

Pensions
(1963 folder)

Pension Plans

PENSION PLANS

What You Should Know About Them

INTRODUCTION

The problem of how to provide for adequate retirement income for workers is the subject of constant study by those in responsible positions in government, industry and labor. Congress has considered and acted on many proposals for broadening the coverage and increasing the benefits provided under the Social Security System. Because of the inadequacy of Social Security benefits, negotiated pension and profit sharing plans have been adopted in ever-increasing numbers in recent years.

In 1930, there were only about two hundred pension and profit sharing plans in existence in the United States. By 1940, the number had increased to approximately one thousand. Then under the stimulus of war-time wage regulations, and because company pension contributions were given tax exemption, many companies found that they could provide attractive pension benefits for their employees at little expense to themselves.

A special Pension Trust Division of the United States Treasury Department was created, in 1943, to rule on the eligibility of the flood of new pension plans which were being filed for qualification under the tax exemption provisions of Section 165(a) and 231(p) of the 1939 Internal Revenue Code. As of December 31, 1961, the Internal Revenue Service has issued a total of 77,179 qualification rulings under the above and Section 401(a) of the 1954 Code. During the same period, 4,829 plans were terminated, leaving a net number of plans, approved and in effect, of 72,350. This was a net increase of 8,652 plans over the number in effect on December 31, 1960, which gives some indication as to the rapid growth in the number of retirement plans.

By the end of 1960, 32.2 million Americans were covered by private and public retirement programs other than the Old Age Survivors and Disability Insurance. A total of 23.3 million persons, including 1.7 million on pension, were enrolled under private programs, 5.4 million under insured plans and 17.9 million under non-insured plans.

The remaining 8.9 million workers were covered by government retirement systems. At present, over one-half of all civilian non-agricultural wage and salary workers are enrolled in retirement plans in contrast to a little over one-third in 1945 and only one-fifth in 1935.

Contributions to all United States private pension plans in 1962 were estimated at 8.5 billion dollars.



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Table of Contents

	<i>Page</i>
Introduction	1
Basic Considerations in Pension Negotiations	2
Funding	3
<i>Pay-as-you-go plans</i>	3
<i>Terminal funding</i>	4
<i>Full Advanced Funding</i>	4
Administration	4
<i>Insured plans vs self-administered trust funds</i>	4
Group Annuities	7
Taft-Hartley Restrictions	8
Pension Cost Factors	8
<i>Table I—Discounting for Mortality</i>	10
<i>Table II—Discounting for Severance</i>	10
<i>Table III—Discounting for Interest</i>	11
<i>Table IV—Pro-rating the Cost</i>	12
<i>Past Service Costs</i>	13
<i>Deposit Administration Plans</i>	14
<i>Individual Policy Plans</i>	15
Benefit Provisions	16
<i>Percent of Pay vs Flat Money Benefits</i>	17
<i>Career Average Earnings vs Final Earnings</i>	17
<i>Service and Eligibility Provisions</i>	18
Importance of Vesting	20
Contributory vs Non-Contributory Plans	22
Private Pension Plans and Social Security	23
<i>Integrated Plans</i>	24
<i>Offset Plans</i>	24
<i>Disadvantages of Offset Plans</i>	25
<i>IBEW Pension Plan</i>	26

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In 1930, there were only about two hundred pension and profit sharing plans in existence in the United States. By 1940, the number had increased to approximately one thousand. Then under the stimulus of war-time wage regulations, and because company pension contributions were given tax exemption, many companies found that they could provide attractive pension benefits for their employees at little expense to themselves.

A special Pension Trust Division of the United States Treasury Department was created, in 1943, to rule on the eligibility of the flood of new pension plans which were being filed for qualification under the tax exemption provisions of Section 165(a) and 23(p) of the 1939 Internal Revenue Code. As of December 31, 1961, the Internal Revenue Service has issued a total of 77,179 qualification rulings under the above and Section 401(a) of the 1954 Code. During the same period, 4,829 plans were terminated, leaving a net number of plans, approved and in effect, of 72,350. This was a net increase of 8,652 plans over the number in effect on December 31, 1960, which gives some indication as to the rapid growth in the number of retirement plans.

By the end of 1960, 32.2 million Americans were covered by private and public retirement programs other than the Old Age Survivors and Disability Insurance. A total of 23.3 million persons, including 1.7 million on pension, were enrolled under private programs, 5.4 million under insured plans and 17.9 million under non-insured plans.

The remaining 8.9 million workers were covered by government retirement systems. At present, over one-half of all civilian non-agricultural wage and salary workers are enrolled in retirement plans in contrast to a little over one-third in 1945 and only one-fifth in 1935.

Contributions to all United States private pension plans in 1962 were estimated at 8.5 billion dollars.

The rapid increase in number of pension plans and the tremendous amount of money being contributed to private pension plans each year represents substantial progress toward overcoming the financial hazards of old age. However, the number of workers covered under pension plans other than Social Security is still less than one-half of the total work force. And many of those who are covered by private plans have no real assurance that they will ever actually receive a pension from those plans.

At first glance, almost any kind of retirement plan looks good to the worker who has no hope of retirement income other than Social Security. But looks are sometimes deceiving. The net effect of a poor pension plan upon a group of workers can be worse than none at all. Such a plan may impair other vital trade union aims and functions and offer relatively little in return.

Whether or not any particular group of workers ought to have a pension plan depends on other economic objectives such as the existing level of wage rates and working conditions. If these are substandard, it would be more important to bring them up to a level in line with other wages in the industry than it would to get a pension plan.

Planning a pension program presents a series of choices between alternative courses of action. The particular union concerned is the only one in a position to know the wishes and needs of its members.

The purpose of this pamphlet is to provide the basic facts needed to make an intelligent choice, and to describe the alternative action in such a way as to enable the workers and their leaders to arrive at a proper decision from the union standpoint.

BASIC CONSIDERATIONS IN PENSION NEGOTIATIONS

The negotiators should begin by recognizing the fact that the pension is not a gift from the employer but is a deferred wage which is earned by current labor services. Pension cost is chargeable as operating expense in the same way that wages are charged. When a pension plan is brought within the scope of a collective bargaining agreement, both parties thereby acknowledge that the plan is, in fact, a part of the pay which the workers are to receive in exchange for their services.

This means that the worker's interest in the pension fund is not established solely by reason of his advanced age and "long and faithful service". Rather, his interest is cumulative for the entire period of service under the contract. The pension fund should be set up so that contributions made by the employer are irrevocable, which the employer cannot recapture, just as he cannot recapture cash wage payments which have been earned by the workers.

In this connection, it should be noted that, in principle, the worker's interest in a negotiated pension plan is the same whether the plan

is **contributory** or **non-contributory**. The pension credits in either case have been earned by the workers, and whether the employer pays all of the costs of the pensions or not, the entire contribution represents credits the workers have earned. This being the case, then the workers who are covered by the pension plan are properly entitled to have representation, through their union officials, and a voice in the administration of the plan.

From the union standpoint, the three most important things to consider in planning a pension program are (1) funding; (2) administration; and (3) the extent to which a worker's equity is to be protected.

FUNDING

There are three alternative systems of budgeting and financing the cost of retirement plans. These are (1) "Pay-as-you-go-plan"; (2) Terminal Funding; and (3) Full Funding. The choice which a union and employer make among these three basic alternatives is of importance, because the successful future of the plan can well depend on making the right choice. Of the three, "Pay-as-you-go-plan" is the least desirable choice. Under this setup, a worker is promised a pension when he reaches retirement age, if there is money enough at that time to pay it. It assumes that a pension is considered as a cost item of the employer only at the time a pension has to be paid.

"Pay-as-you-go-plans"

"Pay-as-you-go-plans" ignore the fact that the cost obligation is actually incurred at the time workers perform the services which entitle them to a certain amount of credit toward a future pension. The worker who serves under such a pension system is working for promises, not for money. He has no real rights in the plan because no funds are being accumulated to back up these rights.

"Pay-as-you-go-plans" are not even good for the employer. Costs are higher, if all pension obligations are met, than they would be under a funded system. The funded system is cheaper because the money already in the fund earns interest which helps to pay part of the total cost. It also has tax advantages. Another advantage is that the employer can budget his pension costs on a level annual premium basis. The principal advantage of the "Pay-as-you-go-plan", from the employer's standpoint, is that under the present tax laws the plan can be more easily terminated, if times get bad. This, of course, is a disadvantage from the union standpoint, and should make the workers suspicious of the motives of an employer who insists on setting up a "Pay-as-you-go-plan".

Terminal Funding

Terminal Funding is a compromise between "Pay-as-you-go plan" and Full Funding. Under this method, a fund sufficiently large to pay for the pension of each retiring worker is created at the time he retires. This is done by purchasing a paid up life annuity from an insurance company or by depositing the amount required to pay the pension in a trust fund.

This method of funding a pension program is acceptable if it is used in conjunction with a program where a group of employers make regular annual contributions to a trust fund, so that money will be available when needed to pay pensions. The National Electrical Benefit Fund is an example of this type of operation.

Full Advanced Funding

Full Advanced Funding requires that enough money be contributed each year by the employer to pay for all "future service" credits that are currently accruing, plus a portion of the total "past service" liability.

The amount of money paid into the pension fund for each member under a fully funded system will be less than the amount needed under "terminal funding", because the money will accumulate interest prior to retirement date, as well as after that date. If annual contributions are made, with the first payment beginning when the employee reaches age 40, and the last payment when he reaches retirement at age 65, interest earned by the money in the fund will pay for about one-fourth of the sum needed at the retirement date, if we assume an interest rate of 2½ percent.

The actual cost of one full life pension of \$1,000 per year, beginning at age 65, would be about \$9,000 under the Full Advance Funding system as compared with \$12,000 under the Terminal Funding system and \$14,400 under the "Pay-as-you-go-plan" system. These figures do not include the additional cost incurred during the early years of the pension system which occur in the form of amortization payments on the "past service" obligation, but the figures do give some idea of the comparative longrun normal cost of the three funding systems.

ADMINISTRATION

Although there are a number of alternative methods by which a funded plan may be administered, in the final analysis they resolve themselves into a choice between administration by an insurance company or a self-administered trust fund.

The "self-administered" or "trusted" plan is one in which the employer deposits with an outside agency, other than an insurance

company, the money needed to fund the pension benefits called for by the terms of a contractual plan.

The pension fund is then managed by the outside agency, which may be a bank or trust company, or a Joint Board of Trustees, designated by the Union and employer and charged with the duty of investing the funds and the administration of the terms of the plan.

Usually the Board of Trustees, or a special pension committee which is set up to administer the terms of the pension plan, will establish the rules, direct the payment of benefits, and make the day-to-day decisions necessary to operation of the plan, within the framework of the pension agreement. The bank or trust company, if such agency is used, will manage the investments of the fund and make payments as directed, but will not administer the plan or assume responsibility for seeing that there is enough money available to cover all needs when the time comes.

A trustee type of plan works well where large groups of workers are involved because the actuary can make more accurate estimates as to the amount of the contributions needed to provide the benefits under the plan. The fewer the number of workers covered by a plan the less reliable the actuarial estimates become. In the case of these small groups, it, therefore, becomes safer to have a pension plan underwritten by an established insurance company which assumes the risks and handles all of the actuarial and clerical work required for administration of the fund.

The question of relative cost of insured plan versus the self-administered trustee plan always comes up during negotiations. Recent studies made by the AFL-CIO Social Insurance Department found that there was very little difference between the two types of plans from the standpoint of comparative "real" cost. The "real" cost is the benefits paid out less the interest earned plus the administrative expenses. If we assume that the benefits to be paid under the two types of plans are the same, then the only way one system would cost more than the other would be through lower interest earnings or higher administrative expenses.

There is often a difference in the initial cost of a trustee plan as compared to an insured plan, but in the long-run the two types of plans would cost about the same amount of money to provide equal amounts of pension benefits.

The cost estimates on which contributions and benefits of a trustee plan are based can be as conservative or as closely figured as the actuary and the contracting parties desire to make them. Full discount can be taken in advance, for all of the probable risks. Full discounts can be taken for such factors as turnover and deferred retirement, and liberal assumptions can be made, if circumstances and

characteristics of the group to be covered appear to justify it, regarding mortality and life expectancy.

Under insured plans, on the other hand, no discount is taken for turnover and deferred retirement in the computation of premiums. Conservative mortality tables and interest rates are used. If, for example, the 1937 Standard Annuity Table is used to figure the mortality rate among workers in a particularly hazardous occupation—like coal mining—where the mortality rate is high and life expectancy lower than set forth in that table—the cost will be over-stated. Of course, competition being what it is, no insurance company is apt to over-state the cost of a plan intentionally.

It is conceivable that cost advice obtained by a group from an actuary and premium quotations from an insurance company might vary as much as 40%. In spite of this, the cost expectancy over a period of years is usually about the same.

The difference in the insurance company estimates would be made up in dividends or rate credits which are paid back by the insurance company and which would not be realized from the trust fund set up on the basis of the actuary's estimates. For example, the insurance company will, instead of discounting for turnover in computing its premiums take care of separations by refunding to the employer a "cash surrender value" of about 96% of the contributions the employer has made on behalf of the terminated employee. Also, the employer will get additional dividends—which he can apply to any subsequent insurance premiums—if the mortality rate turns out to be higher and the life expectancy rate after retirement is lower than the rates used in computing the premium. He will also get credit for deferred retirements if the earned interest rate turns out to be higher than was assumed.

It is for these reasons that figures submitted by an insurance company are of limited value in the negotiations when costs are discussed, unless they are interpreted and modified in the light of all the probabilities.

Actual cost of a pension plan can be known only after the plan has been operated for a number of years. This is why insurance companies usually include a provision in pension plans which provides for a re-evaluation of the operation of the plan at the end of five years.

The basic difference between the two methods of estimating cost lies in the timing of cost experience. Under a trustee plan, the manner of funding, and the timing of adjustments and actuarial gains are under the control of the union and the employer. Under an insurance plan, these matters are handled by the insurance company rather than by the parties themselves.

From labor's standpoint, the important thing is to agree that labor is to have an equal voice with management in determining these

matters and equal access to the information regarding the amount of dividends, determination of credits, interest earnings, and so forth, in order that the union can be properly informed as to the net cost to the employer in the event that the insurance plan is adopted.

GROUP ANNUITIES

The group annuity is probably the most common type of insured plan. Under such a plan, a master contract covering the entire group is entered into with an insurance company. This type of contract cannot be used to cover groups of less than 50 members (25 in some states). Employees are enrolled on a group basis and no medical examination is required.

Group annuity plans are designed to provide straight pension benefits at relatively low cost. Since death benefits are not included as part of the plan, the full mortality discount can be taken in computing the cost.

Severance is not discounted in advance. Therefore, a "vesting" clause in the agreement, whereby workers who quit or get fired would keep the paid up annuities purchased for them up to the time of separation, would involve no increase in the annual premium charge. It would be reflected only in the reduction or elimination of the 96% rebates which the employer would otherwise get back from the insurance company, and which the employer could use to reduce his future premium payments.

Group annuities are usually funded by the "single premium" method. Under this method, there is purchased annually for each covered employee a unit of deferred annuity benefits to cover the pension rights attributable to the employee's service for that year. Each year's purchase of units of annuity coverage is a completed transaction, and upon retirement the sum of all the separately purchased units of deferred annuity will equal the total amount of pension payable to that employee.

Since each year's premium is a completed transaction for the unit of benefits earned in that year, the per-unit premium for an individual in the group will increase annually by reason of his age change. Whether the general group average cost will increase or decrease from year to year (other than through a general change in premium rates) will depend on the average age of the group and the distribution of ages within the group.

The premium rates applicable to the various age brackets are usually guaranteed for five years, but thereafter the insurance company will reserve the right to review them periodically and adjust premiums upward or downward. The new rates will then be applicable to old members as well as new entrants into the plan.

The most common type of benefit formula found in group annuity plans—because it works in well with the single premium, unit-purchase method of funding—is one in which the benefit is a certain percentage of pay for each year of service. For instance, the formula may be 1% of average annual pay for each year of service to age 65. A worker joining the plan at age 30 will, under such a formula, earn a total pension of 35% of his career average pay by the time he retires. The group annuity can also be used just as readily with a formula providing a flat dollar amount of pension benefit for each year of service to retirement.

The group annuity plan also gives the retiring worker the option of taking his pension in one of several forms. Among the forms he may choose is a “joint and survivors” annuity, under which a pension, lower than that he would otherwise receive, is paid during the retired worker’s lifetime and the subsequent lifetime of a beneficiary designated by him, if the beneficiary survives him.

TAFT-HARTLEY RESTRICTIONS

The Taft-Hartley Act places certain restrictions on employer payments to union pension and welfare funds. Section 302 of the Act requires that:

- (1) A written agreement must be made with the employer detailing the basis upon which payments are to be made.
- (2) Employer contributions to union pension and welfare funds must be made to a trust fund, with provision for equal representation by management and labor in the administration of the fund, together with a neutral party or umpire to settle disputes. If the neutral party cannot be agreed upon, he is to be named by the United States District Court.
- (3) The agreement must provide for an annual audit, and public posting of the results.
- (4) Pension funds must be kept in a separate trust and used only for pensions or annuities.

These restrictions do not apply to funds established by collective bargaining prior to January 1, 1946, nor do they apply where pension and welfare funds are controlled solely by management, or where they are supported solely by workers’ contributions or dues payments.

PENSION COST FACTORS

The actual operating costs of a retirement plan will be determined by:

- (1) The amount of benefits paid to each retiring worker.
- (2) How many workers qualify for benefits.
- (3) How long retired workers live to receive benefits.

- (4) The rate of interest earned through the investment of the money held in the pension fund.
- (5) The expenses incurred in administering the pension system clerical expenses, legal, actuarial and accounting charges, etc.

Before the cost of financing a particular plan can be estimated, the actuary or insurance company must have certain data on the workers who are to be covered by the plan. The union should collect this data before the experts are called in.

The following facts on each individual worker in the group to be covered by the plan should be collected:

- (1) Rate of pay (if the benefits of the plan are to be related to earnings)
- (2) Age
- (3) Sex
- (4) Seniority or past service (if the benefits are to be related to service)

With this information the actuary can determine how much money must be in the trust fund when each worker reaches retirement age in order to guarantee his pension for life. Life insurance mortality statistics show that the average man who reaches retirement age of 65 can expect to live 14.4 more years. Women who reach age 65 live, on the average, 3.15 years longer than men.

If we assume that a worker will be entitled to a pension of \$1,000 a year, beginning at age 65, then it becomes necessary to have enough money in the pension fund to pay \$14,400 total pension. Of course, it is not necessary to have the full amount in the fund at retirement date. Interest earnings will provide some of the money needed.

If interest is earned at the rate of 2%, for example, then a fund of \$12,400 will be needed to pay a pension of \$1,000 a year at age 65. If the rate is 3%, only about \$11,550 will take care of the pension. At 2½%, it would take \$11,970.

After determining the total amount needed, it then becomes necessary to find out how much must be put in each year to insure having the full amount available at retirement age. Enough has to be put in each year to pay for the portion of total retirement benefit that the worker earns in that year.

If we assume that \$1,000 per year is the maximum pension allowable, with 25 years as the minimum period of service required to qualify for the full amount, then under such a plan, workers of age 40 will earn a pension of 1/25 of \$1,000 a year—or \$40 a year—for each year of service before retirement. The amount that must be in the fund at retirement to guarantee the pension earned by one year of service on the part of the workers covered must be 1/25 of \$11,970 (2½% interest), or about \$480. The annual contributions to the fund should be

sufficient to assure that workers reaching retirement will have this much in the fund for each year of their credited service.

