Employee-Benefit Plans: Developments, 1954-63

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Employee-benefit plans providing income-maintenance payments and health expense benefits have enjoyed continuous expansion since 1954, the first year for which the Social Security Administration collected data for this series. The rate of growth in coverage, contributions, and benefits under the plans, however, has slackened in recent years. The following article discusses these developments and also takes a look at trends in program costs and methods of financing.

THE YEAR 1963 saw continuation of the trend toward placing relatively more emphasis on job security and fringe benefits than on general wage increases. According to the Bureau of Labor Statistics, a smaller proportion of the workers covered by major collective bargaining agreements received wage increases in 1963 than in any other recent year and a higher proportion were employed in firms where at least one fringe benefit was liberalized or established.

The agreement made between 11 major basic iron and steel companies and the United Steelworkers of America in June 1963 illustrates this development. Wage rates were left unchanged, but the agreement provided for extended vacation time—13 weeks (9 or 10 weeks more than normal) every fifth year for the half of the wage earners with the most seniority; 365 days' hospitalization instead of 120 days; a $10 increase, to a maximum of $78, in weekly sickness benefits; and an increase of $500, to a maximum of $7,000, in life insurance. Another example is the settlement for 130,000 members of the three train service brotherhoods. No wage increase was involved, but a company-financed health and welfare plan was established that included provision for $4,000 in group life insurance for workers, up to 120 days of fully paid hospitalization, and up to $250 in surgical benefits for workers and their dependents.

The continued emphasis on fringe benefits is reflected in the annual data compiled by the Social Security Administration on employee-benefit plans. Contributions rose by $980 million in 1963 to a total of $15.6 billion, and benefit outlays increased $820 million to a total of $10.7 billion. Coverage gains were also registered, and by the end of the year, 51 million wage and salary workers were covered by life insurance, 45 million by some sort of health insurance, and 24 million by private retirement plans. The pace of the growth, however, for most types of benefits was less than in other recent years.

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 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, or unemployment and (2) benefits to meet expenses 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); savings and stock-purchase plans; discount privileges; and free meals. Severance and dismissal payments are also excluded from the series, except to the extent that such payments are made from supplemental unemployment benefit funds covering temporary lay-offs. This exclusion is based less on conceptual grounds than on the statistical problem of compiling data for a type of benefit, often a lump-sum payment, that is usually not funded but paid out of a company's current revenue.

The financial data presented in this series differ from those compiled by the U.S. Department of Labor on the basis of reports submitted by priva[te]

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

plan administrators under the Welfare and Pension Plans Disclosure Act, which went into effect January 1, 1959. The latest data compiled from these reports showed for 1961 contributions of $11.9 billion and benefits of $7.6 billion. The Social Security Administration estimates for that year were somewhat higher—$13.5 billion in contributions and $8.8 billion in benefits.

A fundamental reason for the difference is that the series are derived from different sources. One (that of the Social Security Administration) is based primarily on reports of the underwriters (such as insurance carriers and the Blue Cross-Blue Shield associations), and the other on reports from employers and plan administrators. Also contributing to the difference are the following factors:

1. The Department of Labor data exclude plans that cover Federal, State, or local government employees. The Social Security Administration series includes such plans if they are underwritten by nongovernmental agencies—the usual practice for life and health insurance coverage.

2. Plans covering 25 or fewer employees are excluded from the Department of Labor data. The Social Security Administration series makes no exclusion by size of firm.

3. The Department of Labor data exclude plans established and maintained solely to comply with temporary disability insurance statutes. The Social Security Administration series includes privately insured plans written in compliance with the temporary disability insurance laws of California, New Jersey, and New York.

4. In the Social Security Administration series, contributions under insured welfare and pension plans are on a net basis—that is, after deduction of dividends. In addition, the contribution figures for insured pension plans are adjusted to exclude refunds for persons who withdraw from the system before reaching retirement age. The contribution data in the Department of Labor series are compiled on a gross basis.

TRENDS, 1954–63

The historical data appearing in tables 1–4 in past Bulletin articles have been revised this year for two major types of employee benefits. The statistics on plans providing temporary disability benefits, beginning with 1956, now exclude group credit accident and health insurance. This insurance is sold to lending institutions (banks, finance companies, credit unions, etc.) wishing to protect their loans against the risk of the borrower's disability. Since it does not stem from the employer-employee relationship, this protection is excluded here. The other revision involves an upward adjustment for most years in private retirement plan contributions and benefits. The revisions, varying from 1 percent to 6 percent, are based on new data compiled by the Securities and Exchange Commission.

Coverage

Except for group life insurance and accidental death and dismemberment plans, the combined coverage of employees and dependents under all types of employee-benefits plans showed gains that were no greater in 1963 than in 1962 (table 1). The fact that the employed labor force grew at a slower pace in 1963 than in 1962 is only part of the reason for the situation since the gains reported for employee coverage alone—at least for health insurance—were greater in 1963 than in 1962.

Presumably of more significance, as far as the health insurance plans were concerned, was a slowdown in the rate of growth in the number of covered dependents. Thus, hospital expense insurance plans showed an increase of 1.7 million in employee subscribers in 1963, compared with 1.2 million in 1962; the number of dependents increased, however, by only 700,000, compared with a 2.1 million rise in 1962. The same phenomena were noted in the other types of health insurance plans. In fact, the 1963 increase in the number of dependents covered under all the various types of health insurance was the smallest recorded for this series, which began in 1954.

The growth of coverage under other types of employee-benefit plans shows a closer association with the trends in labor-force growth. The absolute increases in the number of employees covered by plans providing both temporary disability and retirement benefits were smaller in 1963 than in 1962. For retirement plans, the 1963 increase of 700,000, which brought total coverage up to

23.8 million, equaled the smallest gain for the series. The gain of 500,000 in the temporary disability plans, although greater than those recorded for 1960 and 1961, was less than that of 1962.

