Trends in Employee-Benefit Plans: Part II

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In recent years the major developments in employee-benefit plans sponsored or underwritten by private organizations have been reported regularly in the Social Security Bulletin. This year the report is in two parts. Part I, which appeared in the April issue of the Bulletin, included 1959 data on coverage, contributions, and benefits under health, welfare, and retirement plans. In addition it discussed the trends in the type and scope of the health insurance benefits. Part II, which appears below, examines trends in benefits under the welfare and retirement plans.

THE WELFARE plans described here are those providing for temporary disability insurance and sick leave, life insurance and death benefits, accidental death and dismemberment insurance, and supplemental unemployment benefits. The retirement or pension plans pay benefits on retirement because of old age or permanent disability.

WELFARE PLAN CHARACTERISTICS

There is one characteristic common to all the welfare plans considered here: they are designed to provide cash payments to replace lost wages. They are thus unlike the health insurance plans, which are designed to help finance the costs of medical bills or, less frequently, to provide actual health care.

Temporary Disability Benefits, Including Formal Sick Leave

Protection against loss of earnings during periods of temporary nonoccupational disability may take the form of weekly cash sickness benefits or of paid sick leave. In three States—California, New Jersey, and New York—temporary disability insurance laws make coverage mandatory but permit employers the option of providing protection for their workers through a private plan generally insured by a commercial carrier or through self-insurance.[1] About 27 percent of the Nation's wage and salary workers with private disability coverage are protected by insured or self-insured private plans under these three State laws.

More than four-fifths of the employees having private disability protection are covered for weekly cash sickness benefits through group accident and sickness insurance policies purchased from private insurance companies by employers, unions, employee mutual benefit associations, and union-management trust funds. About 7 percent of the employees are covered by self-insured plans (excluding sick-leave plans), administered by these groups. Under both insured and self-insured plans, the benefits are designed to replace a portion of weekly pay for a specified number of weeks a year or for each disability after an uncompensated waiting period. The remaining employees are covered by formal sick-leave plans that generally provide for the continuance of full wages or salary for a specified number of days or weeks of illness—usually without a waiting period.

The Bureau of Labor Statistics, in its continuing study of 300 collectively bargained plans, includes data on developments between late 1955 and the fall of 1958 in plans (other than sick-leave plans) providing weekly cash sickness benefits.[2] Collectively bargained plans are estimated to cover more than two-fifths of the workers with disability insurance protection.

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[1] In Rhode Island and the railroad industry, covered employees are compulsorily insured through publicly operated cash sickness funds that do not permit the substitution of private insurance for the government coverage.

[2] Bureau of Labor Statistics, *Analysis of Health and Insurance Plans Under Collective Bargaining, Late 1955* (Bulletin No. 1221), 1957, and *Health and Insurance Plans Under Collective Bargaining: Accident and Sickness Benefits, Fall 1958* (Bulletin No. 1250), 1959. Of the 300 plans, 271 were common to both studies.

The basis for determining the amount of weekly benefits has been somewhat changed, according to the studies. A greater proportion of employees in 1958 than in 1955 were covered by plans that paid benefits graduated according to earnings rather than uniform (flat) amounts. In both years, 50 percent of weekly earnings up to a specified maximum was the most frequent ratio found in the graduated plans.

Benefit levels under collective bargaining plans have been increased—in some cases outpacing the increase in wage levels. Under graduated plans, three-fourths of the employees in 1958, in comparison with two-thirds in 1955, were under plans that paid weekly benefits of $40 or more to employees earning $4,000 yearly (equivalent to $76.92 a week). The proportion of employees entitled to benefits of less than $35 a week halved from 1955 to 1958.

Under the flat-benefit plans, one-fifth of the employees were entitled to weekly benefits of more than $40 in 1958, compared with 2 percent in 1955. Plans providing $20 or less a week covered almost 1 out of 3 employees in 1955; by 1958 the proportion was 1 out of 10.

The changes in duration of benefits and in waiting-period requirements have been less striking. The BLS studies show an increase from 58 percent in 1955 to 65 percent in 1958 in the plans providing 26 weeks or more of benefits per disability or per year but little change in the proportion of employees affected.

In 1955, about 80 percent of the employees had a 7-day waiting period before they could receive their first benefits for unhospitalized sickness, and 11 percent had a 3-day waiting period. The corresponding ratios in 1958 were 76 percent and 12 percent. In both years almost 7 out of 10 employees were entitled to immediate benefits for absence caused by nonoccupational accidents, and 3 out of 10 were entitled to sickness benefits immediately upon being hospitalized.

Supplementation of workmen's compensation for occupational disability, generally up to the level of the benefit paid for nonoccupational disability, has been increasingly provided in collectively bargained group accident and sickness insurance plans.[3] In 1958 about one-fourth of the plans that paid temporary disability benefits contained provisions of this nature, compared with one-fifth in 1955.

Paid sick-leave plans formally established by employers have been growing in number and are now estimated to cover more than one-fifth of all employees with private disability protection. More than half of them are used to supplement insurance benefits payable under group accident and sickness policies, usually by providing payments during the waiting period or after the insurance benefits are exhausted or sometimes to bring the insurance benefit up to the level of full pay. From data collected by the Bureau of Labor Statistics in its Community Wage Surveys,[4] it is estimated that the proportion of employees in firms with group disability insurance that also have formal paid sick-leave provisions rose from 20 percent in 1955–56 to 29 percent in 1958–59 for plant workers and from 68 percent to 73 percent for office workers.

