

Employee-Benefit Plans, 1954-62

by JOSEPH KRISLOV*

The Social Security Administration has presented periodic reviews, starting with data for 1954, of major developments in the plans sponsored and underwritten by private organizations to help employees—and their families—meet the economic risks attending old age, death, disability, unemployment, and the cost of medical care. This year's review highlights plan experience in 1962, the growth of the plans during the period 1954-62, and the scope and adequacy of the protection that they provide.

BY THE END of 1962, employee-benefit plans were covering 111 million persons—workers and their dependents—under some form of health insurance, 52 million under life insurance, and 23 million under private retirement plans. Reflecting 1962's generally favorable economic conditions, most of the major types of plans showed gains in coverage, contributions, and benefits that exceeded those in 1961. In fact, 1962 was the first year in which both benefits and contributions registered an increase of more than \$1 billion. Total contributions to employee-benefit plans in 1962 were \$14.4 billion, and benefit payments amounted to \$9.8 billion.

An "employee-benefit plan," as defined here, is 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). In general, the intention 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, or unemployment and (2) benefits to meet expenses associated with illness or injury.

Government employees who are covered by plans underwritten by nongovernmental agencies

are included in the series, whether or not the government unit contributes (as an employer) to the financing of the program. Specifically included here are plans providing government employees with group life insurance, accidental death and dismemberment insurance, and hospital, surgical, regular medical, and major-medical-expense insurance. Retirement and sick-leave plans in which the government in its capacity as employer pays benefits directly to its employees are excluded.

HIGHLIGHTS OF 1962

Three Federal laws affecting employee-benefit plans were enacted in 1962: (1) the Self-Employed Individual's Tax Retirement Act (Public Law 87-792); (2) the Welfare and Pension Plans Disclosure Act Amendments (Public Law 87-40); and (3) legislation permitting tax deductions for employer contributions to private pension plans that include health-care benefits for retired employees and their families (included in Public Law 87-863).

Enacted after more than a decade of legislative consideration, the Self-Employed Individual's Tax Retirement Act encourages the establishment of pension plans by the self-employed (an estimated 7 million persons) by permitting a tax deferral on the amounts contributed to qualified retirement funds. To qualify, a self-employed person must provide a retirement plan for all his full-time employees who have 3 or more years of service.

The most important changes made in the Welfare and Pension Plans Disclosure Act are those requiring the bonding of persons handling funds and other properties of pension and welfare funds, making certain actions violations of the United States Criminal Code, providing for the establishment of an Advisory Council, and authorizing the Secretary of Labor to issue rules and regulations and to conduct investigations with respect to violations of the act.

* Division of Research and Statistics. Earlier articles in this series have appeared in the March or April issue of the *Bulletin*.

As in previous years, collectively bargained contract settlements were the highlights among the improvements in employee-benefit plans. Particularly prominent in 1962 was the settlement in the basic steel industry, which did not change wage rates but made several improvements in the plans.¹ Supplemental unemployment benefit levels in the industry were increased, a new short-week benefit was introduced, and the employer contribution was increased substantially. In addition, a new "savings and vacation" plan was adopted. Employees were given credits of 1 week's pay for each 5 years of service before 1961, plus credit for each 2-year period of service after 1960. The latter credits may be used as pay for extra vacation time, during sickness, during layoff after supplemental unemployment benefits are exhausted, or at termination or retirement. Following the general pattern among pension plans, the agreements also included several provisions to encourage retirement. Similar settlements were negotiated by the United Steelworkers of America in the aluminum, can, and related industries.

In 1962 the Progress Sharing Plan, negotiated in 1961 between the American Motors Corporation and the United Automobile Workers, made its first annual distribution of profits. The year's results—generally considered favorable—suggest that the union may seek to negotiate additional profit-sharing plans. Of the \$9.7 million available for distribution in 1962 to the 27,000 hourly employees of the American Motors Corporation, two-thirds was allocated to finance the increased cost of the supplemental unemployment benefit plan. Individual employees received the remainder in the form of company stock; the average was 7.3 shares per employee. An employee's accumulated shares will be transferred to him (or his dependents) if he has been laid off at least 1 year and has exhausted his unemployment benefits, if he has a long-term illness or disability, if his job is terminated, or if he retires or dies.

Some progress was reported during 1962 in extending two comparatively new types of employee-benefit plans—dental insurance and long-term disability insurance. Dental insurance plans were adopted by a few employers and health and wel-

fare funds in 1962, and it was estimated that about 1.5 million persons had some coverage at the end of the year.²

The other relatively new plan—long-term disability insurance—is designed for middle- and high-income employees to supplement sick-leave plans and insurance plans paying benefits during a short-term disability. Under the long-term plans, payments are made to totally disabled persons who have exhausted their short-term benefits. About two-thirds of the long-term disability policies of one large insurance company limited their coverage to salaried employees, and many further limited coverage to those employees whose salary exceeded specified limits—typically \$4,800 or \$6,000. Benefits as a percentage of earnings typically provided 50 percent or less of the employee's income, with average maximum monthly benefits ranging from \$535 to \$1,550.

TRENDS, 1954-62

The major types of employee-benefit plans increased their coverage substantially during the period under review. Contributions more than doubled, and benefits almost tripled. Tables 1, 2, and 3 show the trend for each type of employee-benefit plan.

Coverage

At the end of 1962, life insurance was the most common form of employee protection, covering 47.9 million employees (table 1). Hospitalization—the most common benefit in the early years of the series—was second in 1962 and covered 43.2 million employees. Health plans, however, cover significantly more dependents than life insurance. Hospital-expense insurance covered 67.5 million dependents; surgical-expense insurance, 64.4 million; and medical-expense insurance, 49.6 million. In contrast, life insurance plans covered only 4.2 million dependents.

The basic health programs registered bigger

¹ For details, see Department of Labor, Bureau of Labor Statistics, *Current Wage Developments*, April 1, 1962, pages 3-5.

² Lee R. Farmer, "Pioneering Dental Insurance," and Kenneth C. Nichols, "Long-term Disability," *Addresses Presented at the 1963 Group Insurance Forum*, Health Insurance Association of America, 1963.

gains in 1962 than in 1961, both absolutely and relatively. Hospital-expense insurance added 1.9 million employees and 2.8 million dependents to its rolls in 1962, compared with 0.9 million employees and 1.6 million dependents in 1961. Surgical-expense insurance reported 5.0 million new subscribers—2.0 million employees and 3.0 million dependents; of the 2.0 million added in the preceding year, 0.7 million were employees and 1.3 million were dependents. Temporary disability

insurance reported an impressive advance of 1.2 million in 1962, compared with only 0.3 million in 1961.

Some programs had smaller gains in 1962 than in 1961. Major-medical-expense insurance added only 3.6 million subscribers in 1962, compared with 5.9 million in the preceding year. In fact, the 1962 increase was the smallest for the period under review. Coverage under life insurance and private retirement plans increased less in 1962

TABLE 1.—Estimated number of wage and salary workers and their dependents covered under employee-benefit plans, ¹ by type of benefit, December 31, 1954 and 1956-62

[In millions]

Year	Benefits for all wage and salary workers							Benefits for wage and salary workers in private industry			
	Life insurance and death ²	Accidental death and dismemberment ³	Hospitalization ^{4 5}		Surgical ⁴	Regular medical ⁴	Major medical expense ^{4 6}	Temporary disability including formal sick leave ⁷		Supplemental unemployment ⁸	Retirement ⁹
			Total	Written in compliance with law				Total	Written in compliance with law		
	Total										
1954.....	30.9	14.0	75.3	1.4	66.2	38.1	1.9	22.9	6.7	-----	14.2
1956.....	37.8	17.3	89.0	1.5	82.0	54.6	8.3	25.2	7.1	2.0	16.8
1957.....	40.5	18.4	93.9	1.6	87.8	60.7	12.4	25.8	7.2	1.9	18.1
1958.....	41.8	18.7	95.0	1.4	89.5	63.6	16.2	24.9	6.8	1.7	18.8
1959.....	44.8	19.7	98.1	1.5	93.5	69.7	20.3	25.3	6.9	1.9	19.9
1960.....	46.5	20.9	103.5	1.2	98.8	74.8	25.6	25.5	6.8	1.7	21.2
1961.....	49.5	21.3	106.0	1.1	100.8	78.1	31.5	25.8	6.8	1.8	22.2
1962.....	52.1	22.6	110.7	0.9	105.8	82.8	35.1	27.0	6.8	1.8	23.1
	Employees										
1954.....	29.8	14.0	31.1	1.4	27.8	17.0	0.8	22.9	6.7	-----	14.2
1956.....	35.5	17.3	35.6	1.5	33.2	22.7	3.6	25.2	7.1	2.0	16.8
1957.....	37.8	18.4	37.1	1.6	35.0	24.9	5.1	25.8	7.2	1.9	18.1
1958.....	39.0	18.7	37.2	1.4	35.2	25.7	6.3	24.9	6.8	1.7	18.8
1959.....	41.8	19.7	38.3	1.5	36.7	28.1	7.8	25.3	6.9	1.9	19.9
1960.....	43.4	20.9	40.4	1.2	38.7	30.0	9.7	25.5	6.8	1.7	21.2
1961.....	45.9	21.3	41.3	1.1	39.4	31.2	11.6	25.8	6.8	1.8	22.2
1962.....	47.9	22.6	43.2	0.9	41.4	33.2	12.9	27.0	6.8	1.8	23.1
	Dependents										
1954.....	1.1	-----	44.2	-----	38.4	21.1	1.1	-----	-----	-----	-----
1956.....	2.3	-----	53.4	-----	48.8	31.9	4.7	-----	-----	-----	-----
1957.....	2.7	-----	56.8	-----	52.8	35.8	7.3	-----	-----	-----	-----
1958.....	2.8	-----	57.8	-----	54.3	37.9	9.9	-----	-----	-----	-----
1959.....	3.0	-----	59.8	-----	56.8	41.6	12.5	-----	-----	-----	-----
1960.....	3.1	-----	63.1	-----	60.1	44.8	15.9	-----	-----	-----	-----
1961.....	3.6	-----	64.7	-----	61.4	46.9	19.9	-----	-----	-----	-----
1962.....	4.2	-----	67.5	-----	64.4	49.6	22.2	-----	-----	-----	-----

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 coverage (Institute of Life Insurance, *Group Insurance Coverages in the United States, 1954, 1956-62*) and self-insured death benefit plan coverage (based on data for various trade-union, mutual benefit association, and company-administered plans). The group life insurance totals include group coverage issued through credit unions and alumni and other groups, as well as through trade unions and professional associations and the usual employer-employee groups.

³ Data from the Institute of Life Insurance (see footnote 2).

⁴ Data from *Extent of Voluntary Health Insurance Coverage in the United States* (Health Insurance Council, 1954 and 1956-62) and from the Institute of Life Insurance (see footnote 2). 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 regular medical coverage adjusted to include employees and their dependents covered by group comprehensive major

medical expense insurance.

⁵ Includes private hospital plans written in compliance with State temporary disability insurance law in California.

⁶ Represents coverage under group supplementary and comprehensive major medical insurance underwritten by commercial insurance companies. Comprehensive insurance, which includes both basic hospital-surgical-medical benefits and major medical expense protection in the same contract, covered 3,599,000 employees and 6,153,000 dependents in 1962.

⁷ Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York. Data from the Health Insurance Council (see footnote 4).

⁸ Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent lay-offs.

⁹ Estimated by the Division of the Actuary, Social Security Administration. Includes pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing the Federal railroad retirement program. Data exclude annuitants.

than in 1961. Supplemental unemployment benefit plans failed to show any increase in 1962.

Life insurance plans showed the greatest increase (18.1 million) in employee coverage from 1954 to 1962, and plans providing regular medical-expense insurance ran a close second (16.2 million). Most of the other types of plans also showed substantial growth, ranging from 8.6 million for plans affording benefits for accidental death and dismemberment to 13.6 million for surgical-expense insurance. Temporary disability insurance plans, however, increased their coverage by only 4.1 million, and the coverage of supplemental unemployment benefit plans has changed little since their inception in the mid-1950's.

The greatest relative increase for the period under review took place in the comparatively new field of major-medical-expense insurance, where employee coverage in 1962 was 16 times what it had been in 1954. The unusually high rate of growth reflects the rather low coverage in effect in the earlier year, when fewer than a million employees had that type of protection. Regular medical-expense insurance, which also covered relatively few employees in 1954, experienced a 95-percent rise. The other major plans showed varying but lower percentage increases in coverage during the 8 years.

Contributions

Employer and employee contributions to employee-benefit plans totaled an estimated \$14.4 billion in 1962, an 8-percent rise from the 1961 estimate of \$13.3 billion (table 2). The rate of increase, although slightly higher than in 1960 and 1961, was substantially lower than during most of the 1950's.

The largest dollar increase in contributions in 1962 was for hospitalization (\$313 million). The second largest (\$250 million) was for retirement plans; this rise was substantially greater than those in 1961 and 1960.

Major-medical-expense insurance³ showed the greatest percentage gain (16 percent), but this rate of increase was the lowest recorded since this program's start in the early 1950's. The other two health categories reported increases of 11 percent during 1962. Temporary disability insurance and

³ Data on major-medical-expense insurance refer exclusively to plans underwritten by commercial insurance companies and exclude plans of this type (covering about 4 million persons as of the end of 1961) under Blue Cross and Blue Shield. Contributions and benefit payments for this kind of extended protection under the Blue Cross and Blue Shield plans, however, have been included in the basic health programs, since no specific dollar amounts for such expenditures are available.

TABLE 2.—Estimated total employer and employee contributions¹ under employee-benefit plans,² by type of benefit, 1954 and 1956-62

[In millions]

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962
Total.....	\$6,919.1	\$8,775.7	\$9,919.3	\$10,398.4	\$11,564.0	\$12,339.5	\$13,261.7	\$14,356.1
Benefits for all wage and salary workers:								
Life insurance and death benefits ³	741.1	904.6	1,103.6	1,214.4	1,336.4	1,471.1	1,624.4	1,758.2
Accidental death and dismemberment ⁴	33.5	49.7	56.5	60.9	66.0	70.0	75.0	80.0
Hospitalization ⁵	1,221.4	1,603.2	1,805.5	1,944.9	2,230.3	2,504.8	2,823.3	3,136.2
Surgical and regular medical ⁵	684.2	897.5	1,021.3	1,075.5	1,186.9	1,272.2	1,435.0	1,585.7
Major medical expense ⁷	18.0	94.0	169.0	266.0	357.0	470.0	651.0	753.0
Benefits for wage and salary workers in private industry:								
Temporary disability, including formal sick leave ⁸	780.9	911.7	1,023.4	1,051.7	1,102.4	1,186.4	1,233.0	1,323.0
Written in compliance with law.....	178.1	177.9	218.8	234.4	255.4	242.4	269.2	264.3
Supplemental unemployment benefits ⁹	125.0	170.0	170.0	125.0	125.0	115.0	120.0	160.0
Retirement ¹⁰	3,440.0	4,100.0	4,570.0	4,660.0	5,160.0	5,240.0	5,310.0	5,560.0

¹ Excludes dividends in group insurance, except for 1954 contributions for temporary disability, hospitalization, surgical and regular 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 Group and wholesale life insurance premiums (Institute of Life Insurance, *Group Insurance Coverages in the United States*, 1954 and 1956-62, and self-insured death benefit costs (based on data for various trade-union, mutual benefit association, and company-administered plans).

⁴ Data from Institute of Life Insurance (see footnote 3).

⁵ Data from "Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-62," *Social Security Bulletin*, December 1963. 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.

⁶ Includes private hospital plans written in compliance with State tem-

porary disability insurance law in California; separate data not available for these plans.

⁷ Unpublished data from the Health Insurance Association of America. Represents premiums for group supplementary and comprehensive major medical insurance underwritten by commercial insurance carriers.

⁸ Data from "Income-Loss Protection Against Short-Term Sickness: 1948-62," *Social Security Bulletin*, January 1964. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

⁹ Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent lay-offs. For the steel industry plans, includes accruals of contingent liability contributions as well as regular contributions.

¹⁰ Estimated by the Division of the Actuary, Social Security Administration. Includes contributions to pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

private retirement programs, which had registered only nominal rises during 1961, experienced advances of 8 percent and 5 percent, respectively, in 1962.

Of the total amount contributed in 1962, \$5.6 billion or 39 percent went to private retirement programs. The three health programs accounted for \$5.5 billion, or 38 percent of all contributions to employee-benefit plans. Life insurance (including accidental death and dismemberment) was responsible for 13 percent of the total contributions and temporary disability insurance for 9 percent.

In 1954 the distribution of contributions had been somewhat different. Fifty percent of the total went to retirement programs, 28 percent to health programs, and 11 percent each to life insurance and temporary disability insurance (chart 1).

An accelerated trend has become apparent in more recent years toward an increasing proportion of contributions made to health programs and a decreasing proportion to retirement plans. Contributions to health programs as a proportion of total contributions increased 4 percentage points from 1954 to 1958, but they gained 6 percentage points from 1958 to 1962. Contributions to retirement programs dropped 5 percentage points from 1954 to 1958 and 6 percentage points from 1958 to 1962.

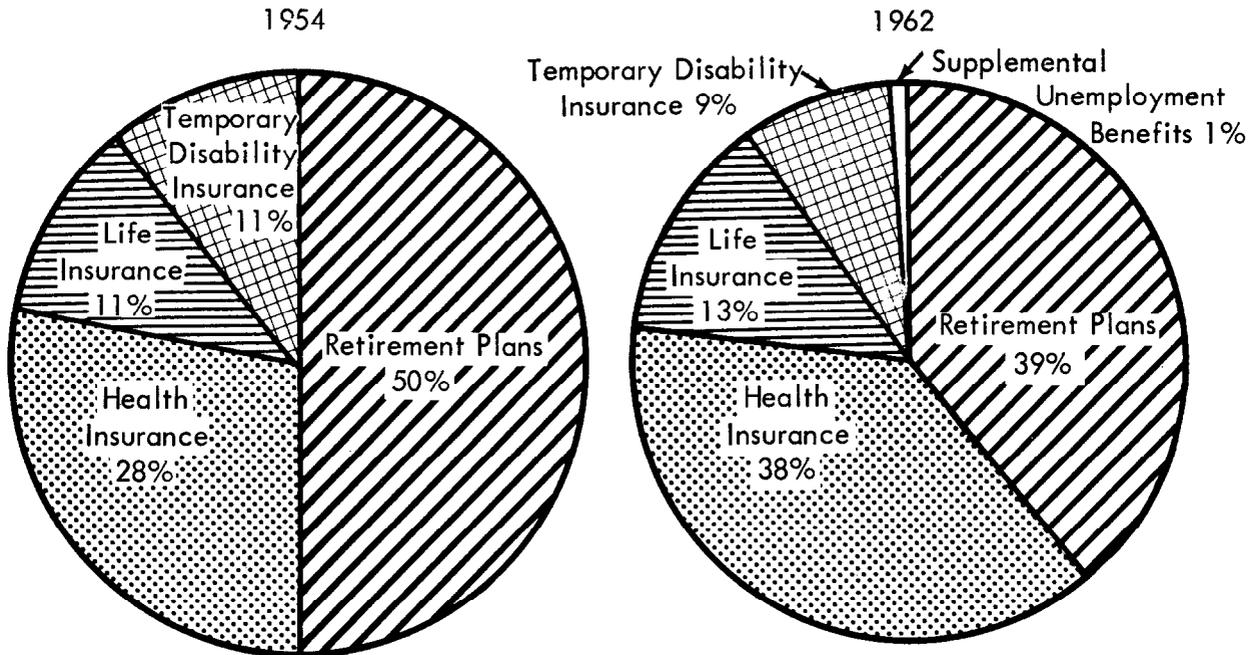
Benefits

Benefit payments for all types of employee-benefit plans totaled \$8.8 billion in 1961 and \$9.8 billion in 1962. The 12-percent increase (table 3) was remarkably close to those in every year since 1958. Accounting for the largest part of the 1962 increase were the expenditures for hospitalization benefits (\$317 million) and retirement benefits (\$230 million). The other health programs and the life insurance programs each accounted for an additional expenditure of more than \$100 million.

In 1962 benefit expenditures from the three health programs totaled \$5 billion, or 51 percent of all benefits paid. Hospitalization benefit expenditures accounted for the largest single outlay (30 percent), and private retirement benefits were second (22 percent). Two programs—surgical-expense and regular medical-expense insurance and life insurance—were each responsible for 14 percent of all benefit payments. Temporary disability insurance and major-medical benefit payments accounted for 12 percent and 7 percent, respectively, of the benefit dollar.

There have been some shifts in the distribution of the benefit dollar since 1954 (chart 2), but these shifts have not been so marked as those for

CHART 1.—Contributions under employee-benefit plans: Percentage distribution, by type of plan, 1954 and 1962



contributions. The growth from less than 1 percent in 1954 to 7 percent in 1962 in the proportion of benefit expenditures for major-medical-expense insurance was a factor in raising the proportion spent for health programs from 47 percent in 1954 to 49 percent in 1958 and to 51 percent in 1962. Private retirement plans were responsible for 20 percent of all benefit payments in 1954 and for 22 percent in 1962. During the same period the proportion of expenditures for temporary disability insurance declined from 18 percent to 12 percent, and life insurance benefit payments declined from 15 percent to 14 percent.

MEASURING REAL GROWTH

Of more significance than changes in the number of covered employees and in the amounts contributed for various types of benefits is the extent to which these changes represent real increases in terms of the total wage and salary labor force and aggregate payrolls. For those types of benefits for which data for government employees are included, table 4 relates coverage and contributions to all employed wage and salary workers and their payrolls. For retirement, temporary disability, and supplemental unemployment benefits, which exclude data for government workers, coverage and contributions are related to the em-

ployed wage and salary labor force and payroll in private industry.

For most types of plans, growth and coverage kept ahead of the growth in the labor force during 1954-62. About 4 out of 5 wage and salary workers were covered by life insurance at the end of 1962, compared with only 56 percent in 1954 (chart 3). Hospital and surgical-expense insurance, which covered 59 percent and 52 percent of the wage and salary labor force, respectively, in 1954, increased coverage at a somewhat slower rate. The rapidly growing major-medical-expense insurance plans increased coverage from less than 2 percent to 21 percent of the wage and salary workers. Private pension plans covered about 3 out of 10 workers in private industry in 1954; by 1962 about 45 percent of the workers were covered. Temporary disability insurance has been a major exception to this rapid growth and since 1957 has shown hardly any advance. Supplemental unemployment benefit plans have also shown little change in the proportion of workers covered since their inclusion in the series in 1956.

For those plans that covered a greater proportion of workers in 1962 than in 1954, growth was generally much greater in the early years of the series. Life insurance, for example, increased its coverage by 14 percentage points from 1954 to 1958 but by only 9 points from 1958 to 1962. Major-medical-expense insurance was an excep-

TABLE 3.—Estimated benefits paid under employee-benefit plans, ¹ by type of benefit, 1954 and 1956-62

(In millions)

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962
Total.....	\$3,533.3	\$4,826.1	\$5,590.3	\$6,293.5	\$6,994.7	\$7,849.5	\$8,754.9	\$9,768.9
Benefits for all wage and salary workers:								
Life insurance and death benefits ²	515.6	662.8	798.2	875.3	948.8	1,055.8	1,169.4	1,294.1
Accidental death and dismemberment ³	25.1	30.5	36.7	42.3	43.0	47.3	58.0	68.8
Hospitalization ^{4, 5}	1,079.9	1,495.4	1,714.1	1,892.7	2,107.6	2,355.0	2,666.2	2,983.3
<i>Written in compliance with law</i>	5.1	6.9	8.8	8.5	8.9	8.0	7.3	6.3
Surgical and regular medical ⁴	552.6	757.9	876.9	929.1	1,024.2	1,116.2	1,239.7	1,360.5
Major medical expense ⁶	10.0	67.0	131.0	233.0	332.0	427.0	562.0	667.0
Benefits for wage and salary workers in private industry:								
Temporary disability, including formal sick leave ⁷	640.1	817.5	892.4	896.1	954.1	1,033.2	1,039.6	1,135.2
<i>Written in compliance with law</i>	132.0	151.2	178.1	189.7	189.5	199.1	201.4	207.5
Supplemental unemployment benefits ⁸		5.0	20.0	135.0	75.0	105.0	100.0	110.0
Retirement ⁹	710.0	990.0	1,130.0	1,290.0	1,510.0	1,710.0	1,920.0	2,150.0

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 insurance benefits (Institute of Life Insurance, *Life Insurance Fact Book*, 1963, 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 "Private Consumer Expenditures for Medical Care and Voluntary Health Insurance, 1948-62," *Social Security Bulletin*, December 1963. 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 Includes private hospital plans written in compliance with State tem-

porary disability insurance law in California, shown separately in next line.

⁶ Unpublished data from the Health Insurance Association of America. Represents benefits paid under group supplementary and comprehensive major medical insurance underwritten by commercial insurance carriers.

⁷ Data from "Income-Loss Protection Against Short-Term Sickness: 1948-62," *Social Security Bulletin*, January 1964. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

⁸ Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed from supplemental unemployment benefit funds covering temporary and permanent layoffs.

⁹ Estimated by the Division of the Actuary, Social Security Administration. Includes benefits paid under pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

tion; coverage under this program rose by about 10 percentage points in both periods.

Table 4 also shows annual increases in contributions as a percentage of aggregate wages and salaries for all types of employee-benefit plans. For the plans with contributions related to all wages and salaries—that is, life insurance, accidental death and dismemberment, and the health programs—employer-employee contributions increased during 1954–62 by \$1.09 per \$100 of payroll, or approximately 75 percent. Unlike the growth in coverage, which was more heavily concentrated during the early years of the series, the absolute increase in contributions was divided almost exactly between the two 4-year periods (1955–58 and 1959–62)—54 cents in the early years and 55 cents in the later years.

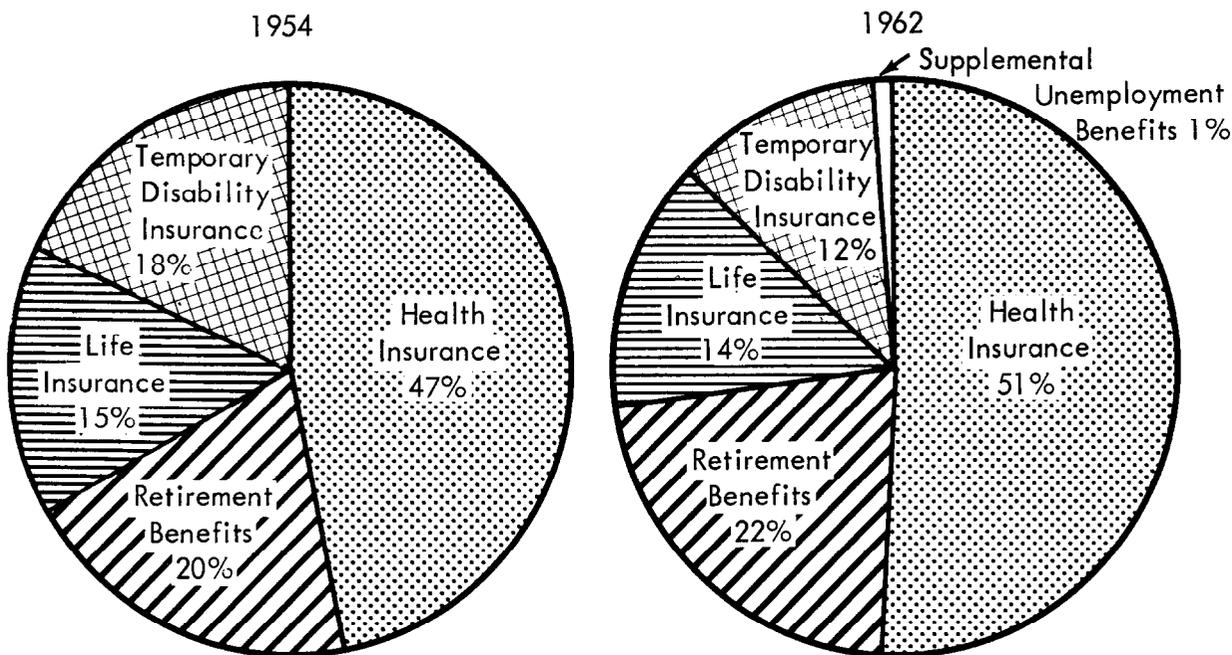
Employer-employee contributions to temporary disability and retirement plans in relation to wages and salaries in private industry increased only 10 percent from 1954 to 1962 (27 cents per \$100 of payroll). The increases were concentrated in the years 1955–58. Contributions for temporary disability insurance fluctuated during 1959–62, dropping to 52 cents per \$100 of private wages and salaries in 1959 and slowly increasing to 55 cents in 1962. The amount contributed to retirement plans increased each year until a high of

\$2.43 per \$100 of private wages and salaries was reached in 1959. Since then the ratio has declined each year; it was \$2.30 per \$100 of payroll at the end of 1962.

As an indication of growth, these measures have definite limitations. Estimates of coverage, contributions, and benefits are based primarily on reports by private insurance companies and other nongovernmental agencies. Coverage data are generally based on reports of active participants—a group not necessarily restricted to wage and salary workers currently employed. Active participants may include persons who have been temporarily laid off or retired. The practice of continuing the coverage of a retired worker as a member of a group is particularly prevalent in group life insurance and is becoming increasingly significant in group health programs. Many group plans permit a person who is temporarily laid off to continue his group coverage, on payment of premiums, for 3–6 months or even longer.

In addition, some group life and health insurance plans are sold to trade, farm, professional, and other associations, including veterans' groups and credit unions, that include in their membership persons not in the wage and salary labor force. At the same time, some members of these groups may have group life insurance or health

CHART 2.—Benefit payments from employee-benefit plans: Percentage distribution, by type of plan, 1954 and 1962



insurance coverage at their place of employment and hence may be counted twice.

No attempt has been made in this series to correct the coverage data for these limitations. The ratios relating the number of covered workers to the employed labor force and those relating the amounts contributed to aggregate payroll are probably overstated because the numerator of the fraction includes persons who are no longer employed and whose contributions, unless paid or shared by an employer, bear little relation to the Nation's current wage and salary bill. These limitations should be considered when these ratios are used as indexes of growth.

HEALTH AND WELFARE BENEFITS

The growing amounts of contributions and benefits paid under employee-benefit plans may not necessarily represent real gains for individual employees, in terms of the scope and adequacy of the protection furnished. Some of the rise in aggregate expenditures for employee benefits may

be explained by the growth in the number of employees and dependents covered or the increased price of providing the identical services. In the field of health and disability insurance, increased aggregate expenditures may also reflect a greater volume of sickness, requiring more utilization of hospitals and medical services, or a larger number of days of wage-loss reimbursement. Estimates of the increase in the real value or quality of the protection can be obtained only by taking account of these factors.

Hospital Benefits

Hospital benefits (including those paid from major-medical-expense insurance) increased 208 percent from 1954 to 1962. Benefits per participant, however, increased only 109 percent. Of this increase, about three-fifths can be attributed to a rise in the cost of hospital care, if the 65-percent increase in hospital room rates reported in the Bureau of Labor Statistics consumer price index can be considered indicative of hospitalization

TABLE 4.—Coverage and contributions under employee-benefit plans, ¹ by type of benefit, in relation to employed wage and salary labor force and payroll, 1954 and 1956-62

Year	Life insurance and death	Accidental death and dismemberment	Hospitalization	Surgical	Regular medical	Major medical expense	Temporary disability, including formal sick leave	Supplemental unemployment	Retirement
	Covered employees as percent of all wage and salary workers ²						Covered employees as percent of wage and salary workers in private industry ³		
1954.....	56.2	26.4	58.7	52.5	32.1	1.5	49.9	-----	31.0
1956.....	62.5	30.4	62.8	58.5	40.0	6.3	51.3	4.1	34.2
1957.....	66.0	32.2	64.8	61.2	43.5	9.0	52.2	3.6	36.7
1958.....	69.7	33.4	66.5	62.9	46.0	11.2	52.0	3.6	39.3
1959.....	72.5	34.1	66.4	63.6	48.7	13.6	51.2	3.8	40.3
1960.....	73.9	35.5	68.7	65.9	51.0	16.6	50.9	3.4	42.3
1961.....	78.2	36.2	70.2	67.1	53.1	19.7	51.7	3.6	44.5
1962.....	79.3	37.4	71.4	68.4	54.9	21.3	52.8	3.5	45.1
	Employer and employee contributions as percent of all wages and salaries ⁴						Employer and employee contributions as percent of wages and salaries in private industry ⁵		
1954.....	0.40	0.02	0.66	⁶ 0.37	0.01		0.48	-----	2.13
1956.....	.46	.02	.74	⁶ .41	.04		.48	0.07	2.16
1957.....	.48	.02	.79	⁶ .45	.07		.52	.09	2.31
1958.....	.53	.03	.85	⁶ .47	.12		.54	.06	2.38
1959.....	.54	.03	.90	⁶ .48	.14		.52	.06	2.43
1960.....	.56	.03	.96	⁶ .49	.18		.53	.05	2.36
1961.....	.60	.03	1.05	⁶ .53	.24		.53	.05	2.35
1962.....	.61	.03	1.10	⁶ .55	.26		.55	.07	2.30

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 Coverage of private and public employees related to average number of private and government full-time and part-time employees—60.5 million in 1962 (table VI-14 in *U. S. Income and Output, A Supplement to the Survey of Current Business, 1958*, and in *Survey of Current Business, National Income Number, July 1963*).

³ Coverage of private employees related to wage and salary employed

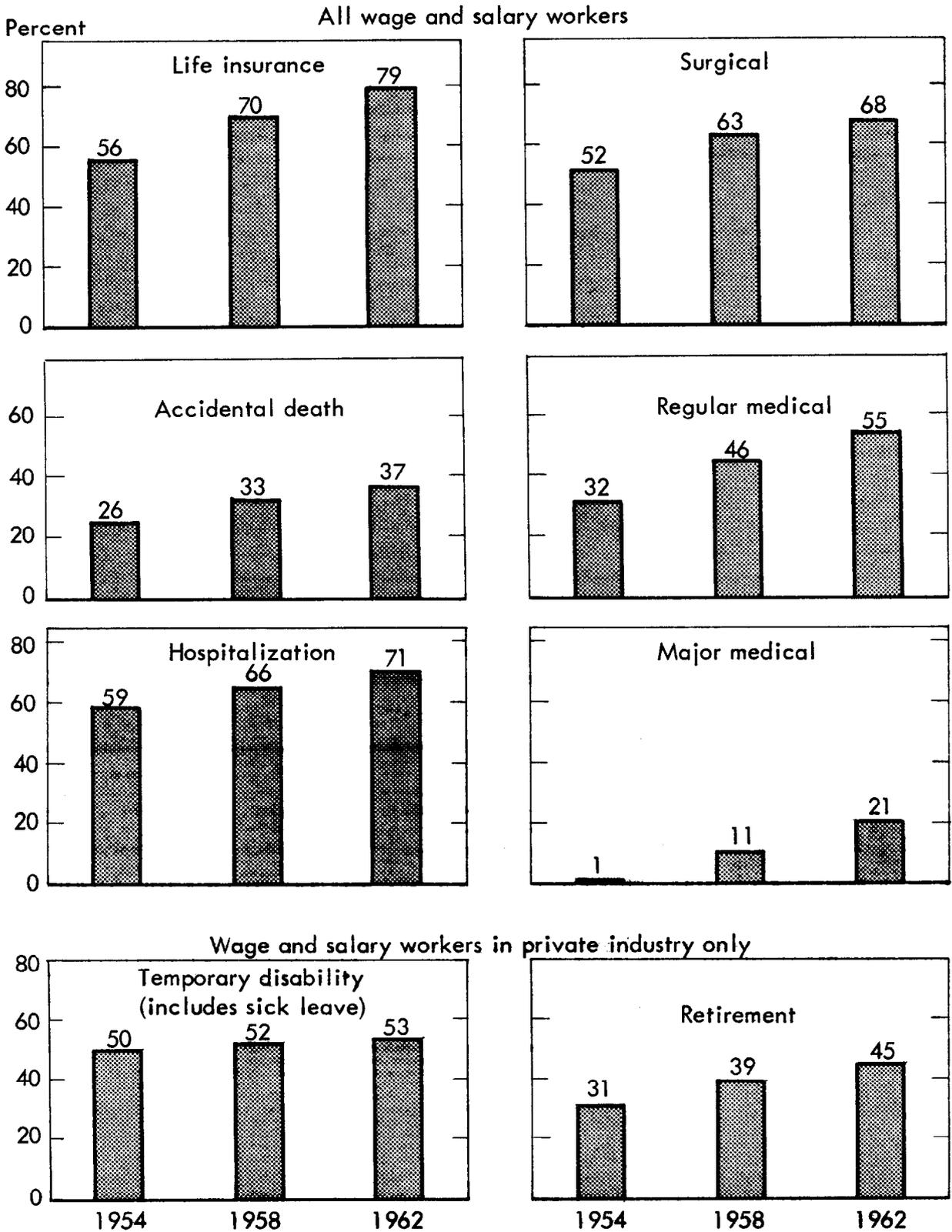
labor force in private industry—51.1 million in 1962 (from table VI-14 in sources listed in footnote 2).

⁴ Amounts for private and public employees related to private and government wages and salaries—\$286.3 billion in 1962 (from table VI-2 in sources listed in footnote 2).

⁵ Amounts for private employees related to wages and salaries in private industry—\$241.6 billion in 1962 (from table VI-2 in sources listed in footnote 2).

⁶ Data on contributions for surgical and regular medical benefits not available separately.

CHART 3.—Workers covered under employee-benefit plans as a percent of employed wage and salary labor force, 1964, 1958, and 1962



prices in general. Thus, about one-fourth of the increase in aggregate benefit outlays for hospitalization can be assumed to relate to additional services received by individuals.

An analysis of the data indicates that more than half the real gain in services was registered during 1955-58. Benefits per participant increased more rapidly (47 percent) in those years than in 1959-62 (43 percent), but the cost of hospital care, as measured by room rates, rose more in the later period (30 percent) than in the 4 preceding years (26 percent). The net effect of the reduced rate of increase in benefits per participant and the accelerating rate of increase in costs was to reduce real gains during 1959-62.

These measures of gains in protection are only rough indications, since changes in hospital utilization rates have not been taken into account. If the data on utilization rates for general hospitals (excluding Federal hospitals) are assumed to reasonably reflect the experience of those covered by employee-benefit plans, then a 9.3-percent rise in days of hospital care per 1,000 persons took place from 1954 to 1962. Some of this increase represents additional days of hospital care made possible by the liberalization of insurance coverage and reflects real gain; part may reflect merely additional days used under coverage that has not undergone any improvement.

The limited data available suggest that the real gains in protection during 1959-62, as well as those of 1955-58,⁴ took the form of extending the maximum duration for which full benefits would be paid for hospitalization, raising the daily allowances for hospital room and board, and increasing the allowances for hospital extras. The maximum number of full benefit days offered under the basic Blue Cross plans ranged in 1958 from 21 days (six plans) to 120 days or more (15 plans). By January 1962 the number offering 120 days or more had increased to 24. The most common maximum in both periods was 70 days.⁵

The Health Insurance Institute studies annually a sample of new group commercial policies written during the year. About 60 percent of the

members enrolled in basic plans were covered for hospital stays of 70 days or more under new group plans written in 1961 and 1962; about 10 percent were enrolled in plans offering 120 days or more.⁶

The average maximum daily room-and-board benefits provided under the new group plans in the Health Insurance Institute sample—excluding plans that provided full benefit payments for ward or semiprivate room—increased from \$14 in 1960 to \$16 in 1962 (averaged to the nearest dollar). A Bureau of Labor Statistics study of changes in 97 negotiated plans from early 1958 to the winter of 1961-62 showed that more than half made some revision in hospital benefits.⁷ Most of the plans that did not specifically raise benefit levels were service-benefit plans that compensate hospitals directly for the full cost of specified hospital care. Some plans providing cash benefits increased both daily room allowances and allowances for hospital extras; others increased only one type of benefit.

The BLS study showed some change in 1959-62, as in the earlier period, among collectively bargained plans from a cash to a service method of payment. Six of the 90 plans studied shifted from a cash to a service payment, and one plan shifted from service to cash. The net result was that 47 plans provided service benefits in 1961-62, compared with only 43 in 1958. Since the value of service benefits rises automatically as hospital charges increase, there is no appreciable gap between payment and rising costs, and consequently there is some gain in real protection.

Although health insurance programs did not initially provide protection for mental illness, a special report by the American Psychiatric Association and the National Association of Mental Health indicates some gains in hospital protection for mental illness during the late 1950's. In 1961, 58 of the 83 Blue Cross plans (70 percent) provided for at least 21 days of care per hospital period for nervous or mental disorders. In 1955, out of 79 plans, only 39 offered the same benefit. On the basis of information from the Life Insurance Agency Management Association, the study

⁴ Alfred M. Skolnik, "Employee-Benefit Plans, 1954-58," *Social Security Bulletin*, March 1960.

⁵ For 1958 data, see Herman M. Somers and Anne R. Somers, *Doctors, Patients, and Health Insurance* (1961), page 303. Data for 1962 have been tabulated from Blue Cross Commission, *Blue Cross Guide*, 1963.

⁶ Health Insurance Institute, *Group Health Insurance Policies Issued in 1961 and Group Health Insurance Policies Issued in 1962, 1962 and 1963*.

⁷ Dorothy R. Kittner, "Recent Changes in Negotiated Health Insurance Plans," *Monthly Labor Review*, September 1962.

report concluded that most commercial insurance companies offer coverage of mental illness in a group hospitalization program, but it did not supply data indicating the extent of such protection.⁸

Surgical and Other Medical Benefits

Surgical and regular medical benefit payments, including those paid under major-medical-expense policies, increased in the aggregate by 199 percent from 1954 to 1962. Benefits per participant, however, rose only 87 percent. Of this increase, perhaps one-third can be attributed to a rise in charges, as represented by physicians' and surgeons' fees in the consumer price index. Thus, more than two-fifths of the increase in aggregate benefits for surgical and other medical care may represent improvements in the scope and adequacy of the benefits.

Unlike the real gains in hospital services, those in medical services were more rapid during 1959-62 than in the earlier years of the series. Benefits per participant rose more from 1954 to 1958 (39 percent) than from 1958 to 1962 (35 percent). The cost of surgical and other medical care, as represented by physicians' and surgeons' fees in the consumer price index, also rose more rapidly in the earlier years (15 percent) than in the later (12 percent). Thus, the reduced rate of increase in benefits per participant was more than matched by a decline in the rate of increase in the cost of medical services. These measurements again are rough, since no consideration has been given to the possible change in the volume of sickness for which medical attention was furnished.

Probably the major source of the gain in protection has been the growth of major-medical-expense coverage. Although some labor unions initially opposed the adoption of major-medical-expense insurance, the number of negotiated plans with such insurance has increased. According to the BLS study of 97 negotiated plans, the number providing major medical benefits increased from nine in 1958 to 19 in 1961-62. Moreover, the benefit provisions for major-medical-expense insur-

⁸ American Psychiatric Association and the National Association for Mental Health, *Insurance Coverage of Mental Illness, 1962*, November 1962.

ance have been liberalized during the past decade, with increased maximum benefits and reduced deductible amounts.⁹

Surgical and regular medical benefits in existing plans were also liberalized and probably represent some gain in protection. Blue Shield plans, for example, expanded some surgical and other regular medical services from 1957 to 1962, as shown by the percentages in the tabulation below.

Type of service	Percent of Blue Shield plans providing service	
	1957	1962
Home and office visits.....	9	35
Pathology.....	37	73
X-ray.....	73	91
Anesthesia.....	89	97
In-hospital medical care.....	92	100

By increasing annual income limits, Blue Shield plans have covered higher income groups under full-payment guarantees. In 1957, five plans provided service benefits to subscribers with annual family incomes of \$7,000-\$8,000; 5 years later, 12 plans provided service benefits to families within these income levels.¹⁰

Surgical benefit improvements were made by 2 out of every 5 plans in the BLS study. The schedule of allowances was increased for most plans making revisions, although a few plans increased the allowances for only a few operations. Nearly half the 97 negotiated plans liberalized the basic medical benefits by increasing the allowance per visit or day, the maximum number of days or visits, or both.

Temporary Disability Benefits

For temporary nonoccupational disability, some indication of the gains in protection can be obtained by relating the amounts paid under employee-benefit plans to the income loss suffered

⁹ Joseph Francis Follman, *Medical Care and Health Insurance: A Study in Social Progress* (Richard D. Irwin, Inc., 1963), page 131.

¹⁰ Arthur J. Offerman, "Accomplishments of Yesterday—Blue Shield," in American Medical Association, *Proceedings, 3rd National Congress on Voluntary Health Insurance and Prepayment, 1963*.

by wage and salary workers covered by such plans. Use of this method shows that cash sickness benefits paid under private plans (including formal sick-leave plans) replaced 30.6 percent of the gross income loss of workers covered by such plans in 1962, 29.3 percent in 1958, and 26.7 percent in 1954. About two-thirds of the real gains, therefore, were registered in the first 4-year period.

This index of growth reflects changes in maximum duration of benefits as well as increases in benefit amounts. New York State's temporary disability insurance law required private plans to have a 13-week maximum duration for benefits in 1954. The statutory requirement was raised to 20 weeks in 1956 and to 26 weeks in 1958. The effect of this extension is possibly best indicated by the increase in actual average duration of benefits for New York State workers with statutory coverage only, who received benefits for about a third of the total number of weeks for which benefits were payable during 1954-61 under the law.¹¹ The average duration of benefits in 1954 was 5.7 weeks; in 1961 the average had increased 25 percent to 7.1 weeks.

Data collected under the temporary disability insurance laws of New York and California indicate the extent of benefit increases. The average weekly benefit for a disabled worker in New York in 1954 was \$34.07; by 1962 it had gone up 39 percent to \$47.55. Since from 1954 to 1962 the gross average earnings of production workers in New York State rose 34 percent, benefit increases have more than kept pace with the advancing wage rates. In California the average weekly benefit to a disabled worker covered by a private plan in 1954 was \$34.00; in 1962 it was \$61.24—an 80-percent increase. Gross average earnings of production workers in California rose 39 percent during the period. Benefit increases have thus kept well ahead of advancing wage rates.

The index of growth also reflects the growing prevalence of formal sick-leave plans, which by generally providing for 100 percent of pay from the first day of sickness can be expected to replace a greater proportion of lost income than insurance plans. From data collected by the Bureau of

Labor Statistics in its community wage surveys,¹² it is estimated that the number of employees covered by formal sick-leave plans increased 10-15 percent from 1958 to 1962 compared with an increase of 15-20 percent from 1954 to 1958.

Life Insurance

As reported by the Institute of Life Insurance, the total value of employee life insurance rose 141 percent from 1954 to 1962. Although coverage expanded so rapidly, the value of the average policy in force increased only 45.3 percent—from \$3,120 to \$4,534. This increase, however, has more than kept pace with the 35.2-percent rise in average annual earnings. Slightly more than half the real gain in protection took place in 1955-58; at the same time the average amount of insurance per certificate rose 25.2 percent, and average annual earnings rose 17.3 percent.

Studies of negotiated plans by the Bureau of Labor Statistics indicate the improvements made in group life insurance plans. More than half were revised between late 1954 and early 1958. In contrast, only about a fourth of the plans provided for higher benefits during early 1958 and the winter of 1961-62. In the earlier period, the insurance specified under uniform-benefit plans was increased by amounts ranging from \$250 to \$4,500, but most frequently by \$500-\$1,000 or \$1,500. In the later period, small increases were made in many plans and increases of \$2,000 or more for a few plans. In both periods, graduated plans that increased coverage by realigning wage categories benefited some but not necessarily all employees.

FINANCING

Benefit revisions were not the only changes made in employee-benefit plans from 1954 to 1962. Even when there were no improvements or when benefits barely kept pace with increased medical costs or rises in wage levels, some employees gained as employers increasingly assumed more

¹¹ New York State Workmen's Compensation Board, *Disability Benefit Program: Claim Statistics, 1951-61, 1962.*

¹² Department of Labor, Bureau of Labor Statistics, *Wages and Related Benefits, 1957-58 and Wages and Related Benefits, 1961-62*, Bulletins Nos. 1224-20 and 1303-83, 1959 and 1962.

TABLE 5.—Private pension and deferred profit-sharing plans: ¹ Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950–62

Year	Coverage, ² end of year (in thousands)			Employer contribu- tions (in millions)			Employee contribu- tions (in millions)			Number of benefi- ciaries, end of year (in thousands)			Amount of benefit payments (in millions)			Reserves, end of year (in billions)		
	Total	In- sured	Non- in- sured	Total	In- sured	Non- in- sured	Total	In- sured	Non- in- sured	Total	In- sured	Non- in- sured	Total	In- sured	Non- in- sured	Total	In- sured	Non- in- sured
1950.....	9,800	2,600	7,200	\$1,750	\$720	\$1,030	\$330	\$200	\$130	450	150	300	\$370	\$50	\$200	\$11.7	\$5.6	\$6.1
1951.....	11,000	2,900	8,100	2,260	820	1,440	380	210	170	540	170	370	450	100	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	530	120	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	610	140	470	19.9	8.8	11.1
1954.....	14,200	3,600	10,600	2,930	1,030	1,900	510	270	240	880	270	610	710	160	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	840	180	660	26.7	11.3	15.3
1956.....	16,800	4,000	12,800	3,490	1,110	2,380	610	290	320	1,110	340	770	990	210	780	30.5	12.5	18.0
1957.....	18,100	4,400	13,700	3,890	1,220	2,670	680	300	380	1,250	380	870	1,130	240	890	34.9	14.1	20.8
1958.....	18,800	4,500	14,300	3,950	1,250	2,700	710	310	400	1,410	440	970	1,290	290	1,000	39.5	15.6	23.9
1959.....	19,900	4,800	15,100	4,410	1,330	3,080	750	330	420	1,590	500	1,090	1,510	340	1,170	44.9	17.6	27.3
1960.....	21,200	4,900	16,300	4,470	1,190	3,280	770	300	470	1,780	540	1,240	1,710	390	1,320	49.9	18.8	31.1
1961.....	22,200	5,100	17,100	4,540	1,180	3,360	770	290	480	1,900	560	1,340	1,920	440	1,480	55.3	20.2	35.1
1962.....	23,100	5,200	17,900	4,740	1,240	3,500	820	310	510	2,090	620	1,470	2,150	500	1,650	60.7	21.6	39.0

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 annuities.

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

Source: Compiled by the Division of the Actuary, Social Security Administration, from data furnished primarily by the Institute of Life Insurance and the Securities and Exchange Commission.

of the benefit cost. It is estimated that in 1954 employers paid 47 percent of the cost of health and welfare benefits (excluding retirement benefits).¹³ Data compiled under the Welfare and Pension Plans Disclosure Act show that employers assumed 70 percent of the cost of health and welfare plans in 1959 and 71 percent in 1960.¹⁴ Employers have therefore and are probably continuing to assume an evergrowing share of the cost of health and welfare plans. As a result, the employees' share of the cost has been reduced substantially.

Though no specific data are available, it seems likely that employers probably contribute somewhat less than 70 percent of the cost of health insurance plans—probably about 65 percent in 1959. Data collected under the Welfare and Pension Plans Disclosure Act include information on such entirely employer-financed programs as sick leave and supplemental unemployment benefits. They do not include expenditures for health plans for government employees, who typically contribute a higher proportion of the total cost of the plan than do employees in private industry.

¹³ Senate Committee on Labor and Public Welfare, *Welfare and Pension Plans Investigation: Final Report . . . Submitted by Its Subcommittee on Welfare and Pension Funds* (Senate Report 1734, 84th Congress, 2d session), 1956.

¹⁴ Department of Labor, Office of Labor-Management and Welfare-Pension Reports, *Welfare and Pension Plans Statistics, 1960*, February 1963.

Employees contributed a higher proportion of the cost of insured plans than of self-insured and other types of plans. The data compiled under the Welfare and Pension Plans Disclosure Act for 1959 and 1960 show that employee contributions constituted about a third of the total contributions for insured health and welfare plans, compared with only 16 percent for other types of plans. The Health Insurance Institute study of new group health insurance plans showed that about 40 percent of the covered workers made no contributions in 1961 and 1962, compared with 34 percent in 1960. The study also showed that the larger the group, the more likely it was that the employer paid the entire premium. In 1962, for example, only 30 percent of the new group policies with fewer than 25 members were noncontributory, compared with 52 percent of the plans with 500 or more members.

RETIREMENT PLANS

Coverage

As part of its continuous effort to refine estimating procedures and to develop additional sources of information, the Division of the Actuary of the Social Security Administration initiated in 1962 a reexamination of the basis for its pension-plan coverage estimates. The first result of this review has been a downward revision to correct

for duplication in the coverage of employees under multi-employer plans and under trade-union plans (with no employer financing). An examination of Department of Labor data and information from trade unions indicated that the number of employees who were members of both types of plans in 1961 and were counted twice in the coverage estimates had been underestimated by about 400,000. Since the duplication arose when members of trade-union plans were covered by a multi-employer plan, the coverage and the year of establishment of the multi-employer plan were obtained and then used to eliminate the duplication, beginning with the data for 1957.

The estimated number of workers covered by private plans and deferred profit-sharing plans rose by 0.9 million in 1962 to 23.1 million (table 5). This increase was one of the smallest in recent years, and the rate of growth was the lowest for any year except 1958. The absolute increase in each of the three 4-year periods for which estimates are available (1951-54, 1955-58, 1959-62) was not too different—4.4 million in the first, 4.6 million in the second, and 4.3 million in the third. The annual rate of growth, which averaged 10 percent in the first third of this period, dropped to half that rate in the last third.

In preliminary estimates the National Bureau of Economic Research¹⁵ has forecast the growth of private pension plans through the 1970's. Forecasts of the coverage of these plans vary, depending upon assumptions regarding such factors as labor-force growth, changes in industrial composition, and the economic climate for the introduction of pension plans. The National Bureau of Economic Research combined various assumptions to arrive at three estimates—low, medium, and high. The end-of-year estimates of coverage for 1969 ranged from 31.1 million to 34.3 million and for 1979 from 38.1 million to 46.1 million.

The proportion of employees covered by non-insured plans has increased gradually from 1950 through 1962, and almost all the 1962 increase occurred among such plans. In the insured plans 100,000 persons were added in 1962, compared with about 800,000 among noninsured plans. At the end of 1962 the 17.9 million persons covered by noninsured plans represented 78 percent of the

total coverage, compared with 73 percent 12 years earlier.

The increase in pension plans underwritten by insurance companies has been accompanied by a substantial growth in the proportion of deposit-administration plans and a decline in the group of deferred-annuity plans. Group deposit-administration plans represented 37 percent of all insured plans in 1962, 30 percent in 1958, and 21 percent in 1954. Group deferred annuities, which represented 60 percent of the insured covered in 1954, declined to 49 percent in 1958 and to 43 percent in 1962.

Employee savings plans are not included in these coverage estimates. The results of the first systematic study¹⁶ of employee savings plans in the United States suggest that a limited number of persons may receive benefits from these plans when they retire, most of whom will probably also receive benefits from a private-pension plan. The employee savings plan permits a participant to voluntarily save some of his salary, and the company matches all or part of his savings. The combined contributions are made to a trust fund and are distributed when the employee retires. Between 1½ and 1¾ million employees were estimated to have been participating in these plans in 1961. Only two-thirds of the plans were exclusively long-term savings plans; the others permitted members to withdraw their accumulated contributions before retirement.

Contributions

An estimated \$5.6 billion was contributed in 1962 by employers and employees to finance private retirement systems—approximately \$4,740 million by employers and \$820 million by employees. Employer contributions have been remarkably stable—about 85 percent—from 1950 through 1962. Employers contributed more, however, for noninsured plans (about 88 percent) than for insured plans (80 percent).

Contributions to private retirement plans rose \$250 million or 4.7 percent in 1962. This increase exceeded those in the 3 preceding years, both abso-

¹⁵ National Bureau of Economic Research, *The Uses of Economic Research*, 43rd Annual Report, 1963.

¹⁶ National Industrial Conference Board, *Employee Savings Plans in the United States* (Personnel Policy Study No. 184), 1962.

lutely and relatively. Contributions to insured plans, which had declined in 1960 and 1961, showed an \$80 million increase. The gain in contributions to noninsured plans (\$170 million) was about twice that of 1961 but less than the 1960 increase.

Unlike the growth in coverage, the absolute increase in contributions during the period under review has not been steady; on the contrary, the amount of increase has been dropping. Contributions rose by \$1.4 billion from 1950 to 1954, \$1.2 billion from 1954 to 1958, and only \$0.9 billion from 1958 to 1962.

The reduced growth in 1959-62 may be the result of several factors. Federal legislation in 1959 excluded from taxation the investment income attributable to insured pension reserves, thus enabling insurance companies to reduce rates on group annuity plans. Income from investments has been rising, reflecting the increased reserves of pension plans and the higher interest rates and dividend payments of the late 1950's and early 1960's, as well as the greater net profits on the sale of assets. Moreover, many older pension plans may have liquidated all or a substantial proportion of their past-service liabilities and are now making contributions to finance current-service liabilities only.

The relative decline in contributions in the late 1950's is also reflected in the average employee-employer contribution. For all pension plans the average amount contributed was the same (\$245) in 1961 and 1962 and was the lowest in the history of the series. Although the average contribution for insured plans in 1962 (\$301) was \$7 higher than in 1961, it was still considerably lower than that prevailing during the 1950's. In contrast, the average contribution to noninsured plans, which in 1962 was \$229, has fluctuated within a narrow range—from a low of \$210 in 1961 and 1954 to a high of \$239 in 1960.

These averages are obtained by dividing total annual contributions by the average number of employees covered during the year. Contributions under insured 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 (unfunded) plans, contributions have been assumed to equal the benefit payments.

Beneficiaries

The number of persons receiving monthly benefits under private pension plans passed the 2-million mark at the end of 1962 (table 5). The 1962 increase (190,000) was higher, both absolutely and relatively, than that in 1961; it equaled the highest absolute increase recorded since the series began but was lower relatively than in any other year except 1961.

Both insured and noninsured plans increased their beneficiary rolls by about 10 percent during 1962—the noninsured from 1,340,000 to 1,470,000 and the insured from 560,000 to 620,000. As a result, beneficiaries from noninsured plans continued to make up approximately 70 percent of the total number, a proportion that has not varied significantly since 1950.

An overwhelming proportion of private pension plan beneficiaries are also receiving benefits under the Federal programs of old-age, survivors, and disability insurance and railroad retirement. Probably only about 200,000 of the 2.1 million beneficiaries under private plans are not receiving concurrently one of these Federal benefits. It is likely that the number of private pensioners not receiving such benefits because they withdrew from the work force before they had sufficient work experience to be eligible for benefits is rapidly declining. It is also likely that this decline may be offset by an increase in the number of early retirements under private pension plans (before age 62—the qualifying age for old-age benefits under the Social Security Act).

As would be expected, the number of beneficiaries grew more rapidly from 1958 to 1962 than it did earlier; the increase of 690,000 may be compared with those of 520,000 in 1955-58 and 430,000 in 1951-54. Projections by the National Bureau of Economics Research suggest an even more accelerated growth in future years. According to the Bureau's preliminary end-of-year estimates, the number of beneficiaries will rise to 3.6 million in 1969 and to 6.3 million in 1979.

The number of beneficiaries has increased much more rapidly than coverage. In 1950, there was only 1 beneficiary for about 22 covered workers. By 1954 the ratio had declined to 1 for every 16, and in 1962 there was 1 beneficiary for 11 covered workers. The National Bureau of Economic Research estimates of coverage and beneficiaries assume that in 1979 there will be 1 beneficiary for

every 6 or 7 covered workers, depending on which of the three coverage estimates is used.

Benefits

In 1962, for the first time, benefit payments from private retirement plans amounted to more than \$2 billion. Of the total, noninsured plans paid \$1,650 million or 77 percent, and insured plans paid the balance. The proportions have not changed significantly since the series began.

The 1962 increase of \$230 million was the largest recorded for any year; the percentage increase, however, was the lowest. Benefit payments advanced more during the most recent 4-year period than they did earlier. Moreover, benefits have increased much more rapidly than contributions. In 1950 they equaled 18 percent of contributions; in 1954, 21 percent; in 1958, 28 percent; and in 1962, 39 percent.

Benefit outlays per beneficiary were relatively stable during the first 4 years but increased slowly during 1955-58 and 1959-62. The rise was less, however, than that in wages and salaries in private industry. The average payment went up about 25 percent from 1954 to 1962, while average annual wages in private industry increased 34 percent.¹⁷

Included among noninsured plans are plans that choose to make benefit payments as they become due without advance financing—typically termed “pay-as-you-go” or “unfunded” plans. At the request of and in cooperation with the Social Security Administration, the Bureau of Labor Statistics has studied the major provisions, coverage, and types and levels of benefits of the unfunded plans filed in compliance with the Welfare and Pension Plans Disclosure Act. The study showed that the basic unfunded plans, which provide normal retirement benefits, closely re-

sembled funded plans in the types and levels of benefits provided. Although supplementary unfunded plans (not providing normal retirement benefits) included a variety of benefits, only disability retirement and death benefits were available to most of their members.¹⁸

Because an unfunded plan has not accumulated funds specifically allocated to pay benefits, a participant's benefits are usually less secure than if he were covered by a funded plan. The security attached to benefit expectations from unfunded plans, therefore, depends almost exclusively on the company's financial resources. The Social Security Administration has examined some limited financial data on 42 companies with basic unfunded pension plans whose membership totaled 277,000—about 60 percent of the total coverage of basic unfunded plans filed in compliance with the Welfare and Pension Plans Disclosure Act.¹⁹ The study concluded that most of the companies whose basic pension plan was unfunded have had and may continue to have strong financial positions. A few companies with plans covering relatively few members have had and may continue to have financial difficulties.

Pension plan revisions during 1962 emphasized provisions designed to encourage retirements. Agreements in the basic steel industry, for example, liberalized eligibility requirements for early retirement for workers affected by permanent plant or departmental shutdowns. After January 1, 1963, employees in the basic steel industry who are eligible for retirement and who continue to work after reaching age 65 will have their supplemental retirement credits reduced by 10 percent for each 3 full months that they work. Under the Teamsters Union's area pension plan (with about 175,000 members) for the Central States and the Southeast and Southwest regions, the age requirement for normal retirement was changed, effective in 1963, from age 60 with 20 years of service to age 57. Other plans—including those of the Dana Corporation, the American Viscose Company, and the Humble Oil and Refining Company—encourage retirement by increas-

¹⁷ Precise data on average monthly or annual retirement benefits cannot be derived from table 5, since the benefit payments reported include lump-sum benefits under noninsured plans. These lump-sum payments consist chiefly of (1) refunds of employee contributions to members who withdraw from contributory plans before retirement, (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.

¹⁸ Harry L. Levin, “Unfunded Private Pension Plans,” *Monthly Labor Review*, December 1963.

¹⁹ Joseph Krislov, “Financial Position of Companies with Unfunded Pension Plans,” Social Security Administration, Division of Research and Statistics, *Analytical Note No. 1*, April 1963.

ing the benefits paid to workers retiring before reaching normal retirement age.

A study of all pension plans on file with the Labor Department that have more than 5,000 participants showed that, of the 9.7 million covered workers, 7.2 million or 74 percent were members of plans providing early retirement benefits. To qualify for early retirement benefit most workers had to attain age 55 or 60 and also had to have 10 or 15 years of service.²⁰

Data on the actual age at which members of private plans retire are not readily available, and it is therefore difficult to estimate the number of employees who take advantage of early retirement provisions. A study²¹ of the retirement ages of workers covered by negotiated pension plans of the three big automobile companies (General Motors, Chrysler, and Ford) showed a sharp decline in the proportion of workers who waited for the compulsory retirement age of 68 and an increase in the proportion retiring before reaching age 65 (the normal retirement age). From 1953 to 1959, the proportion of workers from these three companies who retired at age 68 declined from 48 percent to 14 percent; the proportion electing to retire before age 65 increased from 4 percent to 19 percent. Preliminary and unpublished data through 1962 show a continuation of this trend.

In addition to emphasizing provisions encouraging retirements, some plans liberalized the normal retirement benefit during 1962 and added or liberalized vesting provisions; a few plans introduced widows' benefits. The study of the larger plans on file with the Department of Labor showed that about 5.7 million or three-fifths of the 9.7 million persons covered in 1962 were members of plans with vesting provisions.²² Among them were more than 1 million members of 58 plans who would receive vested benefits only if they were involuntarily separated. Though no comparable study exists for earlier years, it had been estimated that only about half the employees

covered by pension plans in 1958 were members of plans that provided for vesting.

A study by the National Industrial Conference Board²³ of 700 companies suggests that involuntary retirement practices among companies with private pension plans have probably increased in recent years, and that as a result there are probably fewer job opportunities for workers over age 65. The study showed that relatively few changes were made in retirement practices from 1955 to 1961. Only 44 companies reported any changes; one liberalized its provisions, and 43 adopted more restrictive practices. Of the 542 companies that reported the proportion of all employees who typically worked after reaching normal retirement age, 304 companies (56 percent) indicated that fewer than 5 percent of the employees worked beyond age 65.

Reserves

At the end of 1962, \$60.7 billion had been accumulated in reserves held by insured and non-insured private retirement programs—\$5.4 billion more than at the end of 1961. Although the rate of increase (10 percent) was the lowest since 1950, the absolute rise was the second highest recorded.

Absolute increases in reserves were greater in 1959-62 (\$21.2 billion) than in 1955-58 (\$16.4 billion) and 1951-54 (\$11.4 billion). The average annual increase during 1959-62 was \$5 billion, compared with \$4 billion during 1955-58 and less than \$3 billion during 1951-54. The percentage increase was greatest from 1950 to 1954, when reserves almost doubled; there was a 54-percent rise from 1958 to 1962. The National Bureau of Economic Research estimates that private pension plan reserves will total \$118 billion at the end of 1969 and \$223 billion 10 years later. These estimates suppose growing accretions, averaging \$11 billion a year during the 1970's.

The increase in reserves held by noninsured plans in 1962 was \$3.9 billion, about the same as in 1961. Insured plans added \$1.4 billion to their reserves, equaling the 1961 increase but substantially less than that for 1959. The proportion of reserves held by noninsured plans has increased

²⁰ Department of Labor, *Report on Manpower Requirements, Resources, Utilization and Training* (1963), table E-12.

²¹ Harold L. Orbach, "Social Values and the Institutionalization of Retirement," in Richard H. Williams, Clark Tibbitts, and Wilma Donahue, *Processes of Aging: Social and Psychological Perspectives* (Prentice-Hall, Inc., 1963), volume II, pages 399-400.

²² Department of Labor, *op. cit.*, table E-9.

²³ Miriam C. Kerpen and Harland Fox, "Mandatory Retirement Practices, 1961," *Management Record*, February 1962.

steadily, from 52 percent in 1950 to 57 percent in 1954, to 61 percent in 1958, and to 64 percent in 1962.

As indicated by the reports of the Securities and Exchange Commission,²⁴ the portfolios of corporate pension funds have shifted from U.S. Government securities to stock and other high-yield investments. In 1962, corporate pension fund investments in common stocks (based on book value) represented 39 percent of total assets, compared with 30 percent in 1958 and only 16 percent in 1950. The amount invested in mortgages increased to 3 percent in 1962 from 1 percent in 1955 (the first year for which separate data are available).

Investments in Government securities declined from 32 percent in 1951 to 6 percent in 1962. Most of this shift occurred in the early 1950's, and by 1958 only 9 percent of corporate pension fund investments was in Government securities. Investments in corporate bonds, which increased somewhat during the early 1950's to a high of 54 percent in 1957, have dropped significantly since that year and in 1962 were only 45 percent of the total—an alltime low.

A study of the assets of the 100 largest plans²⁵ filed in compliance with the Welfare and Pension Plans Disclosure Act indicates a similar pattern and shift in assets from 1959 to 1961. Forty percent of the assets of these 100 plans (including a few welfare plans) was invested in stocks in 1961

²⁴ Securities and Exchange Commission, *Corporate Pension Funds*, annual series.

²⁵ Department of Labor, *Welfare and Pension Statistics: The 100 Largest Plans, 1959-1961*, 1963.

and 34 percent in 1959. Investments in Government obligations declined from 10 percent of the total in 1959 to 7 percent in 1961 and investments in bonds from 45 percent to 41 percent.

A recent study of collectively bargained multi-employer plans²⁶ showed distinct differences in the asset holdings among plans that had a corporate trustee and those reporting individual trustees. The assets of the corporate-trusted plans were similar to those of all noninsured plans, with most of the assets in nongovernment bonds, some in common stock, and little in Government securities. The assets of individual-trusted plans were heavily invested in Government bonds (30 percent) and mortgages (32 percent).

Some shift in asset holdings has also occurred in the reserves of insured pension funds.²⁷ In 1951 the assets of all insurance company reserves (including pension reserves) were concentrated in nongovernment bonds (38 percent), mortgages (28 percent), and Government bonds (20 percent). The proportion invested in Government bonds declined gradually to 9 percent in 1962, and the proportion invested in mortgages increased to 35 percent. Investments in corporate bonds have fluctuated only narrowly since 1951; in 1962 they represented 39 percent of the total. All other assets equaled 17 percent (including 5 percent in stocks) in 1962 and 14 percent (including 3 percent in stocks) in 1951.

²⁶ Joseph J. Melone, *Collectively Bargained Multi-Employer Pension Plans* (Richard D. Irwin, Inc., 1963), pages 69-70.

²⁷ Institute of Life Insurance, *Life Insurance Fact Book* (1963), page 65.

Notes and Brief Reports

Employers, Workers, and Earnings Under OASDI*

In the calendar year 1962, according to preliminary estimates, 74.6 million persons had earnings of \$219 billion that were taxable under the old-age, survivors, and disability insurance program. These

* Prepared by Roslyn Arnold, Division of Research and Statistics.

totals were 2.3 percent and almost 4.5 percent higher than those in 1961. Average annual taxable earnings in 1962, estimated at \$2,940, were about 2 percent higher than the average a year earlier.

Total annual earnings (which include both taxable and nontaxable earnings) were estimated at \$288 billion, an increase of almost 5.5 percent from the 1961 total. Average annual earnings, estimated at \$3,860, were 3.2 percent higher than in the preceding year.

The changes from 1961 to 1962 in employment and earnings were the result of improvements in