The continuous growth in group life insurance coverage—which in 1963 had the largest increase of all the benefit plans for employees—needs some qualification. Group life insurance coverage in recent years has been significantly extended to many trade, farm, professional, and other associations, including credit unions, mutual funds, and other investment groups—whose membership is not based on wage and salary employment. A survey made by the Institute of Life Insurance published early this year shows that such associations accounted for 11 percent of the group life contracts (excluding coverage under the Federal

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 1956–63

[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	24.7	7.1	2.0	16.9
1957	40.5	18.4	93.8	1.6	87.7	60.5	12.4	24.9	7.2	1.9	18.1
1958	41.8	18.7	95.0	1.4	89.5	63.6	16.2	23.8	6.8	1.7	18.8
1959	44.8	19.7	98.1	1.5	93.5	69.7	20.3	24.4	6.9	1.9	19.9
1960	46.5	20.9	103.5	1.2	98.8	74.8	25.6	24.5	6.8	1.7	21.2
1961	49.5	21.3	107.4	1.1	102.3	79.6	31.5	24.6	6.8	1.8	22.2
1962	52.1	22.6	110.7	0.9	105.8	82.8	35.1	25.2	6.8	1.8	23.1
1963	55.1	24.7	113.1	0.3	107.7	86.0	38.3	25.7	6.2	1.8	23.8
	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	24.7	7.1	2.0	16.9
1957	37.8	18.4	37.0	1.6	34.9	24.8	5.1	24.9	7.2	1.9	18.1
1958	39.0	18.7	37.2	1.4	35.2	25.7	6.3	23.8	6.8	1.7	18.8
1959	41.8	19.7	38.3	1.5	36.7	28.1	7.8	24.4	6.9	1.9	19.9
1960	43.4	20.9	40.4	1.2	38.7	30.0	9.7	24.5	6.8	1.7	21.2
1961	45.9	21.3	42.0	1.1	40.2	32.1	11.6	24.6	6.8	1.8	22.2
1962	47.9	22.6	43.2	0.9	41.4	33.2	12.9	25.2	6.8	1.8	23.1
1963	50.6	24.7	44.9	0.3	43.0	34.9	14.6	25.7	6.2	1.8	23.8
	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	35.7	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	----------	65.4	----------	62.1	47.5	19.9	----------	----------	----------	----------
1962	4.2	----------	67.5	----------	64.4	49.6	22.2	----------	----------	----------	----------
1963	4.5	----------	68.2	----------	64.7	51.1	23.7	----------	----------	----------	----------

[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 and Health Insurance Association of America, *Group Insurance Coverages in the United States*, 1954, 1956–63) 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 1956–63) 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 3,863,000 employees and 6,157,000 dependents in 1963.

[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) and Health Insurance Association of America (see footnote 2), adjusted to exclude credit accident and health insurance.

[8] Based on trade-union and industry reports. Starting with 1962, data estimated by Bureau of Labor Statistics from annual reports filed under the Welfare and Pension Plans Disclosure Act. 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.

employee group life plan), 30 percent of the certificates, and 5 percent of the amount in force at the end of 1963.[1] The data presented here have not been adjusted to exclude this non-employment-related coverage, pending further evaluation of the survey results.

The extent to which these changes represent real increases, in terms of the total wage and salary employed labor force, has more significance than changes in the number of covered employees. Table 2 shows that, for every type of major employee-benefit plan, coverage gains in 1963 exceeded the growth in the employed labor force. Even the plans providing retirement and temporary disability benefits reported a larger proportion of employees with coverage at the end of 1963 than at the end of 1962, though the percentage-point gains were considerably lower than those registered for other types of plans.

Life insurance plans, with the year's largest gain, increased employee coverage from 79.3 percent to 82.3 percent of the wage and salary labor force. Accidental death and dismemberment insurance, which is closely associated with life insurance, had a proportionate increase, though it covered only 40 percent of the labor force at the end of 1963.

Major medical expense insurance, which covered 24 percent of the labor force at the end of 1963, had the next largest increase—2.5 percentage points. The other health insurance coverages had percentage-point gains of less than 2 points, which were, however, all greater than those of the preceding year.

The smallest 1963 increase—0.3 percentage points—was registered by plans providing temporary disability benefits. Since 1954 these programs have shown no overall growth in the proportion of the private wage and salary labor force covered, which fluctuated around 50 percent. The data have been adjusted to exclude persons covered by group credit accident and health insurance (which has increased from less than an estimated 1 million in 1956 to 2.6 million in 1963).

[1] Institute of Life Insurance, *The Tally of Life Insurance Statistics*, January 1965.

TABLE 2.—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 1956–63

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	50.0	----------	31.0
1956	62.5	30.4	62.8	58.5	40.0	6.3	50.3	4.1	34.4
1957	66.0	32.2	64.7	61.0	43.4	9.0	50.4	3.6	36.7
1958	69.7	33.4	66.5	62.9	46.0	11.2	49.7	3.6	39.3
1959	72.5	34.1	66.4	63.6	48.7	13.6	49.4	3.8	40.3
1960	73.9	35.5	68.7	65.9	51.0	16.6	49.0	3.4	42.3
1961	78.2	36.2	71.5	68.5	54.6	19.7	49.3	3.6	44.5
1962	79.3	37.4	71.4	68.4	54.9	21.3	49.2	3.5	45.1
1963	82.3	40.1	73.1	70.0	56.8	23.8	49.5	3.5	45.9
	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	----------	2.17
1956	.47	.02	.74	[6] .41		.04	.48	0.07	2.23
1957	.48	.02	.79	[6] .45		.07	.51	.09	2.38
1958	.53	.03	.85	[6] .47		.12	.53	.06	2.45
1959	.54	.03	.90	[6] .48		.14	.51	.06	2.51
1960	.56	.03	.96	[6] .49		.18	.52	.05	2.46
1961	.60	.03	1.05	[6] .53		.24	.53	.05	2.46
1962	.61	.03	1.10	[6] .55		.26	.53	.06	2.43
1963	.65	.03	1.13	[6] .55		.28	.53	.06	2.44

[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 civilian employees—61.5 million in 1963 (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 1964).