Life Insurance and Death Benefits

About 95 percent of all employees covered through their place of employment against the contingency of death are protected through group life insurance contracts purchased from private insurance companies by employers, unions, mutual benefit associations, and union-management funds. These policies provide cash benefits to an employee's survivors in the event of his death, whether on or off the job, and whether due to natural or accidental causes. The remaining 5 percent of the employees are protected through self-insured benefits, often termed "funeral" or "death" benefits.

The protection provided is usually 1-year, renewable term insurance, with no cash surrender, paid-up, or other nonforfeitable features. The benefits may be in flat amounts, in amounts graduated according to annual earnings (usually the equivalent of 1 or 1½ year's salary) or, occasionally, in amounts related to periods of service or class of employment.

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[3] Such supplemental benefits are included under "temporary disability, including formal sick leave" in the tables (see part I in the April issue).

[4] Bureau of Labor Statistics, *Wages and Related Benefits, 1955–56* and *Wages and Related Benefits, 1958–59* (Bulletins No. 1188 and No. 1240–22), 1956 and 1959. These studies are confined to selected major labor-market areas in the more industrialized parts of the country and exclude small firms.

Some indication of the type and amount of life insurance benefits provided is available from the BLS studies of 300 collectively bargained plans in effect in late 1955 and in early summer 1960.[5] Collectively bargained plans account for perhaps a little more than a third of all employee coverage under life insurance.

The 1960 study shows that workers having life insurance were rather evenly divided between those in plans providing flat amounts (41 percent) and those in plans that graduated benefits according to earnings (47 percent). Twelve percent had their benefits graduated according to other factors. There has been some shift since 1955 to plans providing graduated benefits.

The amount of insurance provided under collectively bargained plans has been liberalized in recent years—in some cases outstripping the rise in wage levels. Of the plans that graduated benefits according to earnings, about 90 percent in 1960 and 80 percent in 1955 assured workers earning $4,000 a year (an arbitrarily selected earnings level) an amount equal to or exceeding their annual income.[6] Under flat-benefit plans, the basic insurance provided averaged $2,270 in 1960 and $1,931 in 1955.

Most group insurance contracts provide for a waiver of premium in the event of total and permanent disability. The BLS reports that in both 1955 and 1960 about 3 out of 5 employees under plans having permanent and total disability provisions had the full amount of life insurance maintained for the duration of the disability or for a limited period. Virtually all the remaining employees were under plans that provided for the cash settlement of the face value of the policy either in a lump sum or in monthly installments. Most contracts also stipulate that the worker must incur the disability before a specified age—usually 60— to be eligible for benefits.

According to the Bureau of Labor Statistics, the number of collectively bargained plans that continued group life insurance coverage after retirement increased significantly from 1955 to 1960, but the proportion of employees with such protection remained the same (71 percent). When protection continued after retirement, most plans reduced the amount of insurance on either a gradual or a one-time basis. The average basic amount of insurance extended on retirement to a worker earning $4,000 was $1,684 in the 1955 study and $1,882 in the 1960 study. The protection sometimes took the form of group paid-up or permanent life insurance purchased during the employee's working years.

For life insurance, unlike health insurance, the cost is more likely to be borne by the employer after the worker's retirement than before his retirement. Of those employees in the 1960 study who had their life insurance jointly financed while actively employed, more than three-fourths would discontinue their contributions upon retirement and the employer would pick up the full tab.

Continuation of life insurance protection during temporary lay-off is not uncommon. The BLS study shows that 3 out of 5 plans in 1960 extended group coverage during lay-off for periods ranging from 1 month to more than 2 years; the worker then had 30 days in which he could convert the insurance to an individual policy without submitting to a medical examination. Approximately 1 out of 5 of the plans continued coverage during lay-off for more than 6 months; more than three-fifths of these plans, however, required the worker, after a specified time, to assume the full cost.

Accidental Death and Dismemberment Insurance

Accidental death and dismemberment insurance is issued exclusively by private insurance companies, generally in conjunction with group life insurance. It provides cash benefits in the event of death or dismemberment caused by external violent and accidental means and customarily covers both occupational and nonoccupational accidents. In the BLS studies of collectively bargained plans, about one-fourth of the employees having accidental death and dismemberment protection were not covered for on-the-job accidents in either 1955 or 1960.

The amount of the benefit is often the same as that under group life insurance and determined

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[5] Bureau of Labor Statistics, *Health and Insurance Plans Under Collective Bargaining: Life Insurance and Accidental Death and Dismemberment Benefits, Early Summer 1960* (Bulletin No. 1296), 1961.

[6] The data cited here refer solely to basic life insurance provided. Some plans make available additional life insurance coverage to workers willing to assume all or part of the additional cost.

in the same manner, though frequently the maximum is lower. The full amount is paid in the event of accidental death, the loss of the sight of both eyes, or the loss of two members of the body. One-half the amount is paid for the loss of the sight of one eye or the loss of one limb.

According to the BLS study, 2 out of 5 workers with accidental death and dismemberment protection in 1960 had an accidental death benefit equal in amount to their life insurance benefits. Virtually all the others had a benefit smaller than their life insurance benefit.

