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Trends in

PENSION PLANS

AND

RELATED BENEFITS

IN THE

HEALTH & WELFARE

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and
[by] GEORGE CHERLIN & HOWARD LICHTENSTEIN, //

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CONTENTS

DEFINITIONS OF TERMS USED IN THE REPORT

"Actuarially reduced" applies to a retirement benefit which is paid earlier than at normal retirement age. The benefit is reduced because of the reduced accumulation period and the longer pay-out period.

"Career-average plan" means that benefits are based on each year's salary over a defined part of the working career.

"Final-pay plan" means that benefits are computed as a percentage of average salary near retirement.

"501(c)3 organization" is a nongovernmental organization exempt from taxation under the Internal Revenue Code. Included are membership corporations, community chests, funds, and foundations organized and operated exclusively for religious, charitable, scientific, educational, or humane purposes.

"Fixed contribution plan" means a plan providing whatever benefits can be bought by a set contribution put in each year.

"Full vesting" means that the employee retains 100% of a defined benefit at termination of employment.

"Future service" is service which is credited following the date on which an employee joins a pension plan.

"Legal reserve life insurance company" means a company regulated under state insurance laws and holding reserves to provide guarantees.

"Past service" is service which was rendered by an employee before the establishment of the employer's pension plan.

"Portability" is an employee's right to transfer pension credits from one pension plan to another.

"TIAA-CREF" is the Teachers Insurance and Annuity Association and its associated College Retirement Equities Fund.

"Vesting" is a term sometimes interchanged with portability. It describes a terminating 'qualified' employee's right to a pension based on his credits in the plan.[1]

"Zero vesting" means the employee is not entitled to retain rights to pension benefits at termination of employment.

[1] Srb, Jozetta H., "Portable Pensions." *Key Issues Series—No. 4,* Ithaca, N.Y., Cornell University, 1969, p. 3.

INTRODUCTION

An important part of the compensation of all employees in the labor force is a sound and equitable benefit program. This report examines recent trends in pension plans in the nonprofit health and welfare field and in private pension systems.

In view of the many developments in private pension systems, it is important to know whether there are signs of pension plan improvement in the health and welfare field. If so, what are the directions of this improvement? Are there goals which can be recognized in benefit levels? Are pension benefits in the health and welfare field keeping up with those in other employment? Information about supplemental benefits, financing, and investment practices is also significant in considering plans for pension systems in the nonprofit health and welfare field.

The subjects discussed include: changes in coverage in private pension systems and in the health and welfare field, methods of computing benefits, retirement ages, vesting of benefit rights in the employee, benefits supplemental to pensions, and trends in financing and in investment practices. It is not intended in this report to provide extensive discussions of these subjects. Recent literature on pensions is voluminous and details may be obtained in the data sources listed. Our purpose is rather to detect and indicate certain important trends. Our knowledge of what is happening in the health and welfare field has been considerably increased by an NHWRA special survey and examination of NHWRA records on members' plans.

RETIREMENT BENEFITS

Some basic measures of benefit adequacy

Adequacy of benefits can be measured in many ways. Here we discuss three features of pension plans that relate to adequacy of protection for the individual.

Retirement income measured against preretirement income.

Benefit Plans in American Colleges, a study made by TIAA-CREF, quotes a "Statement of Principles on Academic Retirement and Insurance Plans" on the subject of adequacy as follows:

> "The institution should provide for a plan of retirement annuities. Such a plan should: . . .
>
> Maintain contributions at a level considered sufficient to give the long-term participant a retirement income that is appropriately related to his level of income prior to retirement, with provision for continuing more than half of such retirement income to a surviving spouse. The recommended objective for a person who participates in the plan for 35 or more years is an after-tax retirement income including federal Social Security benefits equivalent in purchasing power to approximately two-thirds of the yearly disposable income realized from his salary after taxes and other mandatory deductions during his last few years of full-time employment."[2]

National Health & Welfare Retirement Association records show that many member employers have plans which provide a gross retirement benefit equal to 50% of a gross final average salary for employees with at least 20 or 25 years of service.

[2] Greenough, William C., and Francis P. King, *Benefit Plans in American Colleges.* New York, Columbia University Press, 1969, pp 18-19. This "Statement" was adopted in 1969 by the American Association of University Professors and the Association of American Colleges.

The "average salary" used has varied, and includes the following:

(a) Final 5 year average
(b) Final 3 year average
(c) Average of annual salary from age 55 to 60
(d) Average of 5 highest years' salary
(e) Final 10 year average
(f) Average of highest 5 consecutive years

The most popular plan in the health and welfare agency sample was the final-pay type of plan, in which the employer establishes benefits as a predetermined percentage of salary. The salary in question is defined to be "final average salary," using various methods of arriving at the average. Employer contributions increase by age and with salary increases. This plan is favored by 54% of all agencies in the sample.

The fixed contribution plan, utilized by 23% of the agencies in this sample, was second in preference. Under this approach, the employee and employer contributions are set at a specific percent of salary and these contributions are then accumulated and used to purchase an annuity benefit. Therefore, the benefit level is determined by input and investment results and is not a predetermined benefit. Employer contributions are the same for all ages, or for broad groups of ages. Nearly all TIAA-CREF plans in higher education use the fixed contribution approach.