[3] Coverage of private employees related to wage and salary employed labor force in private industry—51.9 million in 1963 (from table VI-14 in sources listed in footnote 2).

[4] Amounts for private and public employees related to private and government civilian wages and salaries—$301.2 billion in 1963 (from table VI-2 in sources listed in footnote 2).

[5] Amounts for private employees related to wages and salaries in private industry—$252.9 billion in 1963 (from table VI-2 in sources listed in footnote 2).

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

Contributions

Combined employer-employee contributions to employee-benefits plans, it is estimated, rose almost $1 billion in 1963 to a new high of $15.6 billion (table 3). The increase is not too unlike those of other recent years, although greater than those registered in 1957, 1959, and 1962. The relative increase (6.7 percent) was the smallest since the recession year 1958 (4.8 percent).

The reduced rate of growth in contributions is mainly attributable to private retirement plans and to plans providing temporary disability benefits. Contributions to retirement plans were only 5.1 percent greater in 1963 than in 1962. Plans providing temporary disability benefits reported an increase of 3.3 percent; in dollar amounts the advance was half that in 1962. For supplemental unemployment benefit plans, contributions actually dropped $16 million.

The three types of health insurance programs, in contrast, reported a 7.8-percent rise in contributions. Although above the average for all types of employee benefits in 1963, the increase was the smallest for health insurance plans since the series began in 1954.

The sharpest change from the preceding year occurred in the group life insurance plans, which reported an increase of 11.8 percent, and the accidental death and dismemberment insurance plans, with a rise of 15.0 percent. Both absolutely and relatively, these 1963 increases were the largest for the period under review. The qualifying note made earlier with respect to coverage applies equally, however, to the life insurance contribution figures. They reflect a growing amount of insurance sold to groups that are not organized on the basis of employer-employee relationship.

The developing relationship among the types of benefits is also illustrated by the trend in the distribution of the contribution dollar in the past decade. In 1954, retirement plans accounted for 50 percent of all contributions going to employee-benefit plans; by 1963 this ratio had dropped to 40 percent. The three types of health insurance programs, which accounted for 28 percent of contributions in 1954, absorbed 38 percent by 1963. Life insurance (including accidental death and dismemberment) went from 11 percent to 13 percent during this period, and plans providing temporary disability benefits dropped from 11 percent to 9 percent.

TABLE 3.—Estimated total employer and employee contributions [1] under employee-benefit plans, [2] by type of benefit, 1954 and 1956–63

[In millions]

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962	1963
Total	$6,994.1	$8,923.2	$10,061.3	$10,546.4	$11,748.8	$12,561.4	$13,510.4	$14,640.4	$15,616.0
Benefits for all wage and salary workers:									
Life insurance and death benefits [3]	741.1	1,022.3	1,104.0	1,214.0	1,336.0	1,471.0	1,624.0	1,758.0	1,965.0
Accidental death and dismemberment [4]	33.5	49.7	56.5	60.9	66.0	70.0	75.0	80.0	92.0
Hospitalization [5, 6]	1,221.4	1,603.2	1,805.5	1,944.9	2,230.3	2,504.8	2,823.3	3,136.2	3,415.6
Surgical and regular medical [5]	684.2	897.5	1,021.3	1,075.5	1,186.9	1,282.2	1,435.0	1,585.7	1,652.1
Major medical expense [7]	18.0	94.0	169.0	266.0	357.0	470.0	651.0	753.0	837.0
Benefits for wage and salary workers in private industry:									
Temporary disability, including formal sick leave [8]	780.9	906.5	1,015.0	1,040.1	1,087.6	1,168.4	1,202.1	1,289.5	1,332.3
Written in compliance with law	*178.1*	*177.9*	*218.8*	*234.4*	*235.4*	*242.4*	*259.2*	*260.3*	*248.4*
Supplemental unemployment benefits [9]	----------	125.0	170.0	125.0	125.0	115.0	120.0	158.0	142.0
Retirement [10]	3,515.0	4,225.0	4,720.0	4,820.0	5,360.0	5,480.0	5,580.0	5,880.0	6,180.0

[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 and Health Insurance Association of America, *Group Insurance Coverages in the United States*, 1954 and 1956–63), 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, 1948–63," *Social Security Bulletin*, December 1964. 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 temporary 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: 1948–63," *Social Security Bulletin*, January 1965. 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. Starting with 1962, data estimated by Bureau of Labor Statistics from annual financial reports filed under the Welfare and Pension Plans Disclosure Act. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent layoffs. 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.

Somewhat similar but more meaningful relationships are obtained by relating the contribution figures to aggregate wage and salary payrolls. As table 2 shows, life insurance and health insurance plans reported continuing increases from 1954 to 1963 in contributions as a percentage of payroll in private and public employment. From 1962 to 1963, contributions to these programs jumped 4 cents and 5 cents per $100 of payroll, respectively.

Contributions to retirement and temporary disability insurance plans, in contrast, have generally leveled off during recent years in relation to wage and salary payrolls in private industry, although the early years show some striking increases. The $2.44 per $100 of payroll that went for retirement benefits in 1963 was even lower than the 1958 amount, and the temporary disability insurance contribution was the same—53 cents per $100—in both years.

Benefits

Paralleling the developments with respect to contributions, benefits under employee-benefit plans experienced in 1963 the lowest percentage advance (8.3 percent) since the series began. In dollars, however, the 1963 gain ($820 million) was greater than any rise reported before 1960.

