Growth in Employee-Benefit Plans

by ALFRED M. SKOLNIK and JOSEPH ZISMAN*

Employee-benefit plans in recent years have shown striking advances in the number of employees covered and in the amounts expended for contributions and benefits. To what extent have these advances outpaced the growth in the labor force and the rise in the wage scale? Do they represent a real improvement for the individual worker in the adequacy and scope of the protection provided? This article, in addition to presenting statistical data on employee-benefit developments for 1954 and 1956, throws some light on these questions. It also considers the growth of private pension plans, which increasingly provide benefits supplementary to old-age, survivors, and disability insurance.

EMPLOYEE-benefit plans continued to grow in 1956 as a significant element in the economic security structure that has developed in the last quarter of a century to meet the contingencies of old age, death, accident, disability, unemployment, and the costs of medical care. Coverage, contributions, and benefits under employee-benefit plans all showed sizable increases from 1954, the latest year for which data were published in the BULLETIN.[1]

Employee-benefit plans have to a large extent developed side by side with social insurance and other government measures for economic security, especially in the last decade. For this reason, there has not always been a clear-cut distinction between those programs or parts of programs that might be categorized as employee-benefit plans and those that might more properly be considered as social insurance or related measures. In this article, the term "employee-benefit plan" has been used to denote any type of plan sponsored or initiated unilaterally or jointly by employers and employees and providing benefits that stem from the employment relationship and that are not underwritten or paid directly by government (Federal, State, or local). These plans are often termed "private" employee-benefit plans to distinguish them from those public programs—such as old-age, survivors, and disability insurance, unemployment insurance, and the railroad retirement system—that are applicable on a compulsory basis to the labor force in general or to specific categories in the labor force.

A difficult question relates to the treatment of those private employee-benefit plans, sponsored and underwritten by nongovernmental organizations but written in compliance with State temporary disability insurance laws. In other series published in the BULLETIN, the benefits paid under such plans are included with social insurance expenditures, since they are compulsory under State law. In this article, such disability benefit plans are treated as private plans because their omission would distort the relative extent and nature of the protection existing through private arrangements against the risk of nonoccupational disability and also because their benefits tend to be somewhat higher than the statutory requirements.

Workmen's compensation and payments under employer's liability, which are omitted from the data, involve still other considerations. Historically, workmen's compensation has developed as a social insurance program, with statutory application in all States to the general labor force. In a number of States, workmen's compensation benefits are paid by public agencies. In the States where they are underwritten on a competitive basis (between public and private agencies) or exclusively by nonpublic agencies, there has been little tendency for individual employers or insurers to deviate from the statutory pattern. Statutory provisions for employer's liability (for railroad and certain maritime workers, for example) have shown similar developments. Consequently, these benefits have traditionally been regarded as outside the purview of "fringe" benefits, which are normally sponsored or initiated by employers and employees.[2]

The use of the term "private" in describing employee-benefit plans sometimes leads to the inference that the plans are confined to employees in private industry. Many governmental jurisdictions, however, have made special provisions—as employers—for certain groups of government employees. Moreover, most of the available data on such employee-benefit plans as group life, hospitalization, and medical care insurance do not readily permit a distinction to be drawn between plans for government employees and those in private industry. In this article, no attempt is made to separate or omit the data on government employees except for those specific plans, such as retirement and sick-leave plans, where the government in its capacity as an employer pays benefits directly to its employees.

Trends, 1954–56

Notable advances in coverage, contributions, and benefits took place during the period 1954-56. Coverage for life insurance, for example, in-

* Division of Program Research, Office of the Commissioner.

[1] See Joseph Zisman, "Private Employee-Benefit Plans Today," *Social Security Bulletin*, January 1957.

[2] In recent years, with the maximum benefit provided for occupational disability under workmen's compensation generally lagging behind both wage levels and benefits for nonoccupational disability under employee-benefit plans, some employers have made provisions for supplementing the statutory workmen's compensation benefits. To the extent that these supplementary payments are not segregated from the payments made for nonoccupational illness, they are included in the data under "temporary disability (including formal sick leave)" payments.

creased by 22 percent, contributions by 34 percent, and benefits by 36 percent. Tables 1, 2, and 3 show the trends for various types of employee benefits.

Coverage

At the end of 1956, hospitalization and life insurance were still the most common types of employee protection, covering some 35.5 million employees (table 1). Surgical expense insurance was a close second, with 33.1 million covered employees. In addition, hospital expense insurance covered 53.5 million dependents, and surgical expense insurance 49.0 million.

The greatest increase from 1954 to 1956 in the number of employee participants was reported for life insurance and for plans affording medical expense benefits. Both types of plan increased their employee coverage by more than 5.5 million. An increase of 5.3 million was recorded in plans providing surgical benefits and one of 4.4 million in hospitalization plans.

Except for the new and rapidly expanding field of major medical expense insurance, which showed an increase in employee coverage from less than a million in 1954 to 3.6 million in 1956, the greatest percentage gain occurred in medical expense coverage—33 percent. Other types of employee protection showed smaller rates of increase, ranging from about 10 percent in temporary disability insurance plans to 24 percent in group accidental death and dismemberment insurance. Even larger percentage gains were recorded in the number of dependents covered, with the greatest growth reported in the relatively new fields of major medical expense and dependents' life insurance.

Perhaps of more significance than the growth in numerical coverage is the growth in the proportion of the wage and salary labor force covered by employee-benefit plans. For those types of benefits for which data for government employees are included, table 1 relates coverage to the entire wage and salary labor force. For retirement, temporary disability, and supplemental unemployment benefits, which exclude data for government employees, coverage is related to the wage and salary labor force in private industry.

For every type of employee benefit, growth in coverage kept ahead of the growth in the labor force. In the case of temporary disability and retirement benefits, the difference was slight, but for surgical and medical benefits and life insurance the rate of growth was considerably in excess of that for the labor force. Fifty-nine percent of the wage and salary labor force, for example, was covered for surgical expense at the end of 1956, compared with 53 percent in 1954; 40 percent had medical expense protection in 1956, compared with 32 percent in 1954.