Supplemental Unemployment Benefits

Supplemental unemployment benefit plans were first introduced on a large scale in 1955 as a result of union-company negotiations in the automobile industry. During the next 2 years the plans spread into the aluminum, can, glass, maritime, rubber, and steel industries, but since then they have shown little tendency to expand further. The supplemental unemployment benefit plans in the automobile and steel industries are of primary importance since they cover about four-fifths of the workers with such coverage.

Under the auto and steel plans, the intent is to ensure that combined State and private unemployment weekly benefits will be equivalent (after a 1-week waiting period) to 65 percent of after-tax, straight-time pay, up to a specified maximum. For auto workers, the maximum weekly amount is $30, payable for 39 weeks, but no benefits will be paid after the twenty-sixth week if the State unemployment insurance benefits are exhausted. For steel workers, the maximum weekly benefit is $25, plus $2 for each dependent up to four. Benefits are payable for as long as 52 weeks, and, when unemployment benefits under the State programs run out, the maximum is increased to $47.50 (plus dependents' allowance).

To be eligible initially for benefits, a laid-off worker must qualify for and receive State unemployment benefits and must have, in the auto industry, at least 1 year's seniority and, in the steel industry, 2 years' seniority. The amount and duration of the benefits he receives are related to length of employment, seniority, and the financial status of the trust fund created to finance the benefits. Although the auto and steel trust funds are similar in principle, they differ in operation. When the automobile trust funds run low, it is the duration of benefit that is reduced; the steel funds are conserved by reducing the benefit amount.

A growing trend in supplemental unemployment benefit plans is toward providing lump-sum separation payments for workers with certain seniority rights who are made idle by a permanent plant shutdown or who are laid off for at least a year. The amount of severance pay may be equivalent to the maximum amount that a worker would have received in supplemental unemployment benefits if laid off indefinitely, or it may be graduated in accordance with years of seniority and earnings.

RETIREMENT PLAN CHARACTERISTICS

Although commercial insurance carriers underwrite the majority of pension plans, these insured plans cover less than one-fourth of the employees in pension plans and deferred profit-sharing plans (table 1). More than three-fourths of the employees are under noninsured or "trusteed" plans, among which are classified the multi-employer plans, union plans with no employer participation, pay-as-you-go plans, plans of nonprofit organizations, and deferred profit-sharing plans. Since 1950, coverage under noninsured programs has increased at a faster rate (114 percent) than that under insured plans (85 percent).

Insured pension plans can take any one of many forms or combinations. Under deferred group annuity contracts and individual policy plans, specified premiums are paid to an insurance company at regular intervals. The insurance company invests the money and guarantees that the reserves thus accumulated will be sufficient to provide the contemplated benefits. Under "deposit administration" plans, premiums are not directly allocated to the purchase of benefits for specific employees but are maintained on deposit in an undivided account. When an employee retires, the insurance company withdraws an amount sufficient to purchase (at the then guaranteed rates) the life annuity to which he is entitled under the plan.

Under a trusteed pension plan, regular amounts are paid into a trust—usually managed by a bank or trust company, which holds and invests the funds and pays benefits in accordance with the terms of the trust and the plan provisions. The trustees assume no underwriting function. Most plans have some sort of funding arrangement under which reserves of varying size are accumulated to meet future liabilities. Those plans that have no funding and meet all benefit payments out of current revenues are often called pay-as-you-go plans.

Studies made by the Bankers Trust Company of pension practices in employer-administered retirement plans in 1956–59, 1953–55, and 1950–52 give some indication of trends in the methods of funding benefits as well as in benefit provisions and plan characteristics.[7]

Pension plans in these studies are divided into two types. The first is the pattern plan, which has been adopted by several international unions since 1949 and which has usually been negotiated with individual companies or groups of companies. Except for the steel industry pattern and a few others, the pension provided is a flat dollar amount that may vary with the employee's years of service but not with his compensation rate. The second is the conventional plan, which generally provides benefits that vary both with years of service and with rates of compensation.

According to the Bankers Trust Company there has been a growing preference for the trusteed method of financing among both conventional and pattern plans. Sixty-nine percent of the conventional plans in the 1956–59 study used the pension trust as the funding medium, compared with 51 percent in the 1950–52 study. Among pattern plans, the prevalence of this method grew from 72 percent in 1952 to 79 percent in 1959, with most of the shift occurring in 1956–59.

The Institute of Life Insurance reports that the most widely used type of insured pension plan in 1959 was the individual policy plan, accounting for 63 percent of the total, followed by deferred group annuity contracts (18 percent) and deposit-administration plans (9 percent).[8] In terms of employees covered, however, the distribution was very different. Deferred group annuities accounted for 48 percent of the coverage, deposit-administration plans for 31 percent, and individual policies for 13 percent. These figures, of course, reflect the fact that the group annuity and deposit-administration plans are more suitable for large firms. During the past decade, deposit-administration plans have been growing much more rapidly than the other two types.

[7] Bankers Trust Company of New York, *A Study of Industrial Retirement Plans*, 1953, 1956, and 1960 editions. The size and the composition of the sample have shifted from period to period, and it is not known how many plans were common to more than one study. The latest edition, which reports on 230 plans, is confined mainly to large companies with more than 500 employees and covers 114 categories of industry with 6 million employees. It has been estimated that 70–80 percent of the workers covered by pension plans are employed by firms having 500 or more employees.

[8] Institute of Life Insurance, *The Tally of Life Insurance Statistics*, May 1960.

TABLE 1.—Private pension and deferred profit-sharing plans:[1] Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950–59

Year	Coverage,[2] end of year (in thousands)			Employer contributions (in millions)			Employee contributions (in millions)			Number of beneficiaries, end of year (in thousands)			Amount of benefit payments (in millions)			Reserves, end of year (in billions)		
	Total	Insured	Noninsured	Total	Insured	Noninsured	Total	Insured	Noninsured	Total	Insured	Noninsured	Total[3]	Insured	Noninsured[3]	Total	Insured	Noninsured
1950	9,800	2,600	7,200	$1,750	$720	$1,030	$330	$200	$130	450	150	300	$380	$90	$290	$11.7	$5.6	$6.1
1951	11,000	2,900	8,100	2,260	820	1,440	380	210	170	540	170	370	460	110	350	14.2	6.6	7.6
1952	11,700	3,200	8,500	2,510	910	1,600	430	240	190	650	200	450	540	130	410	16.9	7.7	9.2
1953	13,200	3,400	9,800	2,930	1,010	1,920	480	260	220	750	230	520	620	150	470	19.8	8.8	11.0
1954	14,200	3,600	10,600	2,930	1,030	1,900	510	270	240	880	270	610	720	170	550	23.1	10.0	13.1
1955	15,400	3,800	11,600	3,190	1,100	2,090	550	280	270	990	300	690	860	200	660	26.5	11.2	15.3
1956	16,800	4,000	12,800	3,490	1,110	2,380	610	290	320	1,110	340	770	1,010	230	780	30.3	12.4	17.9
1957	18,200	4,400	13,800	3,900	1,230	2,670	680	300	380	1,250	380	870	1,150	260	890	34.8	14.0	20.8
1958	19,000	4,500	14,500	3,970	1,270	2,700	710	310	400	1,410	440	970	1,300	300	1,000	39.3	15.5	23.8
1959	20,200	4,800	15,400	4,420	1,340	3,080	760	340	420	1,590	500	1,090	1,520	350	1,170	44.8	17.5	27.3

[1] Includes pay-as-you-go, multi-employer, and union-administered plans, those of nonprofit organizations, and railroad plans supplementing the Federal railroad retirement program. Insured plans are underwritten by insurance companies; noninsured plans are in general funded through trustees.

[2] Excludes annuitants.

[3] Includes refunds to employees and their survivors and lump sums paid under deferred profit-sharing plans.

Source: Social Security Administration, Division of the Actuary.

Age and Service Requirements

Virtually every pension plan requires that the worker attain a specified age, usually 65, to be eligible for normal retirement benefits.[9] In addition, most plans require a minimum number of years of service, usually 10 or 15 under union-negotiated plans and 5–10 under other plans.

The Bankers Trust Company studies show little trend toward reducing the normal retirement age, except for such special groups of employees as salesmen and airline pilots. There seems to be some tendency, however, toward reducing the service requirement that an employee must meet to qualify for full benefits. Half the conventional plans reported in 1955 that more than 5 years of service were required for a normal retirement pension, but by 1959 the ratio had dropped to 44 percent.[10] Among pattern plans, the proportion requiring 15 years or more of service dropped from 59 percent in 1952 to 47 percent in 1955 and to 41 percent in 1959.

The normal retirement age, however, is not always the compulsory retirement age. In many plans, retirement may be deferred beyond normal retirement age at the employee's option, sometimes indefinitely and sometimes to a specified age. Even when a compulsory age requirement is specified, retirement may be postponed with the employer's consent.

The Bankers Trust Company found in its 1956–59 study that about 75 percent of the pattern plans and 21 percent of the conventional plans permitted an employee to work after normal retirement age if he wishes. More than one-third of the pattern plans with such options and three-fourths of the conventional plans specified no compulsory retirement age at all; the remainder specified ages 66–70. The situation has changed little in recent years, except for some tendency among conventional plans to eliminate the compulsory age requirement.

Most pension plans permit retirement before attainment of normal retirement age, either at the employee's or the company's election or at the employee's election subject to the company's consent. Early retirement provisions are much more common in conventional plans than in union-negotiated plans, but in recent years an increasing number of collectively bargained plans—especially in the steel, aluminum, and fabricated-steel products industries—have been adopting such provisions.

The Bankers Trust Company reports that 88 percent of the pattern plans in 1959 contained early retirement provisions and 56 percent in 1952. The proportion of conventional plans with such provisions rose from 84 percent to 96 percent during this period.

There has been a significant growth in the number of plans that permit early retirement simply at the employee's election. In 1959 about two-thirds of the pattern plans and in 1952 about one-third permitted retirement at the employee's option. Among conventional plans, the increase has been from 27 percent to 51 percent.

Early retirement under both pattern and conventional plans usually requires the attainment of age 55 or 60, plus 10–15 years of service. Benefits, of course, are almost invariably lower than normal retirement benefits. Usually they are reduced actuarially or on the basis of a formula that more or less compensates for the increased cost of early retirement. Some plans permit the retiring worker to defer receipt of benefits until the normal retirement age, and the benefits are then usually higher. A few plans provide additional benefits when retirement takes place at the employer's request, and some plans adjust the benefit amount before and after old-age, survivors, and disability insurance benefits become payable, so that employees will receive a level income from both sources from the time of early retirement.

Another form of early retirement occurs when a worker is retired prematurely because of total and permanent disability. Many pension plans contain formal provisions for disability retirement; others, especially conventional plans, may rely on the regular early retirement provisions for the purpose of granting retirement benefits to disabled workers.