The year-to-year percentage increases in benefit payments have generally been outstripping those in contributions as the employee-benefit plans, especially the retirement plans, approach maturity. In 1954, 51 cents in benefits was paid for every $1 in contributions, and by 1963, 68 cents was being expended for every $1 contributed. The effect of retirement plans on the changing relationship may be noted from the fact that benefits as a percentage of contributions under private pension plans were twice as great in 1963 as in 1954.

All major types of benefit plans reported a slackening in the rate of increase of benefit payments from 1962 to 1963. For temporary disability insurance plans the increase was only 4.6 percent. All other major types of plans showed percentage increases that exceeded the overall average of 8.3 percent. Life insurance plans reported an advance of 9.0 percent; all health insurance plans, 8.9 percent; and retirement plans, 9.3 percent. Among the health insurance plans, major medical expense policies under commercial insurance had the greatest increase—12.7 percent.

Changes since 1954 in the distribution of benefit payments among types of benefits follow only to a limited extent the changes registered in the distribution of contributions. Death benefits

TABLE 4.—Estimated benefits paid under employee-benefit plans, [1] by type of benefit, 1954 and 1956–63

[In millions]

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962	1963
Total	$3,533.3	$4,834.1	$5,606.1	$6,289.1	$7,019.1	$7,882.7	$8,787.0	$9,854.9	$10,673.5
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	1,410.0
Accidental death and dismemberment [3]	25.1	30.5	36.7	42.3	43.0	47.3	58.0	68.8	82.5
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	3,259.5
Written in compliance with law	*5.1*	*6.3*	*6.8*	*8.5*	*8.9*	*8.0*	*7.3*	*6.3*	*3.5*
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	1,443.7
Major medical expense [6]	10.0	67.0	131.0	233.0	332.0	427.0	562.0	667.0	752.0
Benefits for wage and salary workers in private industry:									
Temporary disability, including formal sick leave [7]	640.1	815.5	889.2	891.7	948.5	1,026.4	1,031.7	1,123.2	1,174.8
Written in compliance with law	*132.0*	*151.2*	*178.1*	*183.7*	*189.5*	*196.1*	*201.4*	*204.3*	*190.0*
Supplemental unemployment benefits [8]	----------	5.0	20.0	135.0	75.0	105.0	100.0	108.0	91.0
Retirement [9]	710.0	1,000.0	1,140.0	1,290.0	1,540.0	1,750.0	1,960.0	2,250.0	2,460.0

[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*, 1964, 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, 1948–63," *Social Security Bulletin*, December 1964. 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 temporary 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: 1948–63," *Social Security Bulletin*, January 1965. 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. Starting with 1962, data estimated by Bureau of Labor Statistics from annual financial reports filed under the Welfare and Pension Plans Disclosure Act. 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.

under life insurance plans, for example, have been dropping as a proportion of total benefits (from 15 percent in 1954 to 13 percent in 1963), while the trend in contributions, as noted above, was the reverse. Similarly, retirement plans, which accounted for 20 percent of all benefit payments in 1954, paid 23 percent in 1963; an opposite trend was noted with respect to contributions.

Benefit payments under health insurance plans, like contributions, have been absorbing an increasing proportion of the total, rising from 46 percent in 1954 to 51 percent in 1963. Plans furnishing temporary disability benefits have been paying a decreasing proportion of the total—18 percent in 1954 and 11 percent in 1963; contributions have also declined.

According to collective bargaining agreements filed with the Bureau of Labor Statistics, hospital-surgical-medical benefits were the most frequently improved type of health and welfare benefit in 1963, with sickness and accident benefits and life insurance next. Most of the changes involved upward dollar adjustments to take care of increasing unit medical care costs and to keep pace with rising wage levels. There was also some broadening of the scope of benefits, such as extensions in maximum length of hospital stays, provisions for more comprehensive health benefits, and extensions in duration of weekly benefits for wage loss.

Evidence of these trends is found in the Health Insurance Institute annual sample studies of new group commercial policies issued during the year.[2] For example, 74 percent of the employees covered by newly written basic hospital expense policies in 1963 were provided 70 or more days of coverage; in 1961 the ratio was 62 percent, and in 1962 it was 57 percent. Fifty-two percent were also covered for diagnostic X-ray service (with or without laboratory service) in 1963, compared with 44 percent in 1962 and 27 percent in 1961. The proportion of employees with comprehensive major medical expense insurance for whom 80 percent or more of total hospital and medical expenses above the deductible amount was reimbursable was 97 percent in 1963, 94 percent in 1962, and 91 percent in 1961. Under disability insurance, 74 percent of the employees under new group wage-replacement policies in 1963 were eligible for benefits of 26 or more weeks, compared with 53 percent in 1962 and with 45 percent in 1961.

Progress in recent years has been less clear cut with respect to the practice of continuing the health insurance coverage of retired workers as members of existing groups. The Health Insurance Institute studies show fluctuations in the proportion of employees eligible for hospital and medical care benefits under new policies who have the right to remain with the insured group after retirement. This proportion, which in 1960 was 29 percent, rose to 33 percent in 1962 and then dropped to 25 percent in 1963. A growing number of policies, however, do give employees the option to convert their group coverage to an individual policy upon retirement; in some States this option is required by law.

The National Industrial Conference Board in a 1964 study of 785 large companies with group commercial health insurance policies found that approximately 60 percent of the plans studied continued group coverage after retirement.[3] In an earlier Conference Board study of 327 companies in 1955, only 40 percent of the plans continued coverage for retired workers. There is some evidence from studies by the Bureau of Labor Statistics that much of this growth took place before 1960.[4] The Conference Board notes that the reduction of health insurance coverage at retirement is more widespread now than it was some years ago. About 65 percent of the plans that continue basic hospital-surgical-medical benefits after retirement paid reduced benefits in 1964, compared with 50 percent in 1955. These reductions generally take the form of limiting the type of services provided or the amounts allowed for specified services or of imposing calendar-year or lifetime ceilings.