The 2-year period saw the introduction on a large scale of one new major type of employee-benefit plan —supplemental unemployment benefits—resulting from union-industry negotiations in the automobile industry. Designed to supplement the unemployment benefits provided workers through the Federal-State unemployment insurance programs, the first plans called for contributions to begin in June 1955 and benefits in June 1956. Expanding into the glass, rubber, metal, steel, and maritime industries, supplemental unemployment benefit plans covered an estimated 2 million workers or 4 percent of the private labor force by the end of 1956.

Contributions

Employer and employee contributions to employee-benefit plans totaled an estimated $8.7 billion in 1956, an increase of 27 percent from the 1954 estimate of $6.8 billion (table 2). Of the $1.9 billion increase, private retirement plans were responsible for the greatest share ($0.7 billion), with hospitalization ($0.4 billion) and life insurance ($0.25 billion) ranking second and third. Percentagewise, the greatest gain—other than that in major medical ex-

Table 1.—*Estimated number and percentage of wage and salary workers and their dependents covered under employee benefit plans,* [1] *by type of benefit, December 31, 1954 and 1956*

Type of benefit	Numbers (in millions)						Covered employees as percent of wage and salary labor force [2]	
	1954			1956				
	Total	Employees	Dependents	Total	Employees	Dependents	1954	1956
Life insurance and death benefits [3]	30.9	29.8	1.1	37.7	35.5	2.2	56.7	62.8
Accidental death and dismemberment [4]	14.0	14.0	--------	17.3	17.3	--------	26.6	30.6
Hospitalization [5]	75.3	31.1	44.2	89.0	35.5	53.5	59.1	62.8
Surgical [5]	66.2	27.8	38.4	82.1	33.1	49.0	52.9	58.6
Medical [5]	38.1	17.0	21.1	54.6	22.6	32.0	32.3	40.0
Major medical expense [5]	1.9	.8	1.1	8.3	3.6	4.7	1.5	6.4
Supplemental unemployment benefits [6]	--------	--------	--------	2.0	2.0	--------	--------	[7] 4.1
Temporary disability (including formal sick leave) [8]	22.9	22.9	--------	25.2	25.2	--------	[7] 50.3	[7] 51.5
Retirement [9]	13.1	13.1	--------	15.2	15.2	--------	[7] 28.8	[7] 31.1

[1] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[2] Average number of full-time and part-time employees—52.6 million in 1954 and 56.6 million in 1956 (*Survey of Current Business*, July 1957, table 26).

[3] Group and wholesale life insurance coverage (Life Insurance Association of America, *Group Insurance and Group Annuity Coverage*, 1954 and 1956) and self-insured death benefit plan coverage (based on data for various trade-union, mutual benefit association, and company-administered plans).

[4] Data from the Life Insurance Association of America (see footnote 3).

[5] Data from *Extent of Voluntary Health Insurance Coverage in the United States* (Health Insurance Council, 1954 and 1956) and from the Life Association of America (see footnote 3). In estimating number of employees covered under plans other than group insurance and union and company plans, 75 percent of all subscribers assumed to be employees. Data for hospitalization, surgical, and medical coverage include employees and their dependents covered by group major medical expense insurance under both supplementary and comprehensive plans. Comprehensive major medical plans, which include both basic hospital-surgical-medical benefits and major medical expense protection in the same insurance contract, covered 22,000 employees and 29,000 dependents in 1954; 551,000 employees and 862,000 dependents in 1956.

[6] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances.

[7] Computed as percent of private wage and salary labor force (45.5 million in 1954 and 48.9 million in 1956).

[8] Data from the Health Insurance Council (see footnote 5). Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York.

[9] Estimated by the Division of the Actuary, Social Security Administration. Represents pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, and railroad plans supplementing the Federal railroad retirement program; excludes annuitants.

pense insurance—was in premiums for accidental death and dismemberment and life insurance (48 percent and 34 percent, respectively).

Table 2 also shows the magnitude of the contributions in relation to the total wage and salary bill of the Nation. The same procedure is followed as in table 1; contributions are related either to all wages and salaries or to wages and salaries in private industry only, depending on whether the type of benefit includes or excludes government employees.

Contributions as a percent of aggregate wages and salaries showed increases for all major types of benefits except temporary disability. For retirement benefits, the single largest contribution item, employers and employees raised their combined contributions from $2.08 per $100 of private wages and salaries in 1954 to $2.13 in 1956—an increase of 5 cents per $100. Greater increases were registered in the proportions of wages and salaries allocated for hospitalization (a rise of 8 cents per $100) and for life insurance (6 cents per $100). Smaller contribution increases were reported for surgical and medical care expense, which rose from 37 cents to 41 cents per $100, and for major medical expense, where the increase was from 1 cent to 4 cents per $100. In 1956 estimated contributions of $125 million to supplemental unemployment benefit plans amounted to 7 cents per $100 of the aggregate private payroll.

Benefits

From 1954 to 1956, benefits paid under employee-benefit plans jumped from an estimated $3.5 billion to $4.8 billion, an increase (38 percent) greater than that for contributions (table 3). Hospitalization benefits of $1.5 billion were the largest single benefit outlay in 1956 and accounted for 31 percent of all benefits paid. Private retirement benefits of $950 million were next in magnitude and accounted for 20 percent.[3]

This relationship is the reverse of that found with respect to contributions, where retirement plans absorbed 46 percent of all contributions and hospitalization plans took 18 percent in 1956. The explanation, of course, lies in the fact that long-term retirement plans, most of which are of recent origin and not yet matured, have a substantially greater income than outlay in their early years because of the necessity of building up reserves for future benefits. Hospital and medical care plans, in contrast, need only small contingency reserves for short-term benefits and expend much more of their current income for benefits.