A plan which bases the annuity on the average salary earned during the entire career of the participant is called a career-average plan. Of the plans studied, 17% were of this type. Employer contributions increase by age.

In summary:

Type of Plan		Percent of agencies
Final-pay		54%
Fixed contribution		23%
Career-average		17%
Other		6%
	Total	100%

NHWRA records show that existing plans have been amended to provide higher benefits, with a number of changes from career-average plans to final-pay plans.

A survey of large organizations by A. S. Hansen, Inc. points out:

'The adequacy of an employee's retirement income depends on the extent to which it replaces his take-home pay immediately before retirement. More and more employers are adopting final average salary retirement plans in recognition of this principle. . . .In 77 percent of the survey employers, benefits are related to average salaries in the five or ten years before retirement—either in the basic formula itself (60 percent) or in the form of a minimum benefit (17 percent).

Of the 23 percent which based benefits on career average pay, however, the benefit formulas were consistently higher than the formulas used in final pay plans. So the net benefit amounts differ less from one benefit basis to the other than might appear—particularly where the career average plans were 'updated' periodically." [3]

[3] "Employee Benefit Plan Practices Among Large Organizations," *Financial Executive*, February, 1969. pp. 3-4.

In industrial plans, there has been a strong trend toward use of a five-year average as an improvement over a 10-year average, as shown in the table below.[4]

	Plans Changed or Adopted in 1965-70	Plans Changed or Adopted in 1960-65
Compensation based on a 5-year period	74%	57%
Compensation based on a 10-year period	20	37
Compensation based on other periods	6	6
Total	100%	100%

This trend in private systems is corroborated in a 1968 report to the Joint Economic Committee of the U.S. Congress. The opinion was advanced that

> "The most important single influence in this direction might be an acceleration in the pace of increases in money wages combined with the trend toward relating benefits to final average compensation."[5]

The Personnel Standards Committee of the National Conference of Jewish Communal Service has issued a set of desirable minimum standards for employee benefits for professionals. They call for a retirement income of 2½% per year of service based on an average of the highest five years of salary. They recommend that the employee contribute up to 5% of salary and that the employer's contribution should be not less than twice the employee's. They also recommend that all monies paid in by the employer and employee should vest in the employee from the beginning.[6] (Contributions and vesting provisions are considered further below.)

Eligibility for membership in a pension plan

As the Bankers Trust Company points out:

> "The eligibility provision determines the *earliest* entry date of an employee in a plan. Several . . . plans cover an employee automatically from his employment date, and such plans are said to have no eligibility requirements. In plans that have eligibility requirements the date is important since it usually marks the time from which an employee (a) starts accruing benefits, (b) starts accumulating credited service to be applied for vesting, early retirement and other provisions, and (c) commences contributions, if the plan is contributory."[7]

[4]Bankers Trust Company, *1970 Study of Industrial Retirement Plans,* New York, 1970, p. 30.

[5]U. S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy. *Old Age Income Assurance,* Washington, U. S. Gov't. Print. Off., 1968, Part V, p. 57.

[6]"Retirement and Pension Plan Proposals," *Concurrents, Newsletter of the National Conference of Jewish Communal Service,* ed. Samuel Spiegler, New York, Autumn 1969, p. 1.

[7]Bankers Trust Company, *1970 Study of Industrial Retirement Plans,* New York, 1970, pp. 7-8.

Age and service requirements in plans analyzed by the Bankers Trust Company are shown below.

Service Requirements	No Age	Age 25 & Under	Age 30	Age 35 & Over
	Number of Plans by Age Requirements for Eligibility			
None	82	8	3	–
1 yr. or less	37	21	12	1
2 years	12	9	4	2
3 years	6	1	3	–
4 years	–	–	–	–
5 years	8	–	1	3

The Bankers Trust Company report comments:

"This table when compared to the similar table in the previous study not only confirms the trend toward eliminating eligibility requirements but also reveals the relaxation of the requirements that remain.

—In plans with both age and service requirements, the provision of the median plan has lowered from age 30 and one year's service to age 25 and two years' service.

—In plans with only an age requirement, the provision of the median plan has dropped from age 30 to age 25.

—In plans with only a service requirement, the provision of the median plan remains at one year of service."[8]

Concerning eligibility criteria in the field of higher education, Greenough and King make the following observations:

"During a major portion of an individual's working years, participation in a retirement plan should be a condition of employment. Optional participation at ages under 30, and during a stated initial service period, is frequently allowed. Some colleges make participation optional for a year or two for all those in service when a plan is first established. With these exceptions, participation should be compulsory.

The . . . Statement [from the American Association of University Professors and the Association of American Colleges] recommends that the retirement plan 'Require participation after not more than one year of service by all full-time faculty members and administrators who have attained a specified age, not later than 30.' If retirement is at age 65 or later, this entry age permits a span of participation of 35 years or more. This is long enough to build up an adequate benefit within the bounds of reasonable cost."[9]

In a sample survey of health and welfare agencies made by NHWRA (see Data Sources for a description of this survey), the average minimum age for eligibility was 25.9 for all agencies and 29.6 for hospitals. The average maximum age for eligibility was 59.

[8] *Ibid.,* p. 9.

[9] Greenough, William C., and Francis P. King, *Benefit Plans in American Colleges,* New York, Columbia University Press, 1969, p. 75.

Benefits for service before plan is established

When a new plan is being established, the question of providing benefits for employees who already have long years of service must be met. Such benefits are commonly known as "past service" or "prior service" benefits. Greenough and King have this to say on the subject:

> ". . . the most important goal is to set up a plan for future service. But attention needs to be paid to prior service benefits, that is, supplementary benefits for persons with substantial service when the plan begins and whose remaining years to retirement are too few to permit normal contributions for future service benefits to produce a satisfactory retirement income. Although the cost of prior service benefits is only transitional, its presence has led some colleges to delay establishment of any retirement plan. They have not seen their way clear to meeting the cost of both future and prior service benefits at the same time, for the moment overlooking the fact that the situation only gets worse by waiting and that something needs to be done for long-service people in any event, such as keeping them in service, paying a salary during retirement, or buying an annuity when they retire."[10]

The NHWRA survey revealed that in the health and welfare field past service benefits were most commonly provided by United Fund agencies (mostly NHWRA members) and affiliates of nationwide organizations.

Vesting

Recently there has been much discussion of pension portability and of the desirability of government regulation of vesting in the private pension system. Both of these topics relate to the theory behind vesting. The conclusions to be drawn depend on one's theory of the meaning of a pension. Pensions may be (a) a reward for long and loyal service or (b) a form of deferred compensation. The practice of vesting rights did not spring from the "reward" theory. It is, however, consistent with the theory that pension benefits are really deferred compensation. By this theory, employees who terminate before retirement age will lose such compensation if the pension is not vested. The health and welfare field is leaning toward the deferred compensation theory. The field of higher education is a leader in this approach.

In a study on the extent of funding by the Pension Research Council of the Wharton School of Finance and Commerce (University of Pennsylvania), it was found that:

> ". . . in the 1,047 plans . . . studied in detail . . . 47% of the participants included in our survey were covered by plans that provided full vesting within 10 years. Only 27% of the plans provide for vesting within 10 years but these tend to be the larger and older plans. Another significant fact is that in terms of their actuarial value 81% of all accrued benefits in the plans studied are vested. Please note that this percentage applies to the actuarial value of the accrued benefit rather than the actual dollar value. The percentage of accrued dollar benefits would be somewhat less since vested benefits tend to be associated with longer service and older employees, the actuarial value of whose benefits is greater than that of younger employees.
>
> . . . There has been a discernible trend toward more liberal vesting during the last 10 to 15 years. . ."[11]

[10] *Ibid.*, p. 93.

[11] McGill, Dr. Dan M. in "The Legislative Picture," *Proceedings of 3rd Annual Conference on Employee Benefits* ed. R. W. Lord, New York, 1969, p. 138.

Another survey, based on examination of pension plans filed with the government under the Welfare and Pension Plans Disclosure Act, confirms these trends. Special attention was given to liberalization of age and service requirements for vesting. The author shows the probability of all workers covered by private plans acquiring vested rights with different ages and years of service as of 1967.

He points out:

> "The effect of all of the liberalizations of age and service requirements is illustrated in chart 2 which depicts the probability of all workers acquiring vested rights if they begin working at age 25 in jobs covered by pension plans. It shows, for example, that after 10 years' service—i.e., at age 35—about 22 out of 100 such workers would have vested rights under current plan provisions compared to about 15 out of 100 almost 5 years ago. The contrast is not as great for older workers with more service because the most important liberalization was dropping the age requirements from plans negotiated by the automobile workers."[12]

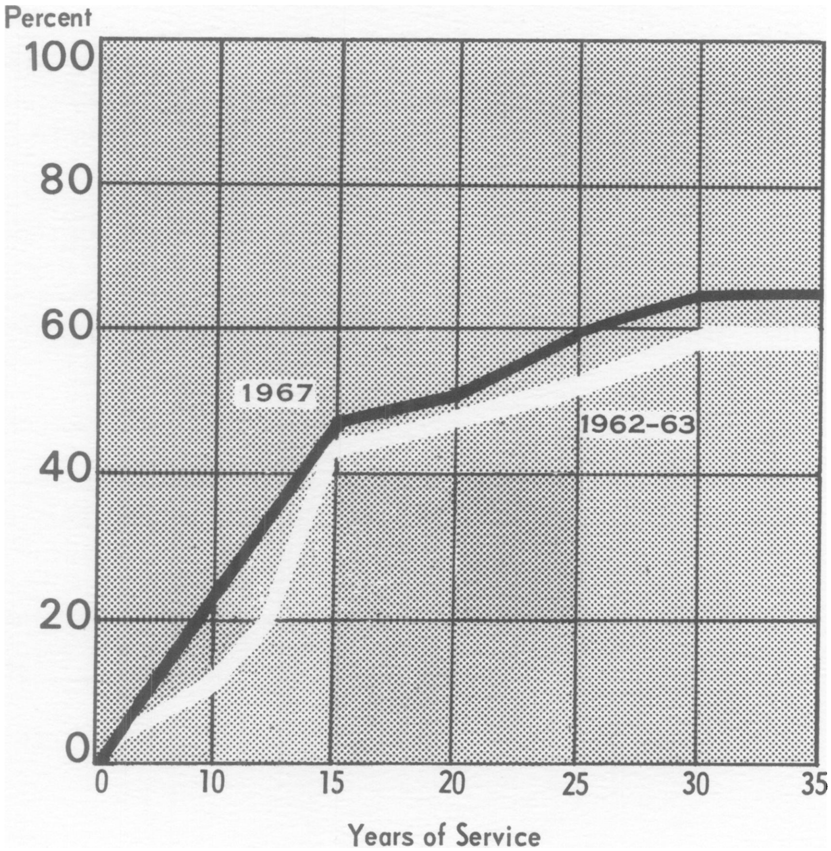
The following two tables show that employees in the health and welfare field enjoy favorable vesting provisions in their retirement plans. (Data from sample of 460 agencies.) NHWRA members have the highest degree of vesting and nonmember agencies in the health and welfare field have vesting provisions which are better than the national average.

	Number of Months of Zero Vesting				
	0-36 Mos.	37-60 Mos.	60 Mos. & Over	Not Stated	Total
NHWRA Members	125	2	–	–	127
Non-members	100	85	125	23	333
Total agencies	225	87	125	23	460

	Number of Years before Full Vesting					
	0-5 Yrs.	6-10 Yrs.	11-15 Yrs.	16 Yrs. & Over	Not Stated	Total
N HWRA Members	127	–	–	–	–	127
Non-members	112	71	42	93	15	333
Total agencies	239	71	42	93	15	460

[12] U. S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy. *Old Age Income Assurance,* Washington, U. S. Gov't. Print. Off., 1968, Part IV, p. 113.

Chart 2.
Chance of Acquiring Vested Rights After Stated Service for Private Pension Plan Participants Beginning Work at Age 25



This chart shows that even with recent "liberalization" of vesting provisions, only 65 out of 100 employees could expect a vested pension after 35 years of service.

The Bankers Trust Company states that the scope of vesting continued to widen during the 1965-70 period. Ninety-nine percent of the plans with benefits based on service only, not compensation, in the 1970 study provide some form of vesting, compared with 94% in the previous study and 82% in the 1956-59 study. Ninety-eight percent of the plans with benefits based on compensation as well as service provide some form of vesting compared with 97% in the previous study.[13]

Early retirement

There is evidence that the retirement age is becoming more flexible, with increasing numbers retiring before the usual age of 65.

A national survey of 201 companies by the University of Oregon showed that most (93%) permitted early retirement, and in 1968, 47% of all retirements in these companies were early.[14]

A recent article in the *Social Security Bulletin* called attention to the large number of men retiring early.

> "When the option of taking reduced benefits at age 62 was extended to men in 1961, it was assumed that the number taking retirement benefits before age 65 would decline from the first full year level. The drop was expected to occur when the backlog of men in the 62-64 age group who had not been working became entitled to benefits.
>
> Examining the situation 7 years after the early retirement option was extended to men, one is struck by the large number who continue in a period of high employment to claim reduced benefits before age 65. In 1968, almost half of all retirement benefit awards to men and more than half of those moving to payment status were actuarially reduced because they were claimed before age 65."[15]

A study of early retirement decisions among auto workers and in a random sample of the national labor force by the Survey Research Center of the University of Michigan susggests that:

> ". . . the proportion of people retiring early will increase. Evidence from the national sample part leads on to believe that, during the last 5 or 6 years, there has been some tendency for early retirement planning to become more common. It is likely, then, that more and more early retirees will be people who planned for early retirement and are financially prepared for it. The result is likely to be an increasing discrepancy among the retired between those who retired as they had planned to and those who retired unexpectedly, often without planning and hence in most cases with inadequate retirement incomes."[16]

[13]Bankers Trust Company, *1970 Study of Industrial Retirement Plans,* New York, 1970, pp. 11-12.

[14]Pyron, H. Charles and Marion U. Unicust, "The Company, The Individual, and The Decision to Retire," *Industrial Gerontology,* No. 4, Winter 1970.

[15]Bixby, Lenore E. and E. Eleanor Rings, "Work Experience of Men Claiming Retirement Benefits, 1966," *Social Security Bulletin,* August, 1969, p. 3.

[16]"Study on Early Retirement Decision" reported in *Social Security Bulletin,* August, 1969, p. 25.

The Survey Research Center analyzes the prevalence of early retirement planning as follows:[17]

Plans to Retire Early, by Age (for family heads in the labor force 35-64 years old and with family income $3,000 or more; nationwide samples)

(In percent)

Age	Proportion who plan to retire before they are 65	
	1963 surveys	1966 surveys
35 to 44	25%	43%
45 to 54	23	33
55 to 64	21	22

When People Plan to Retire (heads of families)

When [they] plan to retire	35 to 64, in labor force, with family income $3,000 or more		All those 35 to 64 and in labor force
	1963 surveys	1966 surveys	1966 surveys
Before age 60	4	10	9
60 to 64	20	25	25
65 to 69	50	37	35
70 or over	3	3	4
Will work as long as possible	23	25	13
Don't know when will retire			14
Total (percent) .	100	100	100
Number of cases	1,853	1,436	1,853

The authors of the Michigan Survey comment as follows on their findings:

". . . first, that younger people are more likely than older people to think of retiring early and, second, that this difference reflects at least in part a difference resulting from developments during the last few years. Therefore, the difference between 1963 and 1966 may presage a trend toward more purposeful early retirement.

In the past, early retirement has been frequently associated with trouble: illness, obsolescence of job skills, unemployment. But people at the other end of the scale may constitute a new source of early retirement in the future: those who planned and saved and retired early because they could afford it. While at present the majority of those who had retired early did not retire as planned . . . in the future a different relation between planned and unexpected early retirement may prevail."[18]

[17]U. S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy. *Old Age Income Assurance*, Washington, U. S. Gov't. Print. Off., 1968, Part II, p. 239.

[18]*Ibid.*, p. 239.

Flexibility in retirement ages may also go in the other direction toward higher ages for retirement. In the field of higher education:

> "Retirement should normally occur at the end of the academic year in which the faculty member or administrator reaches the age specified for retirement by his institution's plan . . . Plans in which the retirement age falls within the range of 65 to 70 appear to be in conformity with reasonable practice."[19]
>
> "The question of a proper age for faculty retirement at colleges and universities seems to span only about five years. Nine out of ten colleges state a normal retirement age of 65 or 70 or somewhere between [see table below] . . .
>
> Extensions of faculty service beyond the normal retirement age are permitted in 88 percent of all institutions." . . .[20]

Stated Normal Retirement Age for Faculty

Age	Percent of Institutions
60 and under	5.9
62-63	0.5
65	70.6
66-68	8.9
70	11.0
Over 70	0.2
None stated	2.1
No response	0.8
Total	100.0

Adjustment of benefits after retirement

There are a number of ways in which benefits may be changed after an employee retires, and there has been some increased tendency to make such changes in recent years.

Benefit amounts received by those already on a pension may be raised by specific, one-time, later action. An example of this kind of post-retirement benefit adjustment is described in a recent Wall Street Journal article.

> "The company acted simply because it was aware that inflation was eating into the pensions. Besides helping the pensioners, a company official says, Smith Kline hopes the move 'will help our employee relations—will indicate our continuing concern for the welfare of our employees during and after employment.'

[19] Greenough, William C., and Francis P. King. *Benefit Plans in American Colleges,* New York, Columbia University Press, 1969, p. 17.

[20] *Ibid.,* p. 97. Table following this quotation is excerpted from Table 3.6, p. 97.

Smith Kline is just one of a number of corporations that are increasing payments to many of the nation's six million private pensioners without any apparent pressure to do so. Though there aren't any statistics available—many concerns, wary of setting precedents for future pension boosts, avoid fanfare—management consultants and others count at least 200 companies that have recently raised their pensions. Among them are IBM, Eastman Kodak, GE and Campbell Soup.

Another 300 companies are considering boosts, according to the Philadelphia consulting firm of Towers, Perrin, Forster & Crosby. 'It's true that some companies still feel that once a man retires on a fixed pension they have no further obligation,' says James J. Sweeney, a vice president of the consulting firm. 'But this philosophy is rapidly disappearing—along with the value of the dollar.' "[21]

The right of unions to bargain on pensions and welfare plans for already retired employees was recently established in a National Labor Relations Board ruling.[22] This ruling, if sustained, may open the way for more post-retirement adjustments of pensions.

Adjustments in benefits received by pensioners may also be tied to cost-of-living changes. Mr. Preston C. Bassett, Vice President and Actuary, Towers, Perrin, Forster and Crosby, Inc., made the following statement at the Third Annual Conference on Employee Benefits.

"The final case I want to take up is for the company that wishes to amend its pension plan so that benefits after retirement will more closely follow the cost of living. In other words, to provide for some kind of automatic adjustment of retirement benefits. It is my personal opinion that during the next few years, we are going to see more and more interest in maintaining benefits for employees already retired at an adequate level."[23]

Cost of living adjustments are used in two important federal retirement systems. The civil service retirement system is a contributory system which covered 2,250,000 persons during fiscal 1962. At that time, about 2,800,000 persons were also covered in the military retirement system which is non-contributory.[24] Both these systems have a cost of living adjustment which provides that whenever the cost of living, nationwide, goes up as much as 3% from the value applicable at the last change and stays up for three months in a row, the annuities will be increased by the rise in the cost of living rounded to the nearest 1/10 of 1% plus an additional 1%.[25]

By contrast, a few private plans on which details are available have provided that the increase, based on the Consumer Price Index, will not always be the full amount, but will be limited by a stated maximum in any given year as well as by a maximum cumulative amount.

A third approach to maintaining the value of benefits is discussed in a National Underwriter report:

"Mr. E. Dean Damon, Corporate Insurance Manager of Parke Davis & Company, Detroit, said that one way to solve the problem of inflation for retired persons, and in the future prevent the kind of squeeze in which those now retired on fixed incomes find themselves, is to offer employees the election of variable benefits. . . . He foresees the type of program now in effect for college personnel, the TIAA-CREF plan, being carried over to corporate planning."[26]

[21] Howe, Richard J. "Fatter Pensions," *Wall Street Journal*, New York, March 5, 1970, p. 1.

[22] Schuchat, Theodor, "Bargaining for Pensions" *Industrial Gerontology*, National Council on the Aging, New York, October, 1969, p. 26.

[23] Bassett, Preston C., "Integrating Your Plan with Social Security," *Proceedings of 3rd Annual Conference on Employee Benefits*, ed. R. W. Lord, New York, 1969, p. 71.

[24] Shur, Walter, "Financing the Federal Retirement Systems," *Transactions, Society of Actuaries*, Chicago, Vol. XVI, Part I, 1964, p. 267.

[25] U. S. Civil Service Commission, pamphlet BR149-296, November, 1969.

[26] Guilfoyle, A. F., "Employee Benefit, Pension Trends get AMA Scrutiny," *The National Underwriter*, Chicago, November 29, 1969, p. 1.

"For the TIAA-CREF system, in 1966 over 4,000 college professors were receiving variable annuities."[27]

NHWRA offers a similar variable benefit through FlexiFund.

The Tennessee Valley Authority Retirement System, which is a federal agency retirement system, offers its participants both a variable annuity feature and a cost of living adjustment.

The variable annuity part was introduced in 1960. It permits the participant to elect to have 50% or 100% of his own contributions put into equities. As of June 30, 1968 there were 12,220 participants, of whom 6,278, or 51% were participating in the variable annuity plan. By comparison, as of June 30, 1963, only 24% were members of the variable annuity plan. In 1968, there were 1,926 retirees and beneficiaries of whom 136 were receiving at least part of their pension from the variable annuity fund.[28]

Effective in 1967, benefits from the fixed benefit fund are adjusted once a year for increases in the Consumer Price Index. There are specified minimum and maximum limits.

Growth of benefit plans in the health and welfare field

There has been tremendous growth in the adoption of employee benefit plans in the health and welfare field in the last decade. In 1960 only 1/3 of the units covering 1/5 of the employees had a retirement program. [29] Our study indicates that approximately 2/3 of health and welfare agencies now have a plan of one kind or another.

On the basis of the coverage pattern in 1960, rapid growth in coverage for the health and welfare field was predicted:

> "The greatest possibility of pension asset growth appears to be in the hospital field. The smallest amount of funds of any of the four types of nonprofit organizations . . . is matched with the largest number of employees . . . . Most plans are comparatively new, and both coverage rates and assets per covered employee are low."[30]
>
> "Although many of the pension funds of nonprofit organizations have been in existence 40 to 50 years or longer, there are good reasons for believing that the group as a whole will continue to show a fairly substantial growth rate. This is in contrast to the normal pattern as shown by corporate pension funds. The latter have been increasing, but at a consistently declining rate.
>
> There are two major reasons for the expected steady growth in nonprofit pension funds: first, only about one-third of all units of nonprofit organizations had pension plans at the end of 1960 and only about one-fifth of employees were eligible for coverage; second, once some individuals have the prospect of a small income after retirement, they realize they need more."[31]

[27] Greenough, William C., speaking on "Maintaining Pension Adequacy," at American Pension Conference, New York, N.Y., March 1, 1966.

[28] *EBPR-Research Reports*, ed. Charles D. Spencer & Associates, Chicago, Vol. 1, p. 105.1.-128 and p. 110.05.1.-2.

[29] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy. *Old Age Income Assurance*, Washington, U.S. Gov't. Print. Off., 1968, Part V, p. 145.

[30] *Ibid*, p. 149.

[31] *Ibid.*, p. 161.

So far as pensions as a means of protection in general are concerned, their growth has been strikingly illustrated by comparing pension fund contributions and earnings trends with trends in personal savings in recent years.

Year	Personal saving Amount*	Pension Saving Amount*	Pension Saving Percent of personal saving
1946	15.9	1.6	10.1
1950	14.4	3.0	20.8
1955	17.6	5.4	30.7
1960	20.1	8.1	40.3
1961	24.7	11.4	46.2
1962	25.3	9.4	37.2
1963	24.3	10.3	42.4
1964	30.6	11.6	37.9
1965	29.7	12.8	43.1

*In billions

As the analyst who computed the above data observes,

"The share of pension saving in personal saving has assumed major significance, exceeding 40% in 3 of the last 5 years."[32]

Growth can also be measured by computing cost of pensions and life insurance as a percentage of payroll. It has been calculated as follows:[33]

Item	Percent of wages and salaries 1929	1957	1967
Pension and life insurance	0.3	3.6	4.7

NONRETIREMENT BENEFITS

Death and disability

A good employee benefit plan is measured not only by the size of the check a retiree can expect each month but also by the various supplemental coverages which the employer provides for him and his family during his working career.

Among the NHWRA group of employers, supplemental benefit protection has been improving with the change to newer Flexible Funding plans from the older reinsured plans.

	Employer death & disability contributions as a percentage of total contributions 1967-68	1968-69	July-Dec. 1969
Reinsured plans	5.5%	5.5%	5.6%
Flexi Fund plans	9.0%	9.5%	11.0%

[32] *Ibid.*, p. 8.

[33] Chamber of Commerce of the United States, *Employee Benefits 1967,* Washington, D.C., 1968, p. 30.

Employer death & disability contributions
as a percentage of employee annuity contributions

	1967-68	1968-69	July-Dec. 1969
Reinsured plans	15.9%	16.0%	15.8%
Flexi Fund plans	28.7%	31.3%	36.5%

The two lines of figures relating employer death and disability contributions to total contributions tell us that employers entering the newer Flexible Funding plans are allocating about twice as much for supplemental plans as are employers having a reinsured plan.

The two lines of figures directly above relate employer contributions for these extra fringe benefits to employee contributions. The figures for Flexi-Fund plans are dramatically higher than for reinsured plans. This may be attributed to both of two developments: first, the employer is assuming a greater part of the annuity contribution burden and second, he is spending more money to improve the death benefit and disability income plans.

Other nonretirement benefits

There is a good deal of interest in adoption of supplemental benefits in health and welfare agencies which are nonmembers of NHWRA. The following table shows the proportion of agencies with supplemental benefits of specific kinds. These benefits are either provided for the employee in full by the employer, or are made available for the employee to purchase by some convenient payroll deduction plan. They are all benefits which complement the basic retirement plan.

Percent of agencies, with a pension plan, providing indicated supplemental benefits.

Life Insurance	79%
Surgical-Medical	82%
Hospitalization	89%
Major Medical	60%
Disability	70%
Past Service Benefits	65%

Some key trends which are not shown in the above table but are apparent from the original data are:

1) Life Insurance: United Fund agencies, National affiliates and Jewish Welfare groups have the greatest percentage of employees covered for this benefit.

2) Sùrgical-Medical and Hospitalization: Most agencies in the health and welfare field carry this coverage.

3) Major Medical: Hospitals, National affiliates and Jewish Welfare groups are generally covered for this type of benefit.

4) Disability: National affiliates and Jewish Welfare groups stand out as leaders in providing this type of benefit.

As part of the minimum standards set by the National Conference of Jewish Communal Service, the following nonretirement benefits are proposed:

1) Disability benefits: provide each employee after 10 years of service with benefits equal to 50 percent of his salary at time of disablement.

2) Health insurance: employers should provide Blue Cross and Blue Shield (or equivalent) medical coverage and major medical insurance, and should share dental insurance coverage.

3) Death benefits: employers should provide and pay at least 50 percent of the cost of life insurance equaling at least three times the annual salary for each employee, this insurance to be continued with reduced amount after retirement. [34]

FINANCING

Who pays for benefits?

Employer contributions to private retirement plans in 1967 were $8 billion while employee contributions were $1.2 billion.

> "Since 1960, for both insured and noninsured plans, the proportion of the total contributions represented by employer payments has been edging upward. . ."[35]

> "In 1962, 73 percent of the 16,000 plans (covering about 15.8 million or three-quarters of all workers) were financed in full by the employer. All but a small fraction of the remaining plans and workers were in plans with shared employer-employee contributions. In 1967, proportions changed slightly, chiefly because growth in new plans was mainly of the noncontributory type. Of the 17,500 plans in the study, the proportion of plans with full employer financing rose to 74 percent and included 76 percent of the workers."[36]

In both the health and welfare field and the field of higher education there is a gradual trend toward employer-pay-all plans.

The American Association of University Professors and the Association of American Colleges adopted a "Statement of Principles on Academic Retirement and Insurance Plans," referred to on an earlier page, which recommends that the retirement plan

> "Be financed by contributions made during each year of service, including leaves of absence with pay, with the institution contributing as much as or more than each participant." One of the basic questions in designing or reviewing a retirement plan is how much of the plan's cost shall be contributed by the participant and how much by the institution.

> The great majority of retirement plans in higher education provide for a sharing of contributions by the employer and the employee. . . . 83 percent of the plans covering faculty and administrative personnel, and 79 percent of those covering clerical-service employees, provide for joint contributions. The employer pays the full cost (noncontributory plans) in about 15 percent of plans for faculty and administrative personnel. . ."[37]

[34] "Retirement and Pension Plan Proposals," *Concurrents, Newsletter of the National Conference of Jewish Communal Service,* ed. Samuel Spiegler, New York, Autumn, 1969, p. 1.

[35] Kolodrubetz, Walter W., "Employee-Benefit Plans, 1950-67," *Social Security Bulletin,* Washington, April, 1969, p. 12.

[36] *Ibid.,* p. 19.

[37] Greenough, William C., and Francis P. King, *Benefit Plans in American Colleges,* New York, Columbia University Press, 1969, pp. 87-88.

It will be noted that the percentage of noncontributory plans in the field of higher education is small but it has increased from 10 percent in 1964 to 15 percent in 1968.[38]

Among NHWRA members, the employer's share of the total cost of the benefit program is higher under the newer Flexi-Fund plans than in the older reinsured plans. In 1969, employers were paying 66% and 70% of the reinsured and Flexi-Fund costs respectively. Since 1960, the plans have been updated, amended, and improved so that the employer's share of the cost of the total benefit package has increased from 55% to 70%.

Below is a brief summary of reasons advanced for using noncontributory plans.

a) For lower paid employees, take-home pay becomes a controlling item. The employer may have to make up the employee's pension contributions in gross pay.

b) If even a few employees resent making contributions to a compulsory plan, its public relations value and consequent personnel benefits are diminished for the whole group.

c) For higher paid employees, there is a federal income tax advantage similar to that for tax-deferred annuity plans.

d) Since there is no employee cash value, benefits cannot be voluntarily divested. This goes along with the deferred compensation approach to employer contributions for pension plans.

e) All eligible employees automatically participate. No one reaches retirement without some pension protection.

Reasons advanced for including employee contributions in a plan are:

a) The usual advantages of a noncontributory plan are not applicable to the health and welfare field

(i) There is no tax advantage to the employer because of the tax exempt status of health and welfare agencies.

(ii) There is no tax advantage to the employee because of the availability of tax-deferred plans for employees of 501(c)3 organizations.

b) The employee realizes the value of benefits if he contributes. "He does not take it for granted!"[39]

c) More adequate benefits can be provided.

d) Community public relations may be better.

[38] King, Dr. Francis P., Research Officer, TIAA-CREF, N.Y., telephone conversation, January 26, 1970.

[39] National Health and Welfare Retirement Association. *Designing Improved Retirement Plans,* New York, 1960, p. 20.

Who administers the plan?

In the health and welfare field 47% of pension plans are administered by legal reserve life insurance companies. NHWRA handles 28%. The remaining 25% fall in the categories of: federal, state, or local government plans, church plans, and self administered plans. Details (from the NHWRA survey) are as follows:

Administration	Percent of Plans
Legal reserve life insurance company	47
NHWRA	28
Self administered	13
Church plan	10
Federal, state or local Government	2
	100%

Type of investments

From 1950 to 1967 the investment philosophy of those administering noninsured private pension funds has shifted dramatically. In 1950, they were investing 30.5% of their income in government securities and 12.4% in common stocks. By 1967 they were investing only 3.1% in government securities and 47.1% in common stocks.[40] In 1968 the percentages changed to 3.2% and 50.2%, respectively.[41] This investment behavior reflects a desire to have the pension plan keep pace with our inflationary economy.

NHWRA has offered a variable annuity plan since 1967. In this short time it has made great growth. As shown in the table below, the percentage of employer money in NHWRA's Flexi-Fund plans going to the common stock account has grown from 62% in 1967-68 to 83% in the last six months of 1969. The percentage of *total* contributions so allocated has likewise grown, from 37% to 55% in the same time period.

Period	Percentage allocated to common stocks: Employer Contributions	Percentage allocated to common stocks: Total Contributions
1967-68	62%	37%
1968-69	80	48
July-Dec. 1969	83	55

In the TIAA-CREF system, contributions to CREF provide variable annuity benefits. As of 1970, more than 90% of all TIAA participants are also making contributions to CREF. Of the new participants coming into the TIAA system, virtually 100% are making contributions to CREF. Since 1967, the percentage of contributions going into CREF has surpassed that going into TIAA. Currently, approximately 58% of contributions are going to CREF to provide variable annuity benefits, and 42% is going to the fixed income fund.[42]

Less than 1% of the responding organizations in the NHWRA study had a variable annuity plan. Studies of the private pension system also report that variable annuity plans are rare, yet in our NHWRA group and in TIAA-CREF they are becoming very popular.

[40] Securities and Exchange Commission, *Private Noninsured Pension Funds,* annual series.

[41] Securities and Exchange Commission, *Private Noninsured Pension Funds,* December 12, 1969.

[42] King, Dr. Francis P., research officer, TIAA-CREF, N.Y., telephone conversation, January 26, 1970.

DATA SOURCES

Twenty years ago the United States Chamber of Commerce noted the scarcity of statistical information regarding the scope and nature of fringe benefits in American industry. It launched a study with special reference to the impact of fringe benefits on labor costs, which has been repeated every two years.[43]

Even before that, TIAA pioneered research in the extent of fringe benefit coverage in the field of higher education. These studies have been updated from time to time.[44]

In 1943, the Bankers Trust Company of New York published statistical data on employee benefits programs for commercial, financial and other industrial organizations. Since then they have published eight of these reports to serve as a guide in designing, implementing, and choosing the appropriate retirement plan for a given company in a given industry.[45]

Private plans covering more than 25 employees must report certain information to the U.S. Secretary of Labor under the Welfare and Pension Plans Disclosure Act of 1958. The Social Security Administration and the U.S. Department of Labor analyze trends in coverage and other features of private plans from these reports.

An important reference is a series of reports entitled "Old Age Income Assurance" prepared for the Subcommittee on Fiscal Policy of the Joint Economic Committee of the Congress of the United States.[46]

Our own market research at NHWRA is developing helpful and interesting material. Our results are consistent with trends that are suggested in the older reports already cited.

The NHWRA study began in March, 1968. We covered all voluntary nonprofit agencies of eight cities, chosen for diversity of size and geographic location. We also took a sample of 70 percent of the agencies in New York City. We received 1,647 replies out of 2,118 mailings, a very good response rate which minimizes the effect of answers that might differ widely because of nonrepliers. We compared answers by small city against large city, by east against west, and by north against south and found the answers generally consistent. This led us to use the sample without increasing its size.

There were 1001 respondents with plans. We analyzed in detail 460 plans in the nine cities, utilizing plan booklets with full details given us by health and welfare agencies and also details from NHWRA records relative to NHWRA members' plans. When detailed plan features in the health and welfare field are referred to in this report, the results are based on this sample of 460.

As a further check on the replies received, we telephoned a sample of nonrepliers. Six agencies employing 248 persons reported that they had a plan, while 13 agencies employing 291 persons reported that they did not have a plan. This is in line with the last group of responses received.

[43] Chamber of Commerce of the United States, *Employee Benefits 1967,* Washington, D.C., 1968.

[44] Greenough, William C., and Francis P. King, *Benefit Plans in American Colleges,* New York, Columbia University Press, 1969.

[45] Bankers Trust Company, *1970 Study of Industrial Retirement Plans,* New York, 1970.

[46] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy. *Old Age Income Assurance,* Washington, U.S. Gov't. Print. Off., 1968.

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