[2] Health Insurance Institute, *Group Health Insurance Policies Issued in 1963*, 1964 (and the three preceding annual editions).

[3] Harland Fox and Miriam C. Kerpen, *Corporate Retirement Policy and Practices*, 1964 (National Industrial Conference Board, Studies in Personnel Policy, No. 190), pages 56–68. Any comparison of data from this study with those of other years must take into consideration differences in the composition of the samples studied. It is not known how many plans were common to both studies.

[4] In 1955, 22 percent of the large negotiated hospital plans studied by the BLS continued coverage for retired employees; in 1959 the proportion was 38 percent. (Bureau of Labor Statistics, *Health Insurance Plans Under Collective Bargaining, Late 1955* and *Health and Insurance Plans Under Collective Bargaining, Hospital Benefits, Early 1959*, Bulletins No. 1221 and No. 1274.)

The Conference Board in its 1964 study also took a look at trends in life insurance for retired workers.[5] Such provisions have been a common feature of employee-benefit plans for many years. The 1955 study of 327 companies revealed that 81 percent of the companies surveyed continued group life insurance for pensioners. The 1964 study of 947 companies with group life insurance for active employees showed a similar ratio—almost 80 percent. The Conference Board found a trend, like that in health insurance, toward reduction of benefits at retirement. The 1955 study reported that 78 percent of the companies in the survey cut the coverage for retired employees. By 1964, the proportion was much higher, ranging from 87 percent in the utility industries to 97 percent among banks and insurance companies. The most common practice is to cut the preretirement amount of insurance in half at retirement—either gradually or at once.

TRENDS IN RETIREMENT PLANS

The data appearing in table 5 have been revised by the Division of the Actuary from those published in the BULLETIN for April 1964 with respect to three items—the amount of contributions, benefit payments, and reserves. The upward adjustment in these dollar figures is based on new and refined data compiled by the Securities and Exchange Commission for the finance and service industries and multi-employer funds, using statistical material made available under the Welfare and Pension Plans Disclosure Act and through studies of the National Bureau of Economic Research and data from the Internal Revenue Service on employer contributions.

[5] Harland Fox and Miriam C. Kerpen, *op. cit.*, pages 46–55.

Coverage

The estimated number of workers covered by private pension and deferred profit-sharing plans rose by only 700,000 in 1963 to a total of 23.8 million. This increase was as small as that recorded in 1952 and 1958 and percentagewise was the smallest gain for any year since 1950, when the pension series began. As pointed out earlier, however, the coverage of pension plans is still growing faster than the employed wage and salary labor force in private industry.

Of the total 1963 increase, 200,000 was registered in insured plans and 500,000 in noninsured plans. At the end of the year, the 18.4 million employees covered by noninsured plans represented 77 percent of total coverage. In 1950 these plans covered 73 percent of the total.

Among the pension plans underwritten by in-

TABLE 5.—Private pension and deferred profit-sharing plans: [1] Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950–63

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	$370	$80	$290	$12.1	$5.6	$6.5
1951	11,000	2,900	8,100	2,280	820	1,460	380	210	170	540	170	370	450	100	350	14.5	6.6	8.0
1952	11,700	3,200	8,500	2,540	910	1,630	430	240	190	650	200	450	520	120	400	17.3	7.7	9.7
1953	13,200	3,400	9,800	2,990	1,010	1,980	485	260	225	750	230	520	620	140	480	20.5	8.8	11.7
1954	14,200	3,600	10,600	3,000	1,030	1,970	515	270	245	880	270	610	710	160	550	23.8	10.0	13.8
1955	15,400	3,800	11,600	3,280	1,100	2,180	560	280	280	980	290	690	850	180	670	27.5	11.3	16.1
1956	16,900	4,100	12,800	3,600	1,110	2,490	625	290	335	1,090	320	770	1,000	210	790	31.4	12.5	18.9
1957	18,100	4,400	13,700	4,030	1,220	2,810	690	300	390	1,240	370	870	1,140	240	900	36.1	14.1	22.1
1958	18,800	4,500	14,300	4,100	1,250	2,850	720	310	410	1,400	430	970	1,290	290	1,000	40.9	15.6	25.2
1959	19,900	4,800	15,100	4,590	1,330	3,260	770	330	440	1,590	500	1,090	1,540	340	1,200	46.6	17.6	29.1
1960	21,200	4,900	16,300	4,690	1,190	3,500	790	300	490	1,780	540	1,240	1,750	390	1,360	52.0	18.8	33.1
1961	22,200	5,100	17,100	4,770	1,180	3,590	810	290	520	1,910	570	1,340	1,960	450	1,510	57.8	20.2	37.5
1962	23,100	5,200	17,900	5,020	1,240	3,780	860	310	550	2,100	630	1,470	2,250	510	1,740	63.5	21.6	41.9
1963	23,800	5,400	18,400	5,260	1,350	3,910	920	340	580	2,280	690	1,590	2,460	570	1,890	69.9	23.3	46.5

[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; employees under both insured and noninsured plans are included only once—under insured plans.

[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.

surance companies, deposit administration plans[6] continued to grow more rapidly than group deferred-annuity contracts or individual policy trust plans. The deposit administration plans accounted for 42 percent of insured coverage at the end of the year, compared with 23 percent in 1955 and 10 percent in 1950.[7] They covered more than 60 percent of the employees under insured plans established in 1963.

Most of the workers covered by noninsured retirement plans—perhaps 70 percent—are under corporate pension plans funded through trustees, such as a bank or trust company, that hold and invest funds annually deposited in the trust and pay benefits in accordance with the terms of the trust and the plan provisions. About one-fifth of the coverage of noninsured plans is under multi-employer plans, in which a group of employers in the same area or industry make specified payments to a pooled central pension fund; benefits are provided for their eligible workers. The remaining workers under noninsured plans are covered by "unfunded" or "pay-as-you-go" plans, union-financed plans (with no employer participation), plans of nonprofit organizations, and deferred profit-sharing plans.