In determining the actual annual contribution that must be made on behalf of each worker covered by the plan, the actuary will apply a "discount" for death before retirement, severance, and interest. Mortality and severance serve to reduce the number of persons who will actually qualify for retirement rights under the plan. Interest earned on the fund as it accumulates will meet part of the cost of providing those who do qualify with a pension.

Discounting For Mortality

The following table shows how "discounting for mortality" will reduce the amount of money that must be contributed each year to the pension fund in order to provide the necessary amount at retirement:

Table I

Age of Worker	Fund needed at 65 to Pay \$40 a year for life		Percent Living at age 65		Current Annual Cost After Mortality Discount Only
40	\$480	X	73%	=	\$350
50	480	X	77.2%	=	370
60	480	X	89%	=	427

This table also shows how the current annual cost of financing a pension for a given worker increases each year as the worker grows older.

The full mortality discount is taken only in the case of plans which make no provision for the payment of any portion of the accumulated pension fund to a worker's family as a death benefit. If a death benefit is provided then the cost of funding a plan will go up because the mortality discount will decrease or disappear, depending on how large a portion of the fund behind the worker's pension credits is to be paid to his survivors if he dies.

Discounting For Severance

The "severance discount" represents the decrease in cost resulting from loss of pension rights by workers who quit or are fired from the unit before they reach retirement age.

This factor will operate only in plans which have no provision for "vesting" of accrued pension rights earned by previous service if a worker leaves the unit covered by the plan.

The "severance discount" is based on turnover, which is usually greater among the workers under 40 years old. Insurance actuaries allow no severance discount, but allow any savings resulting therefrom to be refunded as dividends, which may be used to reduce current premiums.

The following table illustrates how "discounting for severance" is used by the actuary to further reduce the amount of current annual contributions required to finance the stipulated pension:

Table II

Age of Worker	Current Cost After Mortality Discount (from Table I)		Percent Remaining In Work Force Until Retirement	Current Cost After Mortality and Severance Discounts
40	\$350	X	90%	\$315.00
50	370	X	96%	355.00
60	427	X	100%	427.00

Discounting For Interest

The actuary has interest tables which show what fraction of a dollar has to be paid into a pension fund, at a worker's present age, in order that this amount plus accumulated interest will equal \$1 by the time he reaches retirement age. For example, in the case of a worker age 40, about 54¢ invested now at 2½% interest will equal \$1.00 by the time he retires, 25 years in the future.

By applying this figure to the last preliminary cost estimates shown in Table II, the actuary "discounts for interest"—that is, he reduces the current cost estimate still further in recognition of the fact that a part of the fund needed at retirement will be provided by the compound interest which the money contributed this year will earn by the time the worker actually retires.

This final step is shown in the following table, assuming that interest is earned at the rate of 2½%:

Table III

Age of Worker	Cost Estimate Before Interest Discount (from Table II)		Amount Needed Now to Provide \$1.00 at Age 65, at 2½% Compound Interest	Final Cost Estimate
40	\$315	X	\$.54	= \$170.00
50	355	X	.69	= 245.00
60	427	X	.88	= 378.00

Thus, the final estimate as to the current annual cost of funding a pension of \$40 a year for each year of service to age 65 will be as follows:

\$170 for each worker in the age 40 group.

\$245 for each worker in the age 50 group.

\$378 for each worker in the age 60 group.

Pro-Rating The Cost

If, for purposes of easy illustration, we assume the entire group covered by the plan is composed of 30 workers age 40, 20 workers age 50, and 10 workers age 60, the total contribution required annually to finance the pension credits earned by one year of current service will work out as shown in the following table:

Table IV

Age of Worker	Number of Workers		Estimated Cost Per Worker for 1 Year's Credit		Total Cost for 1 Year's Credits for Group
40	30	X	\$170	=	\$5,100.
50	20	X	245	=	4,900.
60	10	X	378	=	3,780.
					<u>\$13,780.</u>

If an 8% charge for administrative expenses and "contingencies" is now added, the final current service cost for the unit as a whole would come to \$14,882. The average annual cost per covered worker will be \$14,882 divided by 60, or about \$248 per man-year.

This does not include the workers in the below-40 age groups who would not be included in the covered group. If these workers are counted in so as to obtain a figure showing what the actual pro-rated cost per worker covered by the collective bargaining agreement will be, the average cost will be reduced substantially.

For example, if we assume that there are in the unit, in addition to the 60 workers age 40 and over, an additional 40 workers who are below age 40, the average cost per worker for the unit as a whole will be about \$149 a year.

Reducing this to cents-per-hour, on the basis of 2,080 man-hours of work per year, the estimated cost of fully financing the pension benefit rights accruing each year after the plan is set up would be about \$7.2¢ per man-hour.

Past Service Costs

The figures quoted above are only part of the total cost picture. In addition to the annual contributions required to finance the benefit credits which accrue with each current year of service—or “future service credits” as they are called—there is a heavy initial financial obligation involved in the establishment of a pension plan. This involves the so-called “past service” credits—the benefit rights earned by the workers covered by the plan as a result of their previous years of service before the date the plan was established.

Take, for example, the case of a worker who is now 60 years of age and has 20 years of past service in the unit. A pension plan providing for a benefit of \$40 a year for each year of service at age 65 would only provide him with a pension of \$200 a year ($5 \times \40) unless he receives some credit under the plan for his past service.

To give him additional pension credits in recognition of his past service—and as a matter of practice this is invariably done—additional money will have to be paid into the pension fund, over and above the amounts paid in to finance the annual future service credits.

The actuary usually works out the amount it would cost to fund those past service benefits in a lump sum payment. He then figures out how much it would cost if spread over a series of years with annual installments to be paid until the past service costs are paid (or “amortized”) in full. These annual installments must run for 10 years or more. An amortization period less than 10 years is not allowed by the Bureau of Internal Revenue for tax exemption.

Under the plan we have been using as an example, the cost might start off at 14¢ per hour, but, at the end of 10 years, after the past service funding was paid for, the cost would drop to the original 7.2¢ estimate worked out for future service costs.

Another factor affecting costs is the age at which workers actually retire. The cost of a worker's pension is reduced by from 8% to 10% for each year that he continues working beyond his normal retirement age of 65. In the same way, an earlier retirement age, say 60 years, for women, or the whole group, would greatly increase the cost because of the longer period in which a retired worker could expect to draw a pension.

The most desirable funding provision is one which obligates the employer to maintain a plan on a full advance funded basis. This requires current contributions sufficient to finance the full amount of all future service credits as they are earned, plus an installment on the past service liability large enough to assure that the past service obligation will eventually be paid off in full. Anything less than this should be strongly resisted.

A pension plan that is not fully funded offers little real security to the workers concerned.

Not only is full funding essential to the plan's security and ability to pay, it is also a necessary condition to the negotiation of a "vesting" provision, designed to protect the worker's earned pension rights against loss in case he quits or gets fired. Obviously, a worker can establish an equity, or "vested" rights, in a pension system only to the extent that reserve funds have been set aside to cover his earned credits. An unfunded system can provide no vesting rights because there is nothing there to vest.

A pension plan should be jointly administered. Unions should accept nothing less than an equal voice in the administration of the pension plan. Only through such responsible participation can the union gain the insight and experience as to the details of the plan in operation which will be needed to determine where future modifications and improvements are required.

The ideal pension plan is seldom, if ever, attainable in a single step. Satisfactory plans are the product of time, experience and subsequent negotiations over the years following the initial establishment of a plan.

Deposit Administration Plans

Deposit administration plans are a combination of certain features of trustee plans and group annuity plans. They were developed by insurance companies in an effort to meet the criticism, as to inflexibility and high initial premiums, frequently directed against insured plans.

If the funds accumulated under a trustee plan are used to purchase paid-up life annuities for workers covered by the plan when they retire, all the essential characteristics of a deposit administration plan would be present in such an arrangement. The main difference is that the insurance company acts as the trustee of the funds being accumulated before annuity purchases are made, instead of a bank, trust company, or Board of Trustees.

Under a deposit administration plan, the employer makes his payments to the insurance company. The insurance company holds the money at a guaranteed rate of interest, plus any additional interest which may be warranted by the profitability of its investments. The money is not used at the time it is paid in to purchase units of paid-up deferred annuities, as in the case of a group annuity plan, but is kept in a separate unallocated fund.

As each employee retires, enough money is taken out of the fund to buy him a paid-up life annuity in the full amount of the pension benefit he has coming to him under the plan. The premium rate paid

for this policy is the same as the rate applicable to the unit purchased for a worker at age 65 under a routine group annuity plan.

If the amount of money in the fund is not sufficient to purchase annuities in the amount required by the benefit terms of the plan, the employer has to make up the difference.

Deposit administration plans are available only to large groups of workers, the minimum being about 500.

The Pacific Gas & Electric Pension Plan is a deposit administration plan. The insurance companies invest much of the money on deposit in PG & E stocks and bonds. Thus the company gets back the money which it pays into the plan and uses it for construction and other needs. It pays dividends on the stock and interest on the bonds held by the fund. With the money, the company through its operations earns anywhere from 10% to 15% on the stockholders equity. Thus, we can see that the money PG & E puts into the pension fund comes back through sales of securities and is available once more for working capital in the business operations of the company. This is not illegal or immoral. The illustration is used only to show that the millions of dollars now being accumulated in pension funds are not being taken out of circulation, but are being reinvested in productive enterprises. These huge pension funds are providing a new source of funds for capital expansion. New and larger plants can be built. These, in turn, provide new jobs for the ever increasing labor force.

Individual Policy Plans

If a group is too small to qualify for a group annuity plan, it becomes necessary to use a system of individual annuity policies—unless several such groups combine for pension purposes.

Under group annuity and self-administered plans, death benefits, where provided, are usually handled separately from the funding of the pension program, through group term life insurance. Under individual policy plans, however, death benefits are provided as a part of the funding of the pension plan.

One or more policies are purchased for each employee covered by the plan. The total amount of the policies held for each covered employee is based on the pension the employee will be entitled to when he reaches retirement age.

Individual policies are funded on a level annual premium basis, like ordinary life insurance, with each year's premium the same as the first premium, from the beginning until retirement. It does not change yearly with age. The cost is not discounted in advance for severance or mortality before retirement. This makes possible the payment of

substantial death and severance benefits. Most individual policy plans provide for \$1,000 life insurance for each \$10 of monthly income that the worker is entitled to on retirement.

Under this type of plan, the rebate that the employer will receive under a non-vested plan in the event of employee separations before reaching retirement age is much less than it would be in the case of group annuities. As compared to the 96% return under a group annuity system, the employer can expect to recover only from 25% to 50% of the premiums paid under an individual policy. Since the employer can recover relatively little in cash surrender value under these plans, most individual policy plans contain comparatively liberal vesting provisions, under which employees retain their accrued pension rights when, and if, they leave the group.

BENEFIT PROVISIONS

The benefit schedule presents the union with another of the basic choices involved in the consideration, negotiation and establishment of a pension plan—the choice as to who gets what, when and how much.

There is no such thing as a “typical” or “standard” pension plan benefit formula. Almost every plan has some variations of its own, designed to meet specific situations.

These wide variations are found in both collectively bargained plans and “unilateral” plans.

In their bare essentials, however, most plans are modifications of one of the following four broad types:

- (1) Benefits related to both earnings and service (Example: 1½ % of pay for each year of service from entrance to retirement).
- (2) Benefits related to service, but not to earnings (Example: total pension equals \$3.00 per month for each year of service to retirement).
- (3) Benefits related to earnings, but not to service (Example: 50% of pay at time of retirement).
- (4) Flat benefits with no relation to either earnings or service (Example: \$100 per month upon retirement, regardless of earnings or service).

Of these four broad possibilities, variations on the first two are most common. Whether recognition should be given to earnings or service; the extent, if any, to which they should be recognized; and the consideration that is to be given to minimum needs are all subject to control of the parties. The formula can be constructed and adjusted in many ways to care for these various factors.

Percent Of Pay **versus** **Flat Money Benefits**

Among the arguments used in favor of a system which ties benefits directly to earnings, the following are most commonly used:

- (1) A worker will tend to judge the adequacy of his pension in relation to what he would have been earning before retirement and what he could continue to earn if he continued to work. If the pension is too small, he won't want to retire.
- (2) Higher-paid workers are used to a higher standard of living. There should not be too much of a drop in income when they retire. For example: a \$100 pension might be enough for a worker earning \$150 a month, but not nearly enough for a worker earning \$400 a month.

On the other hand, if most of the money available for pensions goes to higher income workers, the lower paid workers will suffer. Another dollar is of greater value to the man who has few dollars than it is to the man who already has many. The lower-paid groups are already close to the bare subsistence level. To reduce their living standards still further when they reach retirement age would involve a greater hardship than it would in the case of the highly-paid worker.

The amount of Social Security benefits available might influence the selection of a percent of pay formula. Since the Social Security program provides a higher percentage benefit to low-paid workers, a private pension formula providing a more or less uniform percentage of pay would, when received on top of the Social Security benefit (and not offset against it), result in a total percentage benefit which would be scaled upward for the lower-paid groups.

A percentage of pay formula is not the only way in which a worker's past earnings can be recognized. It can also be done under a flat-dollar-amount formula, by simply adding an additional factor to compensate—to any desired amount—for higher earnings. For instance, a flat benefit formula used by one plan provides a pension of \$60 a month after 20 years of service, regardless of earnings. Up to \$5 may be added to this amount for workers whose earnings exceed a certain level.

Career Average Earnings **versus** **Final Earnings**

When the benefit formula is related to the worker's earnings during his working life, a question arises as to the level of earnings to be used as the base for computing the amount of retirement benefits. In some

plans, the benefits are based on a percentage of annual average pay received by the worker during all the years of his participation in the plan. In others, the benefits are based on the worker's annual pay during the final years of his participation in the plan.

In the latter case, the period used is usually the 5 or 10 years just prior to retirement. Sometimes this is expressed as the average of the five highest paid years in the 10 years prior to retirement. In other cases it is the highest single year in the last 5 years.

In most cases, a benefit formula using the final years before retirement as a base is preferable. The same percentage formula will yield a higher benefit if based on final earnings than on a career average because (1) higher seniority, skill and experience will tend to move workers to higher-rated jobs in the course of time, and (2) wage scales generally are higher now than they were 15 or 20 years ago, and will be still higher in the future. The 1954 Social Security Bill recognizes this by including a provision that allows the dropping of the five lowest pay or no income years from "years of service" when computing the average earnings.

The pension based on final year's earnings will also be more closely related to the level of pay and cost of living to which the worker has become accustomed at the time he begins drawing his pension. A plan which provides a pension of 50% of average career pay after 25 years of service may actually mean, for most workers, a pension of only about 35% or less of what they were making at the time of retirement.

Past service pension formulas are usually based on a percentage of the earnings during the year just prior to the effective date of the pension plan. This avoids the necessity of checking back through payroll records covering a period of 30 years or more, which may no longer be in existence.

Service And Eligibility Provisions

The service and eligibility requirements of a pension plan are just as important as the benefit formula itself in determining how the benefits are to be distributed among the members of the work force covered. They should always be considered in relation to each other, as parts of a whole plan. A liberal benefit accrual formula can be greatly limited by a provision which limits the number of years of service that can be counted.

These restrictions can be imposed by putting a direct limit on the number of years of service which can be credited toward retirement (for instance, where the formula provides a percentage of pay for each year of service up to a maximum of 30 years). Or they can be imposed through age and service restrictions upon eligibility (as in a plan which

requires the attainment of age 30 and 5 years service as a condition of eligibility).

Obviously, a plan which has both an age and service condition is more restrictive than one which has just one or the other. For example, a 20-year old worker would have to work 10 years before qualifying under an age-30-with-5 years-service plan; and a new worker aged 30, could not qualify until he reached 35 under the same plan.

These restrictions are usually imposed as an indirect means of discounting the cost of the plan for withdrawals, or severance—it being assumed that more of the withdrawals will take place among the age and service groups excluded from the plan.

Where the funds available for pensions—or the employer's willingness to pay—are limited, restrictions of this type may be used to provide short-service workers, and older workers on the verge of retirement, with higher immediate benefits than would be possible if the available funds were spread over a wider area, so as to take in young and long-service workers.

This could involve a choice between a 2% year plan with a 25 year limit, and a 1½% per year plan with no limit on credited service. The older worker will make out better under the former plan. The latter would make higher benefits available to younger and longer-service workers.

This is a practical problem which unions negotiating a retirement plan are very likely to encounter. If the union starts out with a proposal for a 2% per year plan with no limit on service accruals, and negotiations reach the point where some modifications on the original proposal must be made, the question arises as to where it would be best to trim. Should the percentage amount be lowered, or should the percentage be retained and the cost-trimming accomplished by agreeing to a maximum limit of service that can be credited under the formula?

The cost of the two alternatives might work out to be about the same. But one approach might be better for an older, established group. The other might be better for a relatively young group employed in a new plant, where most of the workers are a long way from retirement and few have any past service to their credit.

As previously pointed out, the final choice should be made in the light of the major benefit needs of the group involved. Any eligibility and service limits should be designed to serve this union purpose and not be put over as an employer gimmick to undercut the benefits of all. Many employers have used this device in connection with unilateral plans as a way to buy a high percentage formula at a low price, so as to create a cheap illusion of liberality.

Some percent-per-year plans make a distinction between future service and past service by applying a lower percentage to past service

credits or by limiting the number of years of past service that can be credited.

In considering the question of past service pensions, unions should remember that the men who will retire over the next 10 years or so will have to derive the larger part of their benefits from their past service credits. Consequently, over the course of the near future it will be the past service rather than the future service formula (if there is a distinction between them) which will determine how well the plan pays off in actual practice.

Great care should be taken in writing the agreement provision covering "service," particularly in plans which make no provision for vesting in case of lay-off, quits or discharge. A loosely-worded clause governing "credited service" may enable the employer to reduce his cost obligations at the expense of the benefits anticipated under the plan.

Under most single-employer plans, service credited toward retirement benefits must be "continuous" from the date of membership in the plan to the date of retirement. If broken, only the last continuous period of service under the plan counts, unless some further provision for the retention of vested rights is included.

In the typical negotiated plan, continuous service is not considered to be broken by leaves of absence, sickness and accidents, military service, lay-offs, dismissal followed by subsequent reinstatement, strikes or lockouts. In most cases, however, absences from these causes in excess of stated periods, while not considered a break in continuous service so as to involve the retroactive loss of service credits already accumulated, are deducted in computing the total length of service.

Provisions governing non-work time counted as credited service are usually geared to the seniority clause in the collection agreement. Under such an arrangement, continuous service, for retirement plan purposes, accumulates in the same manner as seniority does under the agreement and service credits are retained as seniority rights are.

IMPORTANCE OF VESTING

When a pension plan is negotiated on a company or plant-wide basis, through a single employer, the only way a worker's equity in the plan can be properly protected is through a "vesting" provision in the agreement. Such a provision makes it possible to take his accumulated pension rights with him when he moves from one job to another. These can be in the form of paid-up annuities which will begin to pay off when he reaches retirement age, or a guaranteed credit to his account in the pension fund, through which he will begin to draw a pension proportionate to his service with the company upon reaching retirement age.

In practice, vesting may include all of the retirement credits that have been accumulated by a worker, or it may be restricted at first to a part of the pension rights. Vesting may take place as soon as an employee enters the plan, or it may be delayed until certain age or service qualifications have been met. After vesting takes place, a worker can leave the company without losing any vested part of his accumulated pension credits.

Obviously, the best plan is one which provides for full and immediate vesting. This is especially true where the plan itself attaches certain age and service qualifications for membership in the plan. In such a case there is no legitimate excuse for any further restrictions upon the time at which vested rights are established.

If negotiations stall, and it becomes necessary to compromise for the time being on a vesting provision, and to accept a service condition, the next best thing is to work out a graduated vesting clause. Although some plans now have such clauses, there is very little logic and a lot of injustice in a clause under which a worker with, say, 5 years of service has full vested rights, while a worker with anything less than 5 years—even with 4 years and 11 months—has no vested rights.

If a service requirement is included, the agreement should provide that workers who leave their jobs before they have served the period required for full vesting will be entitled to proportionate vested rights. Under such a provision, if the service requirement is 5 years, workers with 4 years of service would be entitled to $\frac{4}{5}$ of their full pension credits, those with 3 years will be entitled to $\frac{3}{5}$, etc.

Unions should, wherever possible, adopt one of these methods so as to protect the equity of their members. It will cost more to maintain a given level of benefits under a vesting provision, but more of the union members will benefit from membership in the plan.

The level of benefits can be improved in later negotiations, but the protection of earned pension rights through a vesting provision can be more readily accomplished at the time a plan is first set up than at a later date after the plan has been set up on some other basis.

Under an insured plan, the cost of a vesting feature will not be reflected in any increase in the beginning level of contributions because vesting is not discounted in advance by the insurance company. It will result in the absence of cash surrender values resulting from employee terminations, which the employer would otherwise receive as a future rebate or retroactive rate credit to be applied to future contributions.

For these reasons, an employer who quotes insurance rates in backing up his estimates of the cost of premiums required to fund a proposed level of benefits, cannot say that the inclusion of a vesting provision along with that level of benefits would add anything to the cost of the plan.

In recent years, men over 40 years of age are finding that there is increasing difficulty getting a job with companies which have pension plans. Pensions cost more for these older men because premiums are higher. Consequently the jobs go to younger men even though the older worker may have experience and training that would enable him to make a valuable contribution to the business.

Adequate vesting provisions in all pension plans would do a lot to remove this restriction on the employment opportunities of older workers.

CONTRIBUTORY **versus** **NON-CONTRIBUTORY PLANS**

According to the latest United States Bureau of Labor Statistics survey, about 80% of all workers covered by negotiated pension plans make no direct contributions to these plans. Most of these workers are in the large mass-production industries such as steel, automobiles, electrical manufacturing, coal mining, where industry-wide pension plans have been negotiated.

A recent study of public utility pension plans covering members of the IBEW shows that approximately 50 per cent of these plans are contributory—50 percent non-contributory.

Whether a pension plan is contributory or non-contributory, in the final analysis the total contributions are part of the worker's earnings. This has been established by National Labor Relations Board and court decisions which have held that employer payments to pension plans are actually a form of wages earned by the workers through the performance of the services called for in the working agreement. As soon as pension contributions were recognized to be a part of wages earned, pensions became subject to collective bargaining. Now, for the first time, employers had to sit down and talk with their employees about the provisions contained in present or proposed pension plans.

Before this happened, many employers who had set up non-contributory plans argued that the workers had no right to any voice in the administration of their pension program, and no right to any vested interest in the funds which support the plan, because they were not helping to pay for it. Even in plans with both employer and employee paying part of the cost, very few had joint labor-management administration. This excuse for failure to allow labor a voice in administration is no longer a valid one.

Looking at the problem from a dollars and cents standpoint, it is true that if a certain level of contributions from the employer has been negotiated, additional contributions from the workers will make possible an increased level of benefits over what would otherwise be obtainable. This, in other words, is simply saying that if a worker has a

certain amount in his pay envelope, and he adds to it from his pocket, he will have more in his pay envelope. It all boils down to a decision between having a higher level of deferred benefits or the equivalent amount of cash in the pay envelope.

In December 1949, the Executive Council of the IBEW adopted a policy statement favoring the principle that pension contributions should be large enough to provide for full funding of pension credits as they are earned and that pension plans for IBEW members should include full vesting of pension rights as they are earned, so that if a worker moves from one job to another, or from one part of the country to another in pursuit of his trade, his pension rights will go with him.

If a pension plan is negotiated that qualifies for exemption from income taxes with the Internal Revenue Bureau, then it is more economical to let the employer pay all the costs, because employer contributions to an approved plan are deductible from the income that an employer reports for tax purposes. Consequently, if the employer's income places him in the upper tax brackets, the dollar which he contributes to the plan actually only costs him the difference between the tax he would pay to the government and the total dollar value. If his tax rate is 52%, the plan would only cost 48%, since he would otherwise have to pay the 52% to the government in taxes. There is further saving because employer contributions to an approved plan are not taxable to an employee until he begins to draw a pension, and then only if it puts him in a taxable income bracket.

On the other hand, workers must pay income taxes on the money which they first receive as wages and later contribute to a pension fund. If a worker's tax rate is 20%, therefore, each dollar which he contributes to the pension fund from his wage costs him \$1.20, as compared with the employer's cost of 48¢.

Employee contributions to a pension plan are in reality more like an individual savings program. If a worker is in a position to save, he can do as well by putting his money in a savings bank or investing it in government bonds as he can putting it into a private pension fund. Most pension plans pay only 2% interest on money put in by the workers. Some have been amended to pay 3% or 3½% in recent years.

As a means of increasing pension benefits, direct employee contributions are highly inefficient and much more costly to the workers than is the case where the employer pays all of the costs.

PRIVATE PENSION PLANS AND SOCIAL SECURITY

The level of benefits available through Social Security influences union thinking as to how much pension a private plan should provide, even though Social Security may not be referred to in the terms of

the plan. For example, a private pension of \$100 a month might not be considered adequate by itself, but, with the addition of benefits from the Social Security system, it provides a comfortable pension.

The benefit schedules of many plans are constructed in such a way as to make certain allowances for benefits available under the Federal Old Age and Insurance program. This is done in one of two ways: by using an "integrated" formula; or an "offset" formula.

Integrated Plans

An integrated formula is one which, in relating benefits to earnings, provides a higher percentage benefit on that portion of earnings which is in excess of the Social Security cut-off level (formerly \$3,000, then \$3,600 under the 1950 amendments, \$4,200 under the 1954 amendments, \$4,800 in 1958) than it does on the portion below that level. For example, a plan might have a formula calling for 1% of earnings up to \$3,600 a year, plus 2% of all earnings in excess of \$3,600, for each year of service from entrance into the plan to age 65.

Formulas of this type are used to provide higher paid employees with a larger pension than would otherwise be possible under Bureau of Internal Revenue regulations. These regulations provide that no employee can receive a greater pension in proportion to his earnings than any lower paid employee, assuming identical periods of service and taking Social Security benefits into account. Otherwise, employer contributions to the plan will not be tax exempt.

If Social Security provides the hourly-rated workers in a plant with a primary benefit of 25 percent of pay, then the most that the company can provide in pensions for its executives and higher-salaried employees would be 25 percent of their earnings in excess of \$3,600.

If the company wishes to pay its executives and higher-salaried men a larger pension, then it must extend the plan to the lower paid workers as well, by supplementing their Social Security benefits in such a way as to maintain an equal relationship between the combined benefits available to both groups.

The integrated formula takes into account the Social Security program as it exists at the time the plan is set up. It does not automatically adjust itself to any future changes in the Social Security law. If changes do occur in the benefit structure of the Social Security program, then the integrated formula of the private plan must be revised after the change goes into effect.

Offset Plans

Offset plans have a benefit schedule which is stated as a certain amount or percentage inclusive of the primary Social Security benefit. Under this type of plan the employer promises to pay only the differ-

ence between what the worker gets in primary Social Security benefits and the amount provided for in the benefit schedules.

Offset plans are designed to compensate automatically for future changes in Social Security. Any improvements in Old Age and Survivor Insurance benefits, regardless of whether or not employer contributions to OASI are increased, will, with the offset device, reduce the amount of benefits payable under the private plan, and the employer's costs will drop accordingly.

Some offset plans deduct the full amount of OASI benefit in arriving at the amount to be paid by the employer. Others only deduct one-half of the Social Security benefit, on the principle that the employer has the right to deduct only that portion of the OASI benefit which is paid for by the employer's contributions to the Social Security system.

Under these offset plans it makes a lot of difference in the resulting pension whether Social Security is deducted before the amount due from the private plan is calculated or after, where the length of service is less than the time required for maximum benefits. To show how this works, take a plan that provides \$125 a month at age 65 after 25 years of service, including Social Security, with a reduced amount for each year less than 25. Assume that a worker is retiring at age 65 with only 20 years of service and a primary OASI benefit of \$60 a month.

If the benefit is scaled down on a "gross prorata" basis—that is, before Social Security is deducted—the pension would be $\frac{4}{5}$ of \$125 or \$100 a month. The employer would then pay \$40 and \$60 would come from Social Security.

If, on the other hand, the benefit is scaled down on a "net prorata" basis—that is, after Social Security is deducted—the worker's benefit from the plan would be $\frac{4}{5}$ of \$65 (\$125 less \$60 Social Security) or \$52. This would give the worker a combined benefit of \$60 plus \$52 or \$112, as compared with \$100 on the gross prorata basis.

Disadvantages Of Offset Plans

From the worker's standpoint, the offset type of plan is not a good one for the following reasons:

- (1) Acceptance of such a plan implies that the benefits provided for under the plan are so nearly adequate that any increase in Social Security during the term of the agreement can be spared by the workers so that it can be used to cut the employer's costs rather than to increase the level of benefits.
- (2) It removes much of the control of the plan from the hands of the parties directly concerned, and makes its terms dependent on developments outside of the sphere of collective

bargaining. If living costs rise so sharply that Congress decides to increase Social Security benefits to compensate for the rise, the workers would get none of the benefits. This very thing happened during 1953 and 1954.

- (3) The argument that offset plans will make employers more willing to support increases in Social Security benefits has not been proved by facts. The United States Chamber of Commerce and other employer groups have opposed every attempt to increase Social Security benefits and broaden coverage.

A better means to secure employer support for improvements in the Federal Social Security system would be the threat that unions might otherwise push for the wider adoption of collective bargaining plans that will provide the same type of protection and the same continuity of coverage as does Social Security—through liberal vesting provisions and industry, area and craftwide programs. Plans of this type would be more costly to the employers involved, per unit of benefit, than would an improved Federal system, and would thus offer a substantial inducement to employers to avoid such a development by supporting a liberalized Federal system.

- (4) Since employer contributions to retirement plans are a form of deferred wages, any provision which permits the employer to automatically recapture a portion of his contributions amounts to a sort of built-in wage cut. A re-opening clause, calling for further negotiations in the event that a change is made in Social Security, is as far as a union should commit itself in advance on this question when drawing up a pension agreement.

In conclusion, unions should always recognize that these privately negotiated pension plans do not diminish the need for an adequate governmental Social Security system. Such negotiations should not be permitted to divert unions from the more important basic objective of promoting the improvement and expansion of the Federal Old Age and Survivors Insurance program.

The IBEW Pension Plan

When the IBEW was founded in 1891, pensions were almost unknown. And because of the hazardous nature of the work, electricians found that it was almost impossible to buy life insurance. The need was there but it was thirty-one years later, in 1922, before the Electrical Workers Benefit Association was formed to provide death benefits for members of the union.

Five years later, in 1927, the IBEW Convention in Detroit adopted a proposal to set up a Pension Plan for members. The plan would pay \$40 a month pension to members who attained age 65 with 20 years of continuous membership prior to retirement. The effective date was January 1, 1928.

The plan has been amended during the intervening years. At the 1946 San Francisco Convention the delegates voted to increase the monthly pension benefit from \$40 to \$50, effective January 1, 1947. The actuaries recommended a change in 1952 to make the plan more secure. By referendum the plan was amended, effective May 1, 1952, to provide that all members joining, or transferring from BA to A membership, after that date would come under the following rules:

A member with 20 years standing at age 65 will receive \$30 a month;

A member with 25 years standing at age 65 will receive \$40 a month;

A member with 30 years standing at age 65 will receive \$50 a month.

The IBEW pension plan was funded entirely from member contributions until 1947. At that time an agreement was negotiated with the National Electrical Contractors Association, and ratified by the IBEW and NECA Conventions; under which every contractor employing IBEW members is required to pay into the National Electrical Benefit Fund an amount equal to 1% of his gross labor payroll. IBEW "A" members who are not working for employers contributing the 1%, began contributing an additional \$1.60 a month to the IBEW Pension Fund, effective January 1, 1957.

Over the years, the Pension Fund and the Death Benefit Fund have never missed a payment. In 1962 there were more than 17,000 members on pension. And about \$230,000 a month was paid out in death benefits. These benefits are available to members who wish to provide additional security for themselves and their families in retirement. The cost is much lower than the member would have to pay for equivalent benefits on an individual basis. Even at the top rate, which is paid by all members whose employer is **not** paying the 1%, the total cost per month for \$1,000 death benefit and \$50 a month pension is only \$4.50. If the employer is contributing to the pension fund, the cost for the member is only \$2.90 a month. And accrued benefits go with the member wherever he works, as long as he maintains good standing in the union.

International Secretary Joseph D. Keenan has continually urged the "BA" members to transfer to "A" membership so they will be eligible to participate in the full benefits of the IBEW insurance and pension

plans. The BA members are usually the younger men. By transferring to "A" membership these young members will secure the greatest benefits from their union affiliation. The addition of a large group of young members to the participants in the pension plan would also strengthen the plan from an actuarial standpoint by lowering the average age of the group.

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