Except for major medical expense benefits, retirement benefits showed the greatest percentage increase—42 percent—from 1954 to 1956. Hospitalization benefits increased 39 per-

[3] If benefits paid under public employee retirement plans were included, total retirement benefits would have exceeded hospitalization benefits.

Table 2.—*Estimated total employer and employee contributions* [1] *under employee-benefit plans,* [2] *by type of benefit, 1954 and 1956*

Type of benefit	Amount (in millions)		As percent of aggregate wages and salaries [3]	
	1954	1956	1954	1956
Total	$6,838.6	$8,691.2		
Life insurance and death benefits [4]	741.1	994.8	0.48	0.54
Accidental death and dismemberment [5]	33.5	49.7	.02	.02
Hospitalization [6]	1,221.4	1,603.2	.66	.74
Surgical and medical [6]	684.2	897.5	.37	.41
Major medical expense [7]	18.0	94.0	.01	.04
Supplemental unemployment benefits [8]		125.0		[9] .07
Temporary disability (including formal sick leave) [10]	780.4	897.0	[9] .48	[9] .47
Retirement [11]	3,360.0	4,030.0	[9] 2.08	[9] 2.13

[1] Excludes dividends in group insurance, except for 1954 contributions for temporary disability, hospitalization, surgical and medical, and major medical expense benefits.

[2] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[3] Private and government wage and salary disbursements—$185.6 billion in 1954 and $217.5 billion in 1956 (*Survey of Current Business*, July 1957, table 15).

[4] Group and wholesale life insurance premiums (Life Insurance Association of America, *Group Insurance and Group Annuity Coverage*, 1954 and 1956) and self-insured death benefit costs (based on data for various trade-union, mutual benefit association, and company-administered plans).

[5] Data from Life Insurance Association of America (see footnote 4).

[6] Data from "Voluntary Health Insurance and Medical Care Costs, 1948–56," *Social Security Bulletin*, December 1957. In estimating contributions for employees under plans other than group insurance and union and company plans, 75 percent of subscription income attributed to employed groups.

[7] Unpublished data from the Life Insurance Association of America. Includes premiums for group supplementary and comprehensive major medical insurance.

[8] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances.

[9] Computed as percent of private wages and salaries ($161.2 billion in 1954 and $189.4 billion in 1956).

[10] Data from "Growth in Protection Against Income Loss From Short-Term Sickness," *Social Security Bulletin*, January 1958. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York.

[11] Estimated by the Division of the Actuary, Social Security Administration. Represents contributions to pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, and railroad plans supplementing Federal railroad retirement program.

Table 3.—*Estimated benefits paid under employee-benefit plans,* [1] *by type of benefit, 1954 and 1956*

[In millions]

Type of benefit	1954	1956
Total	$3,512.0	$4,833.8
Life insurance and death benefits [2]	534.1	728.3
Accidental death and dismemberment [3]	25.1	30.5
Hospitalization [4]	1,079.9	1,495.4
Surgical and medical [4]	552.6	757.9
Major medical expense [5]	10.0	67.0
Supplemental unemployment benefits [6]		5.0
Temporary disability (including formal sick leave) [7]	640.3	799.7
Retirement [8]	670.0	950.0

[1] Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

[2] Group and wholesale life insurance benefits (Institute of Life Insurance, *Life Insurance Fact Book*, 1957, and estimates made by the Social Security Administration) and self-insured death benefits (based on data for various trade-union, mutual benefit association, and company administered plans).

[3] Unpublished data from the Institute of Life Insurance.

[4] Data from "Voluntary Health Insurance and Medical Care Costs, 1948–56," *Social Security Bulletin*, December 1957. In estimating benefits paid to employees under plans other than group insurance and union and company plans, 75 percent of benefit expenditures attributed to employed groups.

[5] Unpublished data from the Life Insurance Association of America. Includes benefits paid under group supplementary and comprehensive major medical insurance.

[6] Based on trade-union and industry reports. Excludes dismissal wage and separation allowances.

[7] Data from "Growth in Protection Against Income Loss From Short-Term Sickness" *Social Security Bulletin*, January 1958. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York.

[8] Estimated by the Division of the Actuary, Social Security Administration. Represents benefits paid under pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, and railroad plans supplementing Federal railroad retirement program.

cent, and surgical and medical care benefits 37 percent during this period. Benefits for temporary disability showed the least expansion—about 25 percent.

In 1956, benefits under major medical expense insurance, sometimes called "catastrophe" insurance, were almost seven times what they had been in 1954, although they accounted for only a little more than 1 percent of all benefits paid under employee-benefit plans in 1956. As one of the latest types of employee benefits to be introduced, major medical expense insurance is expected to continue to make rapid strides in the coming years.

Measuring Real Growth

Questions are often raised concerning the extent to which rising contributions and benefits paid under employee-benefit plans represent real gains for individual employees, in terms of the scope and adequacy of the protection furnished. In other words, what portions of the increase in aggregate expenditures for employee benefits are explained by (1) growth in the number of employees covered by plans, (2) inclusion of larger proportions of dependents, (3) increased cost of providing the same amount of benefits, and (4) liberalization of benefits that increases the real value or quantity of the protection?

Hospitalization benefits, for example, which increased in the aggregate 38.5 percent from 1954 to 1956, showed only a 19.0-percent increase when measured in terms of benefits per participant. This percentage increase is less impressive when the rise in the cost of hospital care during the 2 years is considered. The consumer price index of the Bureau of Labor Statistics shows a rise of 10.5 percent in hospital room rates from 1954 to 1956. If this increase is indicative of hospitalization prices in general, then only 8.5 percent out of the 38.5-percent increase in aggregate benefit payments for hospitalization can be said to relate to additional services received by insured persons. The pattern of utilization of hospital services, however, is constantly changing. It is therefore difficult to determine what part of the 8.5-percent increase signifies a liberalization of the benefit provisions.[4] A similar analysis with respect to surgical and medical benefits (including these benefits under major medical) showed that, of the increase of about 42 percent in aggregate payments, at least 32 percent is due to growth in numbers covered and to price changes.

Health Benefits and Services

The measurement of real growth in the area of hospitalization benefits is complicated by the fact that about half the employee coverage is derived from service benefit plans that, by their nature, tend to follow rises in hospital costs without too much lag. For the cash indemnity benefits available to the other half of the employees covered, however, there tends to be an appreciably greater gap between payments and rising costs. This same type of difference in the relationship of payments and rising costs exists between plans covering full surgical costs and cash indemnity plans with fixed schedules for surgical fees.

In terms of real growth in protection, however, the longer hospital stays permitted are significant under either service or indemnity plans. An examination of the plan provisions as described in the *Blue Cross Guide* reveals that from 1954 to 1956 the maximum duration of hospitalization provided has tended to increase from 30 days to 70, 90, and even 120 days. A recent National Industrial Conference Board report shows that, in early 1956, 83 out of 143 employee-benefit plans studied were providing at least 70 days of hospitalization and that 31 were providing 120 or more days.[5] According to a Bureau of Labor Statistics study of 180 union-negotiated plans paying cash hospital benefits throughout the country, the maximum duration was 70 or more days for 46 percent of the workers covered in late 1955.[6] In contrast, a study by the New York State Department of Labor showed that only 36 percent of the workers under cash indemnity plans in that State had 70 or more days of coverage in June 1954.[7]

Rates charged by hospitals for room and board rose almost universally from 1954 to 1956. The average rate for a two-bed room (typically provided in service benefit plans) in large hospitals in 1954 was $14.47; by 1956 the rate was $15.29.

Changes reported in employee-benefit plan provisions negotiated by employers and trade unions during 1954–56[8] included numerous instances where the daily allowance for hospital room and board was raised from $10 to $12 or from $12 to $15. According to data gathered by the Life Insurance Association of America, the average daily allowance provided for employees by group hospital plans in force that were underwritten by commercial insurance carriers was $10.26 for 1956, compared with $9.17 for 1954.[9] The Bureau of Labor Statistics study of union-negotiated plans shows the average maximum daily benefits provided under cash-benefit hospital plans in late 1955 as $11.12 for employees and $10.31 for dependents.

The increase in allowances for hospital "extras," either fully paid by the plan or coinsured by the employee, parallels increases in the daily allowance for room and board and like them reflects the fact that hospital charges have gone up. The National Industrial Conference Board reported that 78 of the 123 plans paying cash benefits provided $150 or more in allowances for extras such

[4] For a general discussion of the interrelationship of per capita medical expenditures, price changes, and patterns of spending for medical care, see "Voluntary Health Insurance and Medical Care Costs, 1948-56," *Social Security Bulletin*, December 1957.

[5] Harland Fox, *Trends in Company Group Insurance Programs* (National Industrial Conference Board, Studies in Personnel Policy No. 159), 1957.

[6] U. S. Department of Labor, Bureau of Labor Statistics, *Analysis of Health and Insurance Plans Under Collective Bargaining, Late 1955* (Bulletin No. 1221), 1957.

[7] New York State Department of Labor, *Health and Welfare Benefits in New York State* (Division of Research and Statistics Publication No. B-83), December 1955, page 53.

[8] U. S. Department of Labor, Bureau of Labor Statistics, *Current Wage Developments*, monthly issues; and "Significant Pay Settlements," published monthly in *Management Record* (National Industrial Conference Board).

[9] Life Insurance Association of America, *Group Insurance and Group Annuity Coverage*, 1954 and 1956.

as drugs and serums, various diagnostic procedures, and the use of special equipment. Of the 78 plans, 26 provided allowances ranging from $100 to $315, plus 75 percent of the next $500–$4,580 of expenses.

The amounts allowed in employee-benefit plans for surgical and medical benefits have also tended to rise. According to the 1955–56 studies of both the National Industrial Conference Board and the Bureau of Labor Statistics, half the plans provided maximum surgical allowances of $250 or more. Data for group insurance companies show that the average maximum surgical benefit for employees rose from $219 in 1954 to $234 in 1956. Reports of negotiated changes show frequent increases in the fee schedule from $200 and $250 to $250, $300, and higher for the most costly procedures. The extent to which these increases in fee schedules have occurred in recognition of already existing increases in physicians' and surgeons' charges and the extent to which they produce actual improvements in the workers' protection vary from place to place. Even apart from the rapid spread of major medical insurance, there has been an increase in the frequency of provisions for reimbursements of physicians' fees for visits to his office or for his calls to the patient's home in addition to fees for physicians' visits at the hospital. At the same time the extension of hospitalization, surgical, and other medical benefits to retired employees and their dependents has continued.

It is apparent that many of the developments outlined above, such as increased allowances for hospitalization and surgical expenses, were motivated by the need to keep existing benefits abreast of the increased cost of medical care. On the other hand, increases in the maximum duration of hospitalization benefits, the addition of provisions for physicians' services at the home or office and for meeting the cost of catastrophic illnesses, and the extension of benefits, to some degree, to retired employees and their dependents are distinct improvements in existing programs.

Temporary Disability Benefits

For those types of benefits designed to replace income lost because of disability, death, or retirement, it is less easy to distinguish between that portion of the aggregate increase in benefits devoted to keeping up with wage levels and that portion representing real gains in the scope of the protection provided.

In the case of temporary nonoccupational disability, some insight into this problem may be obtained by using the procedures developed by the Division of Program Research in its annual series on income-loss protection against sickness.[10] Relating the amounts paid under employee-benefit plans to the income lost by covered wage and salary workers gives a rough measurement of the extent to which benefits actually improved. Use of this method shows that cash sickness benefits paid under private plans (including formal sick-leave plans) replaced 27.6 percent of the gross income loss of workers covered by such plans in 1954 and 28.6 percent in 1956.

National Industrial Conference Board studies of company disability plans[11] in mid-1953 and the first quarter of 1956 show general increases in the size of benefits. The 1956 analysis of company plans providing employee benefits that were graduated on the basis of employee earnings indicates that the weekly disability benefit in the median company was equal to half pay for workers earning up to $80 a week. In 1953, only weekly earnings of less than $75 were compensable at half pay. Weekly benefits payable under flat-sum programs increased from an average of $30 in 1953 to $34 in 1956. According to the Life Insurance Association of America, the average weekly benefit for all group disability insurance policies in force in 1956 was $33.27—10.4 percent higher than the 1954 average of $30.13. Since gross average weekly earnings of production workers in manufacturing industries rose by 11.3 percent during the 2 years, it is evident that increases in benefit amounts were mainly designed to take care of advancing wage rates.

Other features of group disability insurance plans, according to available data, showed no appreciable changes from 1954 to 1956. The tendency to extend the duration of benefits or to liberalize waiting periods received no special impetus in this period. The amendment to the New York temporary disability insurance law that extended the duration from 13 weeks to 20 weeks went into effect on July 1, 1956, and apparently is not fully reflected in current studies of disability plans.

Supplementation of workmen's compensation generally up to the level of the benefit paid for nonoccupational disability has been increasingly provided for in collective bargaining agreements. The Bureau of Labor Statistics study shows that in late 1955 about one-fifth of the plans analyzed contained provisions of this nature. The effect on aggregate benefit payments, however, has been slight, since only about 5 percent of all illnesses are work-connected and benefits paid in such instances represent only the difference between the statutory workmen's compensation payment and the nonoccupational disability payment.

There is also evidence of a growing tendency to use formal sick-leave plans as a means of supplementing accident and sickness benefits under a group insurance plan. National Industrial Conference Board studies show that in early 1954 about 25 percent of the firms surveyed provided both sick leave and group insurance benefits for salaried employees, compared with 32 percent in early 1956.[12] Firms with dual benefits for hourly employees increased from 9 percent to 18 percent. The Community Wage Studies of the Bureau of Labor Statistics[13] also show the increased scope

[10] See "Growth in Protection Against Income Loss From Short-Term Sickness," *Social Security Bulletin*, January 1958.

[11] Lois E. Forde, "Group Disability Insurance Plans: A Study of Current Group Insurance Program Points Up the Trend to Greater Coverage and Larger Benefits," *Management Record* (National Industrial Conference Board), March 1954; and Fox, op. cit.

[12] Harland Fox, *Company-Paid Sick Leave and Supplements to Workmen's Compensation and Trends in Company Group Insurance Programs* (National Industrial Conference Board, Studies in Personnel Policy, No. 146, 1954, and No. 159, 1957).

[13] U. S. Department of Labor, Bureau of Labor Statistics, *Wages and Related Benefits*, 1953-54 and 1955-56 (Bulletins No. 1157 and No. 1188).

of coverage provided by sick-leave plans, primarily for office workers.

Life Insurance

For group life insurance, it is most meaningful to measure changes in real protection in terms of the face value of the group insurance policies. As reported by the Life Insurance Association of America, these amounts increased in the aggregate by 35.6 percent from 1954 to 1956 for all employee policies in force. The average amount of insurance per employee certificate, however, rose only 12.5 percent, from $3,120 to $3,510. This increase has more than kept pace with the 9.6-percent rise in average annual earnings during the 2 years.

Although both the National Industrial Conference Board and the Bureau of Labor Statistics studies show that about 7 out of 10 plans paying flat benefits provided less than $3,000 of insurance per employee covered, the plans with benefit amounts graduated in accordance with the employee's wages were more liberal, and they included the larger plans. For employees earning $4,000 a year, approximately four-fifths of the plans provided insurance protection equivalent to at least a year's salary. One-fourth of the plans in the BLS study and one-third of those studied by the National Industrial Conference Board provided insurance equal to at least 1½ year's salary. Approximately 15 percent in both studies provided insurance protection equaling at least 2 years' wages. Reports of negotiated changes in employee benefits show frequent increases ranging from $500 to $2,000. The trend toward covering retired employees is continuing.

Financing

Revisions in the benefit structure were not the only changes made in employee-benefit plans during 1955 and 1956. Even when there were no benefit improvements or when the benefits merely kept pace with the increased costs of medical care or with the rise in wage levels, many employees gained some advantage as employers increasingly assumed a greater share of the benefit costs. In 1954, it was estimated, employers assumed 47 percent of the costs of health and welfare benefits (excluding retirement benefits).[14] Though the change since 1954 is difficult to measure from existing data, reports of negotiated changes show that increases in the share of the cost borne by employers may take one or more of the following forms: (1) assuming all or a greater share of the costs of increased benefits; (2) assuming some or all of the cost of benefits for dependents; (3) assuming a greater share of the costs of existing benefits; (4) converting a contributory plan (or parts of such a plan) to a noncontributory plan; and (5) assuming all or a greater share of the cost of benefits for retired employees.

According to the National Industrial Conference Board, 41 percent of the group accident and sickness plans studied in early 1956 were noncontributory, compared with about 38 percent in early 1954.[15] For basic hospital-surgical-medical benefits for employees, noncontributory arrangements prevailed in 39 percent of the plans reviewed in 1956 and in about 36 percent in 1954. Only about 10 percent of the plans were financed entirely by employee contributions in 1956 and about 17 percent in 1954.

Despite the trend toward increasing financial participation by the employer, the BLS study shows that, in late 1955, 46 percent of the 300 union-negotiated health and welfare plans examined, which included 55 percent of covered employees, were financed jointly by the employers and employees as far as employee benefits were concerned.[16] With respect to dependents' coverage, 39 percent of the plans were contributory and 18 percent were financed entirely by employees. The contributory plans included 47 percent of the employees whose dependents were covered, and the plans financed entirely by the employees, 12 percent.

Trends in Retirement Plans, 1930–56

Because provisions for retirement involve long-range considerations, the data on private retirement plans do not readily permit a statistical evaluation of growth over a short period of time. To get a better perspective of developments in the field of private pension plans, a historical analysis is presented in the following paragraphs. An analysis going back to the 1930's has pertinence because of the relationship that has developed between private retirement plans and the Federal program of old-age, survivors, and disability insurance initiated in 1935.

The past quarter of a century has witnessed a remarkable growth in the coverage and resources of private retirement plans. Since 1930, according to the estimates developed by the Division of the Actuary, coverage under private pension and deferred profit-sharing plans has increased from 2.4 million to 15.2 million, contributions from $180 million to $4,030 million, the number of beneficiaries from 90,000 to 1,160,000, and benefits from $80 million to $950 million (table 4). Reserves accumulated under the plans rose from $0.8 billion to $29.9 billion. This growth, although attributable in part to Federal tax policy, has been accelerated by the Government's wage stabilization programs during World War II and the Korean conflict. The spectacular rise in coverage and resources since 1950 can also be traced to the widespread adoption of private pension plans in mass-production industries, following the decisions of the courts and the National Labor Relations Board that pension and welfare plans are proper subjects for collective bargaining.

Coverage

At the end of 1956, private retirement plans covered an estimated 15.2 million employees, or more than 31 percent of the private wage and salary labor force. Practically all these

[14] U. S. Senate, Committee on Labor and Public Welfare, *Welfare and Pension Plans Investigation: Final Report . . . Submitted by Its Subcommittee on Welfare and Pension Funds* (S. Rept. 1734, 84th Cong., 2d sess., 1956).

[15] Harland Fox, "Company Group Insurance—Who Pays the Bill," *Management Record* (National Industrial Conference Board), November 1954, and "Financing Group Insurance Programs," *Management Record,* April 1957.

[16] Plans were classified as jointly financed if the employee contributed toward the cost of one or more of the benefits of the group specified or if the employer contributed only a part of the cost of the benefits.

employees were also covered by the Federal old-age, survivors, and disability insurance program. Most of them (73 percent) were covered under self-insured plans—that is, plans financed through the medium of trust funds or pay-as-you-go and balance-sheet reserve plans.[17]

As can be seen from table 4, the number of employees covered at the end of 1956 was almost seven times the number in 1930. From 1930 to 1940, coverage increased rather slowly. Each 5-year period since 1940, however, showed gains of 50 percent over the preceding period. Since 1950, coverage under insured and self-insured plans has increased 57.7 percent and 73.4 percent, respectively.

The growth in coverage since 1954 has been accompanied by the establishment of new plans of diverse types, some of which may set patterns for the industry in which they were developed. Some plans required immediate employer contributions but deferred the formulation of details and the payment of benefits for several years. In the hotel trades in New York City, for example, 52 hotels, employing 3,500 individuals, have been contributing to a trust fund since 1952, but details as to eligibility requirements and benefit amounts were not worked out until 1954, when the plan began to pay benefits. In the motion picture industry in California a plan was initiated in 1954 and employers began to make contributions immediately, but the details are yet to be determined and benefits are not scheduled to begin until 1960. This plan involves 500 employers, 40 union locals, and 18,000 employees.

A new type of plan that is getting a great deal of attention is the "variable" annuity. A number of these plans were established during 1955 and 1956. Basically, this type consists of two parts. The first follows the pattern of conventional plans and provides fixed benefits. The second provides a "variable" annuity fluctuating with the current value of the securities allocated to this portion of the plan.

Employer and Employee Contributions

More than $4 billion, it is estimated, was contributed in 1956 by employers and employees to finance private retirement plans—approximately $3,450 million by employers and $580 million by employees. During the period 1930–56 the method of financing appears to have made a complete cycle. Before 1930, plans were generally on a noncontributory basis. New plans established during the 1930's, however, tended to be contributory. Although employees absorbed less than 30 percent of the costs in 1930, by 1940 the ratio had increased to almost 40 percent. During and after World War II the pendulum began to swing in the other direction. Especially since 1949, new plans have increasingly tended to be noncontributory, and some existing contributory plans have become noncontributory as they apply to the lower portion of the employee's earnings specified in the benefit formula —for example, the first $4,200. Since 1945, the employee's share of aggregate contributions has been approximately one-seventh.

During the period 1930–56 total contributions to private retirement plans increased sharply. The 1956 total was more than 22 times that of 1930. The most rapid rate of growth was in the 5-year period 1941–45, when they increased by more than 234 percent. Thereafter the rate of increase was relatively slower —112 percent for 1946–50 and 96 percent for 1951–56. As would be expected from the greater increase in coverage, total contributions to self-insured plans increased much faster than those to insured plans. For the period 1951–56 the increases were 131 percent and 52 percent, respectively. The average contribution per employee, reflecting the liberalization of benefit formulas as well as the rising wage levels during 1930–56, went up steadily from $82 a year to $274. During 1951–56 the increase was from $245 to $274.

Though employers in 1956 contributed approximately 85 percent of the total cost of financing the plans, their share of contributions to self-insured

[17] For a description of methods of underwriting, see Zisman, op. cit., page 12.

Table 4.—*Private pension and deferred profit-sharing plans: Estimated coverage, contributions, reserves, beneficiaries, and benefit payments, 1930–56* [1]

Year	Coverage,[2] end of year (in thousands)			Employer contributions (in millions)			Employee contributions (in millions)			Reserves, end of year (in billions)			Number of monthly beneficiaries, end of year (in thousands)			Amount of annual benefit payments (in millions)		
	Total	Insured plans	Self-insured plans	Total	Insured plans	Self-insured plans	Total	Insured plans	Self-insured plans	Total	Insured plans	Self-insured plans	Total	Insured plans	Self-insured plans	Total [3]	Insured plans	Self-insured plans [3]
1956	15,200	4,100	11,100	$3,450	$1,110	$2,340	$580	$290	$290	$29.9	$12.3	$17.6	1,160	330	830	$950	$230	$720
1955	14,200	3,900	10,300	3,150	1,100	2,050	520	280	240	26.2	11.1	15.1	1,000	290	710	810	200	610
1954	13,100	3,700	9,400	2,880	1,030	1,850	480	270	210	22.7	9.8	12.9	850	260	590	670	170	500
1953	12,100	3,500	8,600	2,880	1,000	1,880	450	260	190	19.3	8.6	10.7	730	220	510	600	150	450
1952	10,900	3,200	7,600	2,510	910	1,600	400	240	160	16.5	7.5	9.0	630	190	440	510	130	380
1951	10,000	2,900	7,100	2,260	820	1,440	360	220	140	13.7	6.4	7.3	530	170	360	440	110	330
1950	9,000	2,600	6,400	1,750	720	1,030	310	200	110	11.2	5.4	5.8	440	150	290	360	90	270
1945	5,900	-------	-------	830	-------	-------	140	-------	-------	5.4	-------	-------	300	-------	-------	210	-------	-------
1940	3,800	-------	-------	180	-------	-------	110	-------	-------	2.4	-------	-------	150	-------	-------	130	-------	-------
1935	2,600	-------	-------	140	-------	-------	70	-------	-------	1.3	-------	-------	110	-------	-------	100	-------	-------
1930	2,400	-------	-------	130	-------	-------	50	-------	-------	.8	-------	-------	90	-------	-------	80	-------	-------

[1] Represents pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, and railroad plans supplementing Federal railroad retirement program. In 1930, private railroad plans covered an average of 1.3 million employees and paid about $30 million in benefits to about 50,000 beneficiaries; in 1935 they covered an average of 1.1 million workers and paid about $40 million to about 60,000 beneficiaries.

[2] Excludes annuitants.

[3] Includes some refunds to employees, as well as lump-sum payments under deferred profit-sharing plans.

Source: Social Security Administration, Division of the Actuary.

plans tends to be relatively larger than that for insured plans; a larger portion of the latter are on a contributory basis. For the period 1950–56, employers' contributions amounted to approximately 90 percent of the total for self-insured plans and about 79 percent for insured plans. These proportions seem to reflect the influence of collective bargaining for noncontributory pension plans in the mass-production industries, which followed the 1949 agreements with the major employers in the automobile and basic steel industries.

Reports of negotiated changes during 1955 and 1956 show frequent increases in employer contributions to jointly administered multi-employer pension funds. The increases from 3 percent to 4 percent in various plans involving the International Ladies' Garment Workers Union are illustrative.

Increased employer contributions, other than those resulting from actuarial factors, may result from a reduction in employee contribution or a change from a contributory (employer-employee joint financing) plan to a noncontributory plan. In 1955, for example, the agreement between a major electrical equipment manufacturer and the International Union of Electrical, Radio, and Machine Workers reduced employee contributions from 2 percent on the first $3,600 of annual earnings and 5 percent on the excess to 1 percent on the first $4,200 and 4 percent on the remainder. In 1958 the contribution on the first $4,200 will be eliminated, and the contribution on the remainder reduced to 3 percent.

Reserves

The growth in retirement plan reserves has been even greater than that in the other factors examined so far. Estimated at $800 million in 1930, at the end of 1956 they amounted to $29.9 billion, or more than 37 times the 1930 total. Reserves trebled in the period 1931–40. During the next decade they increased by almost 367 percent and since 1950 by close to 167 percent. Although the yearly rate of increase has dropped from approximately 22 percent in 1951 to 14 percent in 1956, the yearly increase in absolute dollars has risen from $2.5 billion to $3.7 billion. **The reserves constitute a large and growing source of investment funds.**

Approximately 41 percent of the reserves was accumulated under insured plans in 1956; in 1950 the proportion was more than 48 percent. This drop, and the corresponding rise in the proportion of reserves accumulated by the self-insured plans, is attributable to the fact that many self-insured plans are relatively new. As they grow older their assets increase in significance. It will be noted, for example, that assets under insured plans increased by only 128 percent from 1950 to 1956 but that those of self-insured plans increased by 203 percent.

Since insured plans tend to be more fully funded, the average reserve per employee is much larger under insured plans than under self-insured plans. In 1956 the average amount per employee covered in insured plans was $3,075, and under self-insured plans it was $1,645. The relative difference, however, has narrowed noticeably since 1950, when the average reserves were $2,160 and $951, respectively. For the two types of plans combined the average reserves increased from $1,333 to $2,034 during the period.

Beneficiaries and Benefits

The number of monthly beneficiaries under private retirement plans has grown steadily—from 90,000 in 1930 to 1,160,000 in 1956. Not all the current beneficiaries are recipients of benefits under the Federal old-age, survivors, and disability insurance program. A sizable number—an estimated 180,000—worked in noncovered employment or retired before they had met the age or work requirements to qualify for benefits under the Federal program.

Benefit payments under private retirement plans grew from $80 million in 1930 to $950 million in 1956. These benefits include the following lump-sum payments under self-insured plans: (1) refunds of employee contributions to individuals withdrawing from the plans before retirement and before accumulating vested deferred rights; (2) return of employee contributions to the survivors of workers who died before they had received in retirement benefits a total amount equal to their contributions; and (3) lump-sum payments made under certain conditions to beneficiaries under deferred profit-sharing plans. Because the source of data from which the estimates have been developed does not make it possible to distinguish between these lump-sum benefits and monthly retirement benefits, average annual retirement benefits cannot be derived.

Since 1950, both the number of beneficiaries and the amount of benefits have increased at the same pace; the 1956 totals were about two and one-half times what they were in the earlier year. There was thus little increase in benefit outlays per beneficiary. This finding is not surprising, because the total amount paid under private retirement plans is weighted with benefits that reflect earnings levels and benefit formulas of earlier decades. Improvements and expansion of benefits under private pension plans in any year are for the most part not fully felt until many years have elapsed. Moreover, a growing proportion of the beneficiaries retiring (72 percent in 1956 and 66 percent in 1950) were covered by self-insured plans. These plans, many of which were established in the last decade as the result of negotiations in the mass-production industries, currently tend to pay pensions of lower amounts than do the older plans.

Some private pension plans have had their ups and downs in recent years, as a result of changing economic conditions. The retirement plan negotiated by the United Mine Workers of America for the anthracite coal industry, for example, reduced its monthly benefits early in 1954 from $100 to $50 because of the declining tonnage in coal mined. In the fall of 1954 the pension plan established in 1950 in the full-fashioned hosiery industry as a result of an arbitration award was liquidated because of competitive and economic conditions. In the spring of 1955 the United Hatters, Cap and Millinery Workers International Union agreed with the Eastern Women's Headwear Manufacturers Association to forego a proposed addition of 1 percent to the 2-percent employer contribution to the industry pension plan and to permit the money to be used instead to promote the sale of women's hats, with the hope that the pension plan would benefit from any improvement in business.

The relative importance of pensions for workers is illustrated by two agreements. The first, made between the United Automobile Workers and the American Motors Corporation in the fall of 1955, deferred supplementary unemployment benefits for 1 year to protect the pensions of 3,000 employees displaced as a result of the company's merger with the Hudson Motor Car Company. The second, negotiated by the Textile Workers Union and the American Viscose Company in mid-1956, increased retirement benefits and provided for the company's assumption of the full cost of the pension plan effective June 1, 1956, and for the deferment of a wage increase to July 1, 1957.

On the whole, however, the 1954–56 period was marked by numerous instances of improvements in existing plans. The improvements took the following forms: adjustment of benefit formulas to amendments in the Social Security Act, liberalization of benefit formulas and eligibility requirements, changes in disability benefits, and increased vesting provisions.

Integration with old-age, survivors, and disability insurance. — When plans were first negotiated in the mass-production industries, they frequently provided for offsetting the full amount (one-half the full amount in the rubber industry) of the old-age benefit under the Social Security Act from the amount derived from the plan's benefit formula. As a result, when benefits paid under the Act were liberalized, the amount of benefit payable by the plan was reduced.

In mid-1954 the United Steel Workers signed a series of agreements with manufacturers in the basic steel industry, which provided that future increases in the Federal benefits would go to the retired workers and, for that purpose, froze the amount to be offset from the plan's monthly benefit at $85—the maximum old-age benefit then payable under the Act. In addition, it changed the minimum monthly benefit from $100 (including the Federal old-age benefit) for employees with at least 25 years of service to $55 (excluding the Federal benefit) for employees with 30 or more years of service. In 1956 the minimum monthly benefit was changed, effective November 1, 1957, to $2.40 for each year of service (up to 30) before that date and to $2.50 for each year thereafter. This pattern was also adopted in the aluminum and canning industries. In other plans—the rubber industry plan, for example—alternative formulas providing a flat benefit for each year of service are used if the result is a benefit greater than that derived from the offset formula. In some plans, the offset formula has been replaced by one paying a flat amount for each year of service.

A recently negotiated plan in the trucking industry provides for normal retirement at age 60, with a monthly benefit of $90. When the worker reaches age 65 and becomes eligible for a benefit under old-age, survivors, and disability insurance his monthly benefit under the plan drops to $22.50.

Liberalization of benefit formulas.—The benefit formulas have been liberalized in various ways. In the mass-production industries the minimum benefit—a flat monthly benefit for each year of service—has been increased. In the automobile industry the maximum on the number (30) of years of service that could be credited was eliminated in mid-1955, and the monthly benefit for normal retirement was raised from $1.75 for each year of service to $2.25. In other industries the benefit expressed as a percentage of average wages during the entire period of service, for each year of service, was changed to a percentage of the average wage during the last 10 years (or 5 years) of service. In still others the percentage factor was increased.

Changes in disability benefits.—Disability benefits were changed in many instances by reducing the eligibility requirements, increasing the benefits, or both.

In the automobile industry the age requirement (50) for eligibility has been removed as a result of negotiations in the spring of 1955. The service requirement of 15 years, however, was retained. In addition, the monthly benefit was increased from $3.00 to $4.50 for each year of creditable service. The deduction of "statutory benefits" is still in force. Moreover, as in the case of old-age benefits, the period of creditable service is no longer limited to 30 years. In the steel industry the minimum monthly benefit was raised in 1954 from $50 to $75 and again, effective November 1, 1957, to $90 (including the disability benefit under the Social Security Act, up to $85), and the age requirement was reduced in 1956 from 50 to 40. The trend, as seen from the Bureau of Labor Statistics and National Industrial Conference Board reports on negotiated changes, appears to be toward eliminating the age requirement.

Increased vesting.—Vesting provisions, which transfer to the employee upon separation before retirement the right to the accrued pension resulting from his employer's contributions, have received much attention in the negotiations in the mass-production industries. Such provisions are common in insured plans but have not been adopted until recently in the noninsured plans that predominate in these industries. The Bankers Trust Company, in its 1956 analysis of 61 private retirement plans, observed that in 1952 few of the plans in the mass-production industries had vesting provisions [18] but that 27 percent had vesting provisions at the end of 1955. Outstanding examples of plans in which vesting provisions were added are those adopted in 1955 in the automobile and rubber industries, which provide for vesting at age 40 and after 10 years of service, and those in the steel industry, where similar provisions (vesting at age 40 and after 15 years of service) went into effect as of November 1, 1957. For steel workers, however, vesting is restricted to those laid off for 2 years or more or whose services are terminated as a result of a permanent shutdown.

[18] Bankers Trust Company, *A Study of Industrial Retirement Plans* (1956 edition).