The union-negotiated plans have generally contained formal provisions for disability retirement. Such provisions are less common among conventional plans but are growing in importance. The Bankers Trust Company found that 84 percent of the pattern plans in 1959 included

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[9] A few plans specify a lower retirement age for women.

[10] These data on service requirements have been adjusted for the plans that do not credit preparticipation service in determining eligibility for benefits and computing the benefit amount.

formal disability provisions, compared with 80 percent in 1955 and 88 percent in 1952. Among conventional plans, those with disability provisions increased from 35 percent in 1952 to 59 percent in 1959. A review by the Bureau of Old-Age and Survivors Insurance of existing surveys has indicated that an estimated three-fourths of the employees under all types of pension plans are members of plans that provide disability benefits.[11]

The vast majority of plans require an employee to serve a specified period of time—usually 15 years—before qualifying for disability benefits. An age requirement is much less common. The Bureau of Old-Age and Survivors Insurance survey indicated that probably half of the employees with disability protection had no age requirement to meet.

It is not known what proportion of the estimated 1.6 million beneficiaries listed in table 1 were receiving benefits at the end of 1959 as a result of early retirement or disability retirement provisions. It is estimated that more than 200,000 were not drawing old-age retirement benefits under the Federal programs of old-age, survivors, and disability insurance or railroad retirement, but many of these may not have qualified because of insufficient covered employment rather than failure to meet the age requirement (65 for men and 62 for women).

Benefit Formulas

Benefits under pension plans are generally computed in one of three ways: (1) They may be related to the worker's earnings and length of credited service, (2) they may be related to the length of credited service only, or (3) a uniform (flat) benefit may be provided to all workers who fulfill specified service requirements.

Under the first formula, the benefit is usually expressed as a proportion of the compensation earned while in the plan or in the employer's service—such as 1 percent, 1½ percent, or 2 percent of each year's compensation. Sometimes the percentage is applied to the average compensation in the most recent or highest 5 or 10 years of the employee's service, and the result is multiplied by the number of years of creditable service. The percentage may be smaller for past service (service before the plan's inception) and may apply to the rate of compensation on a fixed date (before the plan was inaugurated). Many plans apply a smaller percentage, often 1 percent, to the first $3,000, $3,600, $4,200, or $4,800 of annual compensation. (These amounts correspond to the maximum taxable wage base under the old-age, survivors, and disability insurance program at the time the plans were adopted or amended.) A larger percentage, which may be 1½ percent or 2 percent, is then applied to the remainder.

When the second formula is used, the benefit is expressed in terms of a flat dollar amount (such as $1.00, $1.50, or $2.50 monthly) for each year of service, based on the employee's entire service or on a specified maximum number of years—say, 30. A variation of this type of formula is the provision for a flat benefit, such as $150.00 monthly, after a specified period of service (25 years), reduced proportionately for less service.

The third formula provides a flat uniform benefit, such as $100 a month, after a specified period of credited service. The fixed amount is both the minimum and the maximum.

Plans using the first formula generally employ also an alternative formula to guarantee a minimum benefit. Such minimums take the form of either a flat dollar amount or a minimum percentage of the employee's compensation and are based on a minimum period of service. When the second formula is used, the minimum guarantees are generally inherent in the basic formulas.

Some evidence of the trends in benefit formulas under union-negotiated plans is available from a BLS continuing study of 300 pension plans under collective-bargaining agreements.[12] Of the 300 plans in effect as of late 1952 and late 1959, 219 were common to both years. Individual plans covered from a thousand to several hundred thousand workers; combined, they covered almost 5 million workers in various manufacturing and nonmanufacturing industries. Col-

[11] Joseph Krislov, *Age and Service Requirements for Total and Permanent Disability Benefits in Private Pension Plans*, Bureau of Old-Age and Survivors Insurance, Division of Program Analysis (Analytical Note No. 108), February 1960.

[12] Bureau of Labor Statistics, *Pension Plans Under Collective Bargaining* (Bulletins No. 1147 and No. 1284), 1953 and 1961.

lectively bargained pension plans are estimated to cover about half the employees under private pension plans.

The BLS studies reveal a sharp percentage increase in the coverage of plans governed by the first formula and a decrease in those governed by the other two. In 1952, only 19 percent of the employees under union-negotiated plans had their benefits affected solely by length of service, compared with 48 percent in 1959. Plans in which the benefits were geared to both earnings and length of employment accounted for 58 percent of the employees in 1952 and 37 percent in 1959, and plans providing flat benefits showed a drop from 23 percent to 15 percent in the proportion of employees affected.

Disability benefits, usually payable after a 6-month waiting period, are generally related to the amount of the normal pension that the employee has accrued, based on his service to the date of his disability retirement. The disability benefit may be (1) the actuarial equivalent of the accrued pension; (2) the full accrued pension without actuarial adjustment—that is, the full normal retirement benefit for equivalent service and earnings; or (3) the full accrued pension plus an additional benefit payable until the employee reaches age 65 or becomes eligible for old-age, survivors, and disability insurance payments, at which time the benefit is recomputed according to the normal retirement formula.

The third and second methods are most prevalent, in that order, among pattern plans, and the second and first methods among conventional plans. Disability benefits, except those based on the actuarial equivalent, are frequently reduced by the amount of disability benefits received under a public program such as workmen's compensation or old-age, survivors, and disability insurance. The offsets are more common in the pattern plans than in the conventional plans, but the general trend has been toward eliminating such provisions.

Liberalization of Benefits

The past few years have been notable for the continuing effort made by labor and management to keep pensions in line with the rising cost of living. Benefit levels have been raised through various methods—adoption of benefit formulas that base pensions on "final average" earnings rather than "career-average" earnings; increases

TABLE 2.—Illustrative monthly benefits payable to hourly workers under 13 private retirement plans, selected years 1952–59

[Benefit amounts reflect effect of eligibility requirements where applicable]

Plan	Benefit at age 65 [1] after 30 years of continuous service, assuming level monthly wage of—					
	$350			$400		
	1952	1955	1959	1952	1955	1959
Ford Motor Co:[2]						
Plan only	$40.00	$67.50	$75.00	$40.00	$67.50	$75.00
Plan and OASDI [3]	125.00	176.00	191.00	125.00	176.00	201.00
Goodyear Tire and Rubber Co:[2]						
Plan only	62.50	54.00	75.00	77.50	65.75	75.00
Plan and OASDI	147.50	162.50	191.00	162.50	174.25	201.00
Westinghouse Electric Co:[2]						
Plan only	20.00	51.00	67.50	35.00	51.00	67.50
Plan and OASDI	105.00	159.50	183.50	120.00	159.50	193.50
United Mine Workers Welfare and Retirement Fund:[4 5]						
Plan only	100.00	100.00	100.00	100.00	100.00	100.00
Plan and OASDI	185.00	208.50	216.00	185.00	208.50	226.00
Amalgamated Clothing Workers:[4 6]						
Plan only	50.00	50.00	50.00	50.00	50.00	50.00
Plan and OASDI	135.00	158.50	166.00	135.00	158.50	176.00
International Ladies' Garment Workers:[4 7]						
Plan only	65.00	65.00	65.00	65.00	65.00	65.00
Plan and OASDI	150.00	173.50	181.00	150.00	173.50	191.00
United States Steel Corp:[8]						
Plan only	20.00	55.00	[9] 78.00	35.00	55.00	[9] 78.00
Plan and OASDI	105.00	163.50	[9] 194.00	120.00	163.50	[9] 204.00
Aluminum Co. of America:[8]						
Plan only	38.90	55.00	78.00	56.60	65.00	78.00
Plan and OASDI	123.90	163.50	194.00	141.60	173.50	204.00
Consolidated Edison Co. of New York [8]						
Plan only	125.00	146.00	173.00	155.00	179.00	201.00
Plan and OASDI	210.00	254.50	289.00	240.00	287.50	327.00
du Pont (E. I.) de Nemours & Co:[8]						
Plan only	81.00	116.00	116.00	97.00	132.00	132.00
Plan and OASDI	166.00	224.50	232.00	182.00	240.50	258.00
General Electric Co:[8]						
Plan only	102.00	84.00	84.00	132.00	114.00	96.00
Plan and OASDI	187.00	192.50	200.00	217.00	222.50	222.00
Cities Service Co:[8]						
Plan only	102.50	96.25	96.25	122.50	116.25	110.00
Plan and OASDI	187.50	204.75	212.25	207.50	224.75	236.00
Johnson and Johnson:[8]						
Plan only	108.00	94.50	94.50	135.00	121.50	113.40
Plan and OASDI	193.00	203.00	210.50	220.00	230.00	239.40

[1] Prospective benefit for 30 years' future service for employee beginning service Dec. 31 of indicated year.
[2] Present benefit formula based on flat dollar amount per month for each year of service.
[3] Represents old-age (primary) benefits throughout the table.
[4] Present benefit formula consists of flat uniform amount for all retirees with specified years of service.
[5] Bituminous coal industry.
[6] Men's and boys' clothing industry.
[7] Cloak and Suit Joint Board, New York City.
[8] Present benefit formula relates benefits to wages and service.
[9] Benefit formula effective as of Jan. 1, 1960.

in the percentage of compensation or the flat dollar amounts credited for each year of service; elimination or reduction of the offset for old-age, survivors, and disability insurance benefits; adoption of minimum pensions as an alternative benefit formula; and establishment of variable-annuity plans or plans that tie pensions to a cost-of-living index.

In times of rising prices, a formula that relates benefits to compensation in the final years of service has an advantage over a formula that relates benefits to compensation during an entire worklife; the pensions then reflect more closely the employee's living standards and costs at the time of retirement. The Bankers Trust studies disclose that the proportion of conventional plans basing benefits in whole or in part on compensation only in the terminal years of service rose from 28 percent in 1952 to 44 percent in 1959.

Among pattern plans that gear benefits to length of employment alone, the Bankers Trust Company reports that the median benefit credited for each year of service increased from $20 a year in 1955 to $27 in 1959. They also report a trend toward eliminating the maximum limitation on the period of creditable service, which has had the effect of increasing benefits for longer-service employees. Fifty-two percent of the pattern plans in 1959 but 37 percent in 1955 set no ceiling.

The practice of taking directly into account the benefits payable under the old-age, survivors, and disability insurance program in determining the private pension benefit has been declining in recent years. The effect of discarding these "offsetting" arrangements has been to raise benefit levels, since the retiree receives any increase in benefits under the Federal program without an accompanying reduction in the amount of benefit payable by the plan.

In 1952, 49 percent of the employees included in the BLS studies of collectively bargained plans had their old-age, survivors, and disability insurance benefits deducted in full or in part from the computed pensions; by 1959, the ratio had dropped to 21 percent.[13]

The majority of the union-negotiated plans with offset provisions in 1959 followed the basic pattern in the steel industry by freezing the offset at $85 a month—the maximum old-age benefit under the Social Security Act at the time the offset was incorporated in the basic formula of the steel plans. In 1952, in contrast, three-fifths of the employees under plans with offset provisions had their entire Federal old-age benefit amount deducted from the private pension.

The Bankers Trust Company shows that only 10 percent of the conventional plans in 1959 made deductions from their regular pensions for the Federal benefits, compared with 18 percent in 1955.

The adoption of minimum benefit formulas, especially in combination with "final average pay" formulas, has become an increasingly popular method of assuring that benefits will keep up with current compensation. According to the Bankers Trust Company, 44 percent of the conventional plans in 1959 had minimum benefit provisions, and one-third of them used a final average minimum. Four years earlier, minimum benefits were provided by 39 percent of the plans, of which less than one-sixth had final average minimums.

Among union-negotiated plans, most of which have always included minimums, the trend has been toward liberalizing the amounts and making them independent of old-age, survivors, and disability insurance payments.

Finally, variable-annuity and other types of plan that automatically adjust pensions to changes in cost-of-living indexes have attracted much interest as methods of assuring retirees of adequate income. Despite this interest, only a limited number of such plans have been adopted in recent years, according to the Bankers Trust Company. In the variable-income plan, the usual objective is to place 50 percent of an employee's benefit on a fixed basis and the other 50 percent on a variable basis that will fluctuate with the investment experience of a common stock fund.

The rise in aggregate benefit payments shown in table 1 reflects not only the addition of new persons to the pension rolls but also the efforts to liberalize benefit formulas. Since 1950, benefit outlays have quadrupled (while the number of pensioners has increased 3½ times), and each year has seen the increase in total benefit expendi-

[13] An additional 10 percent in 1959 had their old-age, survivors, and disability insurance benefits integrated with private pensions by using different benefit formulas for workers with earnings below and above the taxable limits under the Social Security Act. The number affected by such provisions in 1952 is not known.

tures exceed the preceding year's advance. The rise in benefit payments of $220 million in 1959, to a record high of $1,520 million, was also the largest percentage increase since 1956.

Benefit Amounts

Table 2 presents a comparison of the future benefit levels (with and without old-age, survivors, and disability insurance benefits) for hourly workers under the benefit formulas of 13 well-known private pension plans for selected years 1952–59. Examples are shown of the amount of monthly retirement benefits that would be payable at age 65 to workers with 30 years of continuous service and level monthly wages of $350 and $400 under the "future service" formulas in effect as of December 31 of the year shown and according to the old-age, survivors, and disability insurance provisions then in effect. Full benefits under the Social Security Act are assumed payable at age 65 for the given level monthly wage. In terms of the provisions in effect in 1959, this would mean a monthly old-age benefit of $116 for the $350-a-month worker and $126 for the $400-a-month worker.[14] (In 1952, the maximum benefit was $85 for both categories of workers.)

At present, seven of the 13 plans base benefits on earnings and service, three pay a flat monthly amount for each year of creditable service, and three—all multi-employer plans—pay flat monthly benefits to all eligible retirees.

Three of the plans have benefits offset by part of the primary insurance amount under old-age, survivors, and disability insurance (either by deducting half that amount or a fixed amount that had been "frozen" on the basis of an old-age, survivors, and disability insurance formula in effect in past years). Three other plans provide a relatively smaller benefit for the portion of wages used in determining the amount of the Federal insurance benefit than for wages above this level.

The increase among these 13 plans in prospective total benefits (including old-age, survivors, and disability insurance payments) during the period 1952–59 ranged from 7 percent to 85 percent for the $350-a-month worker and from 2 percent to 70 percent for the $400-a-month worker. In some instances the plan benefits alone showed a greater percentage increase than did total benefits.

All but one plan in 1959 promised to provide total benefits (including old-age, survivors, and disability insurance payments) that would exceed half the preretirement earnings for the $350-a-month worker after 30 years of service; in 1952 only five of the 13 plans did so. The number of plans designed to provide the 30-year, $400-a-month worker with benefits equaling more than half his preretirement income increased from four to 10 during this period. In general, the plans—some of them contributory—that geared benefits to earnings provided higher benefits. The Bureau of Labor Statistics, on the basis of 1959 provisions in 300 plans and using the same assumptions used in table 2, has computed the prospective average monthly retirement income (including old-age, survivors, and disability insurance benefits) for the $400-a-month worker as $206.76 or 51.7 percent of preretirement income. On the average, workers with earnings of more than $400 a month would receive a smaller proportion of their preretirement monthly income.

Influential in raising combined benefit levels during this period were the Social Security Act amendments of 1954 and 1958, which liberalized the benefit amount and raised the taxable earnings base to $4,200 and $4,800, respectively. (The base under the 1950 amendments had been $3,600.)

The three multi-employer plans[15] that paid flat uniform benefits made no change in their benefits from 1952 to 1959. Since these plans had no offset for old-age, survivors, and disability insurance, the total benefit increase shown in the table is due to the amendments.

The three plans[16] that used different benefit formulas for workers earning more and those earning less than the taxable limits under the Federal program changed their formula to correspond with the higher earnings base in the law. The overall effect of these changes during 1952–59 was to reduce the plan benefit while allowing the total benefit to increase slightly.

[14] The potential maximum of $127 will not normally be possible for workers who reached age 27 before 1959.

[15] The United Mine Workers Welfare and Retirement Fund, the Amalgamated Clothing Workers, and the International Ladies' Garment Workers.

[16] The General Electric Company, the Cities Service Company, and Johnson and Johnson.

For the three plans [17] having offsets for old-age, survivors, and disability insurance the passage of the amendments generally led to changes in the plan's benefit formula; the amount of the offset was frozen or reduced, for example, and/or the minimums and percentage factors used in the basic formula were increased. The net effect for the period under review was relative increases in the plan benefits for the $350-a-month worker that equaled or exceeded the increases in total benefits. In one plan (Consolidated Edison), the percentage increase in the plan benefit at the $400 level was less than that in total benefits.

The remaining four plans had their benefits increased as the result of a combination of factors. In all of them, the offset for old-age, survivors, and disability insurance was eliminated (three by 1955 and one [18] by 1959), and at the same time three of the plans shifted from a wage-related or flat-benefit formula to a formula that provided a flat monthly amount per year of service. Successive increases in this flat monthly amount (plus the elimination of the offset) generally produced increases in plan benefits as a proportion of combined old-age, survivors, and disability insurance and private plan benefits.

Vesting

The term "vesting" refers to the right of an employee to terminate his employment before retirement without forfeiting the accrued pension resulting from his employer's contributions.[19] Vesting can be established through a special provision in the pension plan or indirectly, through an early retirement provision at the employee's election. Under the first arrangement, the pension is usually deferred until normal retirement age or optional earlier retirement age; under the second, the pension is payable immediately. Sometimes the worker is offered the option of an immediate cash payment of all the employer's contributions to his account.

Vesting is usually conditioned upon the completion of a stated period of service or participation (5–20 years), the attainment of a specified age (40–60), or both. Vesting is "full" in some plans, and in others, for employees who meet the minimum requirement, it may be "graded"—that is partial but gradually becoming full when the employee meets all the requirements.

The Bankers Trust Company studies reveal a pronounced trend, especially among union-negotiated plans, in the direction of giving vested rights to employees. Of the pattern plans in 1959, 82 percent provided some form of vesting, compared with 41 percent in 1955 and 33 percent in 1952. The main impetus for this development has come from the steel and automobile plans, which adopted special vesting provisions independent of the early retirement provisions. Among conventional plans, which have had a longer history of providing for vesting, 90 percent had vesting provisions in 1959, compared with about three-fourths of the plans in 1952 and 1955.

Another arrangement that provides a form of vesting is found in multi-employer pension plans. The worker carries his "portable" pension credits from one employer to another and accumulates his credits as long as he works for an employer covered by the plan. Generally such plans are limited to employees in the same occupation or industry.

TECHNICAL NOTE

"Employee-benefit plan" is defined in this article as 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, and local). In general, the intent is to include plans that provide in an orderly, predetermined fashion for (1) income maintenance during periods when regular earnings are cut off because of death, accident, sickness, retirement, and unemployment and (2) benefits to meet certain specified expenses usually associated with illness or injury. The series thus excludes such fringe benefits as paid vacations, holidays, and rest periods; leave with pay (except formal sick leave);

[17] The United States Steel Corporation, the Aluminum Company of America, and the Consolidated Edison Company of New York.

[18] Goodyear Tire and Rubber Company.

[19] When a worker has contributed to the plan, he is almost invariably permitted to withdraw his own contributions, with or without interest, on termination of employment.

savings and stock purchase plans; discount privileges; and free meals.

Private plans written in compliance with State temporary disability insurance laws are included in the series, but workmen's compensation and statutory provisions for employer's liability are excluded. Severance-pay provisions are included only to the extent that they are linked with the supplemental unemployment benefit plans.

Estimates of coverage, contributions, and benefits are based for the most part on reports by private insurance companies and other nongovernment agencies. Many of these reports include data for persons who are no longer currently employed as wage and salary workers because of retirement, temporary layoff, sickness, or shift in jobs. No attempt has been made to adjust the data for any overstatement that might result from the inclusion of such persons. The one exception is the coverage estimates for pension plans, which have been adjusted to eliminate annuitants.

Contributions under insured pension plans are on a net basis, with dividends and refunds deducted. Those under noninsured plans are for the most part on a gross basis, and refunds appear as benefit payments. For pay-as-you-go plans, contributions have been assumed to equal benefit payments.

The number of beneficiaries under pension plans relates to those in receipt of periodic payments at the end of the year, thus excluding those receiving lump sums during the year.

The retirement benefits under noninsured plans include (1) refunds of employee contributions to individuals who withdraw from the plans before retirement and before accumulating vested deferred rights, (2) payments of the excess of employee contributions to survivors of pensioners who die before they receive in retirement benefits an amount equal to their contributions, and (3) lump-sum payments made under deferred profit-sharing plans. Because the source of the data from which the estimates have been developed does not make it possible to distinguish between these lump-sum benefits and the amounts representing monthly retirement benefits, average monthly or annual retirement benefit amounts cannot be derived.

The estimates of coverage exclude employees who have not yet met the age and/or service requirements for participation in the pension plan. Allowance is made for overlap between plans of different types. Many of the employees covered under trade-union plans, for example, are also members of other plans. Because employees covered under both insured and noninsured plans have been counted under the former category, the total number under noninsured plans is somewhat understated.