There is a degree of overlap in coverage under plans of different types, for which some allowance is made in table 5. Employees covered under both insured plans and noninsured plans are counted under the former category. The total number under noninsured plans is thus somewhat understated.

A sample study by the Bureau of Labor Statistics of reports filed under the Welfare and Pension Plans Disclosure Act for the winter of 1962–63 gives some detail on the characteristics of private pension plans.[8] Excluded from the study (which covered 15.6 million active workers) were deferred profit-sharing plans, plans of nonprofit organizations, and plans with fewer than 26 workers.

The study shows that private-plan coverage varies considerably among industries. About 60 percent of the workers then covered by pension plans were in manufacturing industries, which accounted for only three-eighths of all employment in private nonfarm establishments. Communications and public utilities, construction, and transportation accounted for more than three-fifths of the coverage in nonmanufacturing industries, but had less than one-fourth of the employment in that sector.

Multi-employer plans covered 1 out of 8 workers in manufacturing but more than 2 out of 5 in nonmanufacturing industries. About 2 out of 3 workers were under plans mentioned in a collective bargaining agreement. The extent of union participation varied considerably from industry to industry. Worker coverage in plans mentioned in collective bargaining ranged from 10 percent in finance to 85 percent in the construction industry. Seventy percent of the covered workers in manufacturing were included in plans mentioned in collective bargaining agreements.

Although most private pension plans are small-scale undertakings, more than 60 percent of the covered workers in the BLS study were in plans with 5,000 workers or more. Nearly 14,000 plans, with fewer than 1,000 members each, accounted for almost 90 percent of the plans but for only 15 percent of worker coverage.

Contributions

Contributions to private retirement plans rose an estimated $300 million in 1963 to a total of $6.2 billion. The increase was of the same magnitude as that in the preceding year but greater than those for the years 1960 and 1961. The percentage increase—5.1 percent—was slightly below the average annual rate of growth for the past decade (6 percent).

The 1963 increase in contributions was almost evenly divided between insured plans ($140 million) and noninsured plans ($160 million). This is a sharp contrast to the record of the preceding 4 years, when the noninsured plans accounted for

[6] A deposit administration plan is a type of group annuity plan under which contributions are accumulated with interest in a central or pooled fund until an employee retires. At that time a lifetime paid-up annuity is purchased at the going rate by withdrawing the necessary premium from the fund. Under the conventional group deferred-annuity plans the annuity accruing to the employee is purchased anually and guaranteed, with the yearly amount payable at retirement equaling the sum of the annual purchases. As a general rule, group annuity plans—unlike individual annuity plans—provide no life insurance benefits.

[7] Institute of Life Insurance, *The Tally of Life Insurance Statistics*, May 1962 and May 1964.

[8] *Labor Mobility and Private Pension Plans: A Study of Vesting, Early Retirement, and Portability Provisions*, BLS Bulletin No. 1407, 1964.

more than 70 percent of the annual increase.

In 1950, 44 percent of total contributions to private retirement plans went to insured plans. The proportion dropped continually throughout the 1950's; it was 33 percent in 1956 and 27 percent in both 1960 and 1963.

Contributions from employers accounted for $240 million of the $300 million increase in total contributions; employees contributed $60 million. This 4-to-1 ratio prevailed for both insured and noninsured plans.

Beneficiaries

Monthly beneficiaries under private retirement plans numbered an estimated 2.3 million at the end of 1963, about 180,000 more than in 1962 (table 5). This increase was among the highest recorded since the series began but was lower relatively than in any other year except 1961.

The beneficiary load has increased much more rapidly than coverage. In 1950, there was 1 pensioner for about every 22 covered workers. By 1963 the ratio was 1 for every 10 active workers. Under old-age, survivors, and disability insurance (OASDI) there is 1 retired worker for every 6 active covered workers.

The distribution of beneficiaries between insured and noninsured plans has remained fairly constant since the early 1950's. In 1963, insured plans accounted for 30 percent of the beneficiaries, and the noninsured plans for 70 percent. The ratio in 1951 was 32 to 68, and the intervening years showed only random fluctuations.

It is estimated that an overwhelming proportion of private pension plan beneficiaries are also receiving benefits under the Federal programs of OASDI and railroad retirement. Probably not more than 10 percent of the 2.3 million beneficiaries under private plans are not concurrently receiving one of these Federal benefits.

This 10 percent consists mainly of two groups: (1) persons who are under age 62—the qualifying age for old-age benefits under the Social Security Act and (2) elderly persons who withdrew from the work force before OASDI coverage became effective for them. Of the two groups, the former has much more weight; the latter is declining in size as the OASDI program matures. It has been estimated that, at the end of 1962, about 6–7 percent of private-pension-plan beneficiaries were under age 62 (15–16 percent under age 65). With the growth of early retirement options in private pension plans and the adoption of "special" early retirement provisions in collective-bargaining agreements,[9] it may be expected that retirements in industry before age 62 will be increasing.

Experience in the automobile and steel industries foreshadows this trend. In the automobile industry, the union-management agreement of 1958 included provisions under which a worker who is retired at the employer's request or under conditions satisfactory to both would, if he were aged 60 and had 10 years' service, be eligible for twice the amount of the normal private pension to which he was entitled, without having the amount actuarially reduced for early retirement. The higher pension would be payable until the worker became eligible for OASDI benefits, and the amount would then be recomputed according to the normal formula. The 1964 agreements further liberalized these provisions by reducing the age requirement for "special" early retirement to age 55 and increasing the amount payable to more than double the normal pension, with some further supplementation. As a result, total monthly income for a worker between the ages of 60 and 65 may be as much as $400 or 70 percent of final monthly pay, whichever is smaller.

Data made available by the Auto Workers (UAW) for the "Big Three" automobile manufacturers show that in 1953 only 4 percent of all retirements were early retirements. In 1959, the first year when all three companies had "special"

[9] According to the BLS study, *Labor Mobility and Private Pension Plans*, by the winter of 1962–63 approximately 3 out of 4 private pension plans, covering the same proportion of workers, provided for early retirement, usually at age 55 or 60. For more than one-fifth (2.7 million) of these workers, "special" early retirement provisions were effective; benefits under these provisions are substantially higher than those usually available to early retirees and, in some cases, higher than normal retirement benefits, when the employer has compelled retirement. The latter provisions are most common in the automobile, steel, rubber, and food-products industries. In addition, there are some union-management plans covering teamsters, airline pilots, miners, and utility workers that have no early retirement provisions but simply have adopted earlier normal retirement ages than 65.

Harland Fox and Miriam C. Kerpen, (*op. cit.*, page 22), report that 91 percent of the 1,213 single-employer pension plans surveyed in 1964 had early retirement provisions. This survey excluded multi-employer plans, which are less likely than unilateral plans to have early retirement provisions.

early retirement provisions, early retirement jumped to 19 percent of the total (11 percent under the special provisions). By 1963, the proportion had further increased to 35 percent (20 percent under the special provisions), partly as the result of liberalizations in the dollar level of pensions in the 1961 agreement.

Under plans that follow the steelworker pattern, qualification for special early retirement is in terms of combined age and service (for example, age 55 and 20 years of service or age 60 and 15 years of service). Under these plans, employees who retire early as a result of plant shutdown or layoff receive the full accrued pension based on accumulated service, without actuarial reduction.

Data gathered by the United Steelworkers of America show that early retirement before adoption of the special provisions in 1960 represented less than 5 percent of all retirements.[10] By 1963, early retirements accounted for 25.5 percent of all retirements—14.4 percent with unreduced pensions and 11.1 percent with an actuarial reduction.

Improvements in vesting provisions, which permit an employee to terminate his employment before retirement without forfeiting the accrued pension resulting from his employer's contributions, may also be expected to be a factor in the expansion of pension beneficiary rolls in the coming years. The BLS study of pension plans reporting under the Welfare and Pension Plans Disclosure Act for the winter of 1962–63 disclosed that vesting of pension benefits before retirement age was provided by 2 out of every 3 pension plans, covering 3 out of 5 workers.[11] Almost 80 percent of the workers covered by contributory plans had the protection of vesting provisions, in contrast to about 55 percent of the workers in noncontributory plans. This disparity results from the heavy concentration in the latter group of noncontributory multiemployer plans. Multiemployer plans are much less likely than single employer plans to provide vesting; they furnish a partial substitute—portability of pension credits among member employers. This factor also contributes to the finding that vesting is less prevalent for production workers than for salaried workers and for workers in such industries as transportation, mining, construction, and wholesale and retail trade than in manufacturing and finance.

A common requirement for deferred full vesting is the combination of age 40 and 10 or 15 years of service; this requirement applied to about 2 out of 5 workers in the study. One out of 7 workers were in plans that required more than 15 years' service. About 30 percent of all workers were in plans that had no age requirement. In general, service requirements were longer where no age requirement was specified.

The Bureau of Labor Statistics calculates that, because of age and service requirements for vesting, as well as the absence of vesting provisions, a worker newly hired at age 25 would have vested benefit rights in only 1 out of 5 plans by age 35 and in 1 out of 2 by age 45. These ratios would be greater for salaried workers than for production workers.

Benefits

Benefit payments under private retirement plans amounted to $2,460 million in 1963 (table 5). Of this amount, $570 million or 23 percent was paid under insured plans and the balance under noninsured plans. The proportion, like the proportion of beneficiaries, has shown only random fluctuations; it was 22 percent in 1950 and 21 percent in 1956.

The $210 million increase in benefit payments in 1963 equaled the third largest recorded since 1950; the percentage increase, however, was the lowest. The slowdown in the rate of growth was most pronounced for noninsured plans; the 1963 increase was only half that of 1962.

Since 1955, after a period of relative stability during the early 1950's, benefit outlays per beneficiary[12] have been increasing slowly—about 2.7

[10] United Steelworkers of America, *Employment and Income Security*, September 1964, pages 44–47.

[11] Results of a similar nature were found in a recent study of vesting by the National Industrial Conference Board. (Harland Fox, "Pension Plan Vesting," *Conference Board Business Management Record*, October 1963, pages 41–48.)

[12] 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 balance 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.

percent a year. By way of contrast, wage and salary levels in private industry have risen on the average 3.7 percent since 1955. In insured plans alone, however, benefit outlays per beneficiary have been keeping pace with wage and salary levels. In fact, noninsured plans in 1963 reported a small decline in the dollar amount of benefit outlays per beneficiary.

Although there was considerable emphasis on early retirement and vesting provisions, arising in part from concern about the impact of automation on older workers, the year 1963 also saw the customary liberalizations in pension amounts. The General Electric Company, for example, increased monthly pension payments for each year of service from $2.50 to $2.70. The cement industry, in a pattern-setting contract with the Cement, Lime, and Gypsum Workers, raised the pension amount from $2.50 per month for each year of service to $2.75.

Other unions negotiated for increases in flat pension amounts. The National Maritime Union, in its August 1963 agreement with shipowners, had monthly pensions increased from $125 at age 65 to $150 after 20 years' service (with no age requirement). The American Bakery and Confectionery Workers Union reached an agreement with the National Biscuit Company calling for an increase from $100 to $125 in pension amounts for employees over age 65 with at least 25 years' service. Using a different approach, the Communications Workers of America secured an agreement with the Bell telephone system to deduct from the company pension only one-third instead of half of any OASDI benefit received.

Reserves

The dollar assets of retirement plans continued to show substantial accretions during 1963. Insured plans increased their assets by $1.7 billion—the second largest annual advance in the series—to a total of $23.3 billion. Noninsured plans showed an increase of $4.6 billion, to reach a total of $46.5 billion. By the end of 1963, two-thirds of the total reserves of $69.9 billion were under noninsured plans. In 1950 the ratio was only 54 percent, and as recently as 1959 it was 62 percent.

The average reserve per employee is much larger under insured plans than under noninsured plans. In 1963 the average amount per employee covered in insured plans was $4,315 and under noninsured plans $2,527. The relative difference has narrowed noticeably since 1950, when the average reserve per employee under insured plans was more than twice that under noninsured plans. The averages reflect, of course, many factors, including differences in the benefit structure, method of funding, treatment of past-service liabilities, age of plan, and extent of vesting.

A continuous shift in the composition of the portfolio of the noninsured private pension funds is indicated by the reports of the Securities and Exchange Commission.[13] New data, which include the funds of nonprofit organizations and multi-employer plans as well as corporate pension funds, show that at the end of 1963 investment in common and preferred stocks represented, on the basis of book value, 40 percent of the total assets of all noninsured pension plans and deferred profit-sharing plans. In 1958 the ratio was 30 percent. The proportion of retirement fund assets invested in United States Government securities declined from 10 percent in 1958 to 7 percent in 1963. The holdings of corporate bonds also declined proportionately during this period —from 51 percent to 42 percent. The amount invested in mortgages rose from 2.9 percent to 4.8 percent.

The portfolio of the insured pension funds, in contrast, has shown little shifting since 1958.[14] Corporate bonds, which represent the largest single type of asset, made up 38 percent of all insurance company reserves (including pension reserves) in 1963 and 40 percent in 1958. Mortgages, the next largest asset, increased from 35 percent of the total in 1958 to 36 percent in 1963. Government bonds declined from 10 percent of all holdings to 9 percent during this period. All other assets equaled 17 percent (including 5 percent in stocks) in 1963 and 15 percent (including 4 percent in stocks) in 1958.

COST AND FINANCING

As employee-benefit plans continue to grow, there is increasing concern about and interest in

[13] Securities and Exchange Commission, *Private Noninsured Pension Funds, 1963* (Statistical Series Release No. 1978), June 4, 1964.

[14] Institute of Life Insurance, *Life Insurance Fact Book* (1964), page 67.

benefit costs. The cost and financing of employee-benefit plans can be approached from several directions. Earlier in the article, overall dollar contributions were shown in terms of the Nation's aggregate wage and salary bill. In the following section, the cost is considered in terms of those firms that actually have such plans. Material has been gathered on the average cost per participant per year, cost as a percentage of payroll, and cost in terms of cents per hour, as well as on the trends in these areas. In addition, trends in the distribution of costs between employers and employees are examined.

Per Capita Cost

Average costs per participant per year for various types of benefits are readily calculable for plans underwritten by commercial insurance carriers by dividing annual gross premiums or "considerations" by the average number of employees or dependents covered by policies during the year (table 6).[15] Such data are most useful for indicating trends and for measuring the relative costs of the different types of benefit.

As might be expected, group annuities that involve setting aside sizable amounts to meet a long-term risk are by far the most costly form of employee benefit. Their average cost per employee is more than five times that of the next most expensive type—comprehensive major medical insurance. Life insurance and temporary disability (wage replacement) insurance are next in terms of cost; for both the average annual premium cost per employee is greater than for the typical hospital insurance policy. Surgical and regular medical expense insurance policies are relatively inexpensive in relation to other health benefits. Group accidental death and dismemberment insurance policies cost the least—less than one-tenth of the average life insurance premium per employee per year. Although comprehensive major medical expense policies are relatively expensive—the average premium was $60.04 in 1963—this amount

[15] These averages relate primarily to currently employed wage and salary workers and their dependents, but the data included some persons whose group protection continues during retirement, temporary layoff, sickness, or shift in jobs and a few members of trade, farm, and professional associations who are not in the wage and salary labor force.

TABLE 6.—Average annual amount of gross premiums paid per participant under group insurance plans, by type of insurance, 1954, 1957, 1960, and 1963

Type of group insurance	1954	1957	1960	1963
	For employee coverage [1]			
Life	$31.92	$35.91	$39.32	$43.83
Accidental death and dismemberment	2.60	3.17	3.45	3.89
Hospital expense	15.97	19.79	25.70	31.71
Surgical expense	6.96	7.57	8.87	9.86
Regular medical expense	4.38	6.41	7.09	7.57
Major medical—supplemental		11.83	12.60	16.91
Major medical—comprehensive		43.78	49.73	60.04
Temporary disability (wage replacement) [2]	25.56	30.05	34.45	35.69
Group annuities [3]	338.11	348.11	288.53	328.57
	For dependents' coverage [4]			
Life		$2.79	$3.24	$3.47
Hospital expense	$14.28	17.58	21.90	26.20
Surgical expense	9.25	9.18	10.18	11.25
Regular medical expense	3.15	2.99	3.31	3.79
Major medical—supplemental		8.38	8.47	9.71
Major medical—comprehensive		37.06	38.64	48.42

[1] Includes currently employed wage and salary workers, some persons who are not currently employed because of retirement, temporary layoff, sickness, or shift in jobs, and a few members of trade, farm, professional, and other associations who are not in the wage and salary labor force.
[2] Excludes group credit accident and health insurance.
[3] Computation excludes annuitants.
[4] Average annual premium per dependent (adult or child).

Source: Derived from Institute of Life Insurance and Health Insurance Association of America, *Group Insurance Coverages in the United States*, annual editions.

was still less than the cost of the roughly equivalent protection provided by basic hospital-surgical-regular medical expense insurance, supplemented by major medical expense insurance. The average annual premium cost of the latter, when combined for the separate plans, came to $66.05 per employee in 1963.

The relationships between types of benefits have shown little change from 1954 to 1963. In dollar amounts, however, all the group insurances except group annuities have shown increases in average premium payments per participant. The largest increase, