individual savings and family support; through government assistance and pensions; and through private pensions covering the employees of an employer or group of employers. These three methods have been compared to the three legs of a stool, no one of which may be missing without unhappy consequences.

Experience has indicated, however, that individual savings and family support can meet only in small part the income needs of retired workers. As a result, attention has been focused on other solutions to the problem in recent years.

Probably the most significant solution, from the point of view of numbers involved, is the program based on federal law and administered by the federal government-- Old Age and Survivors' Insurance (OASI) or "social security", as it is often referred to. This is a compulsory program; that is to say, every employed person covered by its provisions must pay social security taxes, and, in turn, is entitled to benefits under its provisions. Public assistance, providing help on the basis of need, not as a matter of right, is also provided by local, state and federal governments in this country.

The third leg of our stool -- private pension plans. which cover the employees of one or more employers -- also provides essential support for retired workers. Historically speaking, many plans of this type were started by individual employers some years before the federal OASI program was started in 1935. Furthermore, it was upon this employer-initiated base that pension plans have been built in recent years through collective bargaining between unions and management.

The figures shown in Table I indicate the rapid increase in private pension plans since 1940; by 1951 they covered almost 10,000,000 persons. The sharp increase noted in the table was essentially the result of two things. First, during World War II the tax and labor policies of the government provided an incentive to employers to introduce private pension plans. Second, the trade unions in the post-war period found it advantageous to press such pension plans on employers as a major demand in collective bargaining.

TABLE I. Estimated Number of Industrial Pension Plans and the Number of Persons Covered in Selected Years, 1940-1951

End of Year	Number of Pension Plans	Number of Persons Covered (Millions)
1940	1,965	3.7
1945	7,425	5.6
1950	12,330	8.6
1951	14,000	9.6

SOURCE: Pensions In the United States: A Study Prepared for the Joint Committee on the Economic Report. National Planning Association, Washington: Government Printing Office, 1952. p. 11.

It is the purpose of this article to concentrate on the most recent of the steps devised to cope with the economic problems of the retired worker -- the step taken when pensions became a common subject of collective bargaining. What are the characteristics of these relatively new plans? Also, what are the problems and issues which emerge from the use of collective bargaining as a device for meeting the economic problems of old age? It will help us in answering these questions if we remember the relationship of collectively bargained plans both to the federal OASI program and to the management initiated pension plans of earlier years.

However, before we get into union-management pension plans, let us note some of the underlying forces which have emphasized the economic problems of the aged in our nation and elaborate somewhat the reasons for the rapid increase in private pension plans.

Our Population Is Growing Older

When we say that the population is growing older we mean that the proportion of people in the higher age brackets is increasing. Thus, according to data collected by the Census Bureau of the Federal Government, in 1900 some four per cent of the population was in the age group 65 years and over; in 1952 more than eight per cent of the population was in this age bracket. If this trend continues, it is estimated that the percentage will rise to ten by 1975.

There are undoubtedly many reasons for the changing age composition of the population, but among the most significant is the increased life expectancy of the average person. Largely due to advances in medical knowledge and control of disease, people in this country can expect, on the average, to live to age 68. By way of comparison, the life expectancy in 1919 was 50 years, while in 1930 it was 60 years. Current estimates are that the average life expectancy will rise to 78 years in 1975.

Employment Opportunities For The Aged Are Declining

It is a very significant fact that, while the life span was being extended, the length of the working life of the "average" individual was being reduced. This may be seen by examining the age distribution of members of the labor force. In 1900, 68 per cent of the men in the age group 65 years and over were in the labor force. That is to say, they were either employed, or were unemployed but able to work and actively seeking employment. In contrast, only forty-five per cent of the men in this age group were in the labor force in 1950. To be sure, more older persons were drawn into the labor force during World War II and during the full-employment years of the post-war period, but the longer-run decline in the proportion of older persons employed is unmistakable.

In combination, the two historical tendencies pointed to above lay bare the economic problem of the aged in our dynamic, industrial society. On one hand, the older worker constitutes an increasing proportion of the population; on the other hand, employment opportunities for individuals in the older age groups have declined relative to the number of individuals in these groups.

Government Policies Promoted Private Pension Plans

The sudden expansion of industrial activity during World War II created inflationary pressures and severe manpower shortages. The attempts of individual companies to maintain their work force and to attract additional workers by raising wage rates were thwarted when the government, as part of its attempt to keep wages and prices in balance, restricted wage and salary increases. However, "reasonable" contributions for pensions by employers were exempted from the government's wage stabilization program. Moreover, the Internal Revenue Code, which was revised in 1942, liberalized employer tax deductions by exempting contributions to pension plans, thereby reducing considerably the actual cost of financing. The net result of these policies was to induce employers to inaugurate pension programs as an effective method of holding and attracting labor, and to induce trade unions to emphasize this and other "fringe benefits" in their collective bargaining demands.

Trade Unions Inaugurate Their Pension Drive

The post-war trade-union drive for pensions received its most important stimulus in 1946, when the United Mine Workers of America, after a much-publicized strike, won an agreement containing a health and welfare plan for the miners. Later, in 1948, the National Labor Relations Board provided additional impetus to the union drive when it decided, in the Inland Steel Case, that management was obliged to bargain with respect to pensions. The Board, in interpreting the Taft-Hartley Act, decided that the term wages "...must be construed to include emoluments of value, like pensions and insurance benefits, which may accrue to employees out of their employment relationships." Finally, in 1949, a Presidential fact-finding board recommended that the United Steelworkers of America-CIO withdraw its demands for a general wage increase, and that the union and the steel companies establish through collective bargaining pension and welfare plans. Consequently, by 1950, pensions had become one of the most important issues in collective bargaining. By June of that year, approximately five million workers were covered by negotiated pension plans, an increase of 300 per cent over 1948.

The number of workers covered by contractual pension plans has continued to rise, increasing to over seven million in early 1954.

With this background, let us now turn to a brief examination of the characteristics of pension plans developed through collective bargaining. It should be noted that, in some respects, these plans are quite similar to those initiated unilaterally by employers; in other respects they differ. The focus of our interest, in these pages, is the plans evolved through negotiations between management and union.

II. PROVISIONS OF NEGOTIATED PENSION PLANS

The typical private pension plan is an arrangement under which an individual who retires from a job receives, at regular intervals, a certain sum of money for the rest of his life. Generally included is a set of policies and rules which determine the conditions under which a person may receive a pension, his retirement age, the method of financing the plan, the amount of benefits to which he is entitled, and his rights to money contributed in his behalf for the financing of the pension. A negotiated pension plan may be thought of as one which grows out of collective bargaining, or which, although introduced initially by the employer alone, is incorporated into a collective bargaining agreement. Such a plan contains a set of policies and rules agreed to by a company and the union which represents employees of the company. Thus, the detailed provisions of a negotiated pension plan depend on the needs of the particular company, on union objectives, and on the relative bargaining strength of the parties.

Eligibility for Membership

An employee's membership in a negotiated pension plan does not always begin automatically upon his employment with the company. A typical requirement is that he must have regular, full-time employment as a member of that group of employees represented by the union. Thus, seasonal workers, probationary workers, and workers not represented by the union may be excluded from membership in the plan (although, typically, non-union employees receive similar benefits from the employer).

In addition, some plans may provide that an employee must attain a given minimum age or serve with the company for a minimum number of years before he may become a member. In plans initiated by employers, such qualifications are fairly common. However, the number of plans developed through collective bargaining with either of these provisions is relatively small. In a recent study by the Bureau of Labor Statistics 300 negotiated plans were analyzed; of these, 216 contained neither minimum age nor service requirements for membership in the pension program.*

Retirement Age Provisions

An employee covered by a private pension plan usually becomes eligible for normal retirement benefits after he has completed a minimum period of service with the company and has reached a certain age. Normal retirement age (usually 65 years) is the earliest age at which a qualified employee may retire with full pension benefits. Some plans provide for early retirement, either

*Evan K. Rowe, "Pensions Under Collective Bargaining - Part III." Monthly Labor Review, Bureau of Labor Statistics, United States Department of Labor, July 1953. p. 715.

because of disability or otherwise, with reduced benefits. Moreover, pension plans vary in the amount of flexibility permitted in retirement beyond the normal retirement age. They range from those plans which permit continued employment without any restriction, other than ability to do the job satisfactorily, to those which do not permit continued employment under any circumstances when the retirement age is reached. Under the latter type, retirement is automatic and compulsory. In negotiation concerning pension plans, unions generally attempt to reduce the qualifications which must be met before employees receive pensions, and usually oppose compulsory retirement at an established age.

Financing

Private pension plans are financed by contributions made by one or both parties concerned. A "non-contributory" plan is financed only by the employer's contributions, while a "contributory" plan is financed by both employer and employee contributions.

While the earlier employer-initiated pension plans tended to provide for contributions by employees, the negotiated plan is generally non-contributory. The Bureau of Labor Statistics, in the study referred to earlier, found that almost three-fourths of all workers covered by negotiated pension plans in mid-1950 were not required to contribute to a pension fund. This is supported by the findings of a study of industrial retirement plans conducted in 1953, by the Bankers Trust Company of New York. In that study, it was found that none of the ninety-seven negotiated plans examined required employee contributions.

Benefit Provisions

There is great variety in the formulas used to determine retirement benefits. However, most private pension plans relate the amount of benefits to the average earnings of the worker over a specified period of time, or to the length of his service with the company, or both. In some instances, the plan may provide for a flat benefit with no relation to either earnings or service. Regardless of the type of formula used, however, many plans guarantee a minimum pension at normal retirement age for those employees who complete a specified period of service.

Many negotiated pension plans guarantee a given level of benefits inclusive of Federal Old Age and Survivors' Insurance. The company makes up the difference between the retirement income provided by the federal program and the total retirement income fixed by the plan. In other cases, the OASI benefits and the private benefits are kept entirely separate.

Some private pension plan benefit formulas also provide for early retirement. Although the requirements for early retirement vary greatly, in many cases it is contingent upon the employer's consent. An increasing number of plans are providing for early retirement in case of total and permanent disability.

Table II supplies some examples of the monthly retirement benefits provided by various private plans separately and combined with OASI.

Table II. Monthly Benefits Payable by Selected Private Plans and OASI at Age 65 Based on 30 Years' Service and $250 Average Monthly Wage*

Private Pension Plan	Benefits Provided by Private Pension Plan	Benefits Provided by Private Pension Plan and OASI	
		Single Person	Married** Person
Aluminum Company of America	$22.50	$100.00	$138.80
Amalgamated Clothing Workers of America, CIO (men's and boy's clothing industry)	50.00	127.50	166.30
American Telephone and Telegraph Company	36.25	113.75	152.55
General Electric Company	60.00	137.50	176.30
General Motors Company	45.00	122.50	161.30
Grumman Aircraft Engineering Corp.	168.75	246.25	285.05
International Ladies' Garment Workers' Union, AFL (cloak and suit joint board)	65.00	142.50	181.30
United Mine Workers of America, Independent	100.00	177.50	216.30

SOURCE: Pensions in the United States. National Planning Association. 1952. p.13.

Vesting of Pension Rights

The purpose of a private pension plan is to provide a retirement income for those employees of the company covered by the program who have reached a specified retirement age, and have satisfied other requirements of the plan. As noted above, contributions generally are made by the employer on behalf of the employee for the purpose of financing his retirement income. If an employee who leaves the company before normal retirement age still keeps his rights to a pension based on his employer's contributions, these rights are said to be "vested" in the employee.

Relatively few negotiated plans provide for vesting; that is to say, the employee generally does not have any rights to the employer's contribution in the event he terminates his service with the company before reaching retirement age. The Bureau of Labor Statistics' study of 300 negotiated pension plans revealed that only 85, or 23 per cent, contained vesting provisions.

* It should be noted that the benefits shown may have been increased as a result of 1954 amendments to OASI.

** OASI pays benefits to the retired worker's wife if she is 65 years of age or over.

Where they exist, vested rights are usually determined by the employee's length of service and participation in the pension program, his age, or any combination of these factors. The following clause illustrates the determination of vested rights according to length of service and length of participation in the plan. It should be noted that this plan is contributory, and provides for the return to the employee of his contribution:

> If for any reason, other than death, the employment of a member of the Plan is terminated prior to retirement under the Plan, he will receive, commencing at normal retirement date, the retirement income purchased by his own contributions.... In addition, if he has been a member of the Plan for at least five years, and in the service of the Company for 15 years, such retirement income will be increased by the amount of retirement income provided for him by the Company's contributions prior to termination of Employment.

III. SOME ISSUES IN NEGOTIATED PENSION PLANS

Compuslory Retirement

A large number of union spokesmen oppose compulsory retirement. From the union's point of view, the worker has a right to his job as long as he is qualified to do the work; to force retirement at a given age is to violate his seniority rights. In addition, it is argued that compulsory retirement provisions raise considerably the costs of the pension plan. The American Federation of Labor takes the position, in this connection, that pension costs would be reduced by eight to ten per cent for each year a worker remains on the job after reaching retirement age. Other unions prefer compulsory retirement as a means of providing jobs for younger workers, especially during times of heavy unemployment.

Some companies, but by no means all, are inclined to prefer compulsory retirement. Their executives emphasize the fact that compulsory retirement simplifies the administration of the pension program. It minimizes grievances and complaints of discrimination and favoritism which arise when employees are allowed to continue work as long as they are able and choose to do so. Moreover, the need to resort to criteria other than age as grounds for retirement creates many difficulties. Under a flexible retirement system, for example, it is necessary to determine when and on what basis individual employees should be retired. It may also require the modification of present jobs or the assignment to new jobs of workers unable to continue with their regular assignments. Finally, as this argument goes, compulsory retirement enhances the efficiency of operations and permits the company to gain maximum benefit from its expenditures for pensions. For example, compulsory retirement at a given age establishes reasonable promotional opportunities for supervisors and executives in the plant, and enhances the morale and effectiveness of the younger members of the work force.*

*Some negotiated plans have resolved this issue between labor and management by raising the compulsory retirement age from 65 to 68, 70 and, in some cases, 72 years. Thus, the employee has the option of retiring with full rights at age 65, or continuing to work until he reaches the compulsory retirement age.

Contributory vs. Non-Contributory Plans

One of the more controversial issues in pension negotiations has to do with the question of employee contributions to retirement plans. One of the main arguments in favor of employee contributions is that they permit greater benefits. It is sometimes asserted by management that the financial commitments that a company can make are frequently too limited to assure proper financing of adequate benefits. In addition, the employee's interest in the program tends to increase if he participates in its financing, and charges of management paternalism lose their force. Finally, a contributory plan provides an opportunity to save for those employees who will leave the company before they reach retirement age.

On the other hand, some union leaders argue that contributory plans involve additional administrative problems, especially in connection with employee contributions in the event of temporary layoffs and absences from work, and termination of employment. Moreover, necessary changes in a contributory plan are more difficult to make because employee money is involved. The unions also argue that contributory programs may place a financial burden on some employees. And, since most contributory plans are voluntary, the argument continues, these employees may not choose to participate in the program. Consequently, those who will be most in need of pensions when they reach retirement age will not be covered by the plan. Furthermore, the employer's contribution to the plan is tax exempt, while the employee's contribution is not. A dollar contributed by the employer represents a smaller net burden than would a similar contribution by the employee. Finally, it is asserted that employer contributions are really deferred wages, earned by the workers. The workers are therefore paying for their own pensions even when the plan is non-contributory.

Level of Benefits

One of the main items in labor's pension demands is the benefit level. The unions have sought increases in the amount of retirement benefits to compensate for increases in the cost of living since the plans were negotiated.

Closely related to the level of benefits is the relationship between the benefits paid out by the private pension plan and the benefits provided under Old Age and Survivors' Insurance. The original union demands frankly regarded the tie-in with OASI as a device for enlisting employer support for higher public benefits. Recent increases in benefits provided under Old Age and Survivors' Insurance have reduced the employer's contributions to those pension plans which prescribe a fixed total benefit, inclusive of that provided by the federal program. The unions now are taking the position that the increases should benefit the workers, and are therefore asking that management waive the advantage of the latest increase in federal benefits.

IV. SOME IMPLICATIONS OF NEGOTIATED PENSION PLANS

1. One major criticism of negotiated pension plans is that, in many cases, the security they provide for old-age is of a highly uncertain character. A properly financed plan with full reserves places a very large financial burden on the company. However, until full reserves are accumulated, pension rights depend on management's ability to make the required payments out of earnings. It may, unfortunately, be true that many workers will not receive expected

benefits because the employer is not able to meet financial commitments,* or because he actually goes out of business.

2. Another objection to all private pensions plans (especially as contrasted with government plans) is that, by their very nature, they tend to produce inequality in respect to coverage and the amount of benefits they provide. This criticism is based on the likelihood that the terms of a plan usually depend on the strength of the union and on the financial position of the company. Consequently, coverage under a plan, and the amount of benefits payable, depend on the circumstances of collective bargaining rather more than they do on socially recognized need. In addition it is likely that some individuals who have an especially pronounced need for retirement income will remain beyond the scope of negotiated plans. Among these, for example, are the self employed, the casual workers, employees of very small firms and those in highly competitive or unstable industries, members of some of the weaker unions and many unorganized workers.

3. Some of the overall economic implications of private pension plans may also be noted. It will be clear that these implications are not peculiar to the negotiated plan, but apply equally to most non-governmental pension plans.

Such plans tend to restrict the movement of workers between firms and industries and tend also to reduce employment opportunities of older workers. It may be assumed that a dynamic, changing, economic system such as ours requires substantial mobility of labor to facilitate the development of new plants and new industries. In the absence of vested rights in a pension plan, a worker who voluntarily leaves his present employer gives up accumulated credits towards a retirement income. Private pension plans also impose penalites on the employment of older workers, say, 45 years of age and over; for in hiring a new employee advanced in years, the employer is faced with the greater expense of building up a pension fund over a relatively short period of time.

Again, insofar as private pension plans provide for compulsory retirement, many workers, willing and able to work, are forced to retire from the labor force, thereby depriving the community of valuable skills and experience. This restriction on the employability of the older worker becomes more stringent when the pension plan also limits or prohibits part-time work, as some plans do.

V. PROSPECTS FOR THE FUTURE

Indications are that the number of pension plans introduced through collective bargaining, and the number of workers covered by them, will, in the future, increase at a slower rate than was true during the period 1948-1951. The unions have probably negotiated pension plans with most of the companies which could best afford them, and attempts to negotiate new plans will meet with

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* One negotiated pension plan, recognizing this possibility, provided: "It is the intention of the parties hereto to retire as many workers who shall be qualified for retirement during the term of this agreement as there shall be moneys available in the Fund ... Whenever there shall be a lack of sufficient funds to permit the granting of further applications for retirement, the Board shall have the right to refuse to approve or grant further applications until such time as there shall again be available sufficient funds for that purpose."

increasing resistance. The unions will, however, continue to press for more favorable terms in existing pension plans and, in general, the problems of the older worker will receive continued attention by labor, management, the government and specialized research agencies.

Relatively greater emphasis will probably be placed on the OASI as the best approach to providing basic economic security for the aged. Both labor and management are aware of the limitations of private pension schemes, and many spokesmen agree that a contributory federal social security system is the most important part of the solution to the overall problem. Although the claim is made that the present public system has its limitations, and should, therefore, be improved, it also has several advantages: It treats all covered workers alike; it is backed by the resources of the nation; it gives the worker vested rights to a retirement income and thus does not impair the mobility of labor.

Assuming that the federal program carries the main burden of providing adequate old-age security, private plans will probably continue to play an important supplementary role. While the federal program provides the basic economic security for all workers, private plans may grant higher benefits, where this is feasible, and can be tailored to fit the needs and conditions of individual firms and industries. For example, supplementary plans may permit early retirement or more liberal disability benefits for workers employed in extremely strenuous or hazardous occupations.

The drive for pensions is a reflection of one of the major problems of the older worker--the frequent inability of the individual to provide for the economic needs of old age through his own resources. But another important aspect of the problem must not be overlooked: The older person must also make psychological and social adjustments to retirement, and it is likely that these facets of the problems will receive more attention as provision for economic security is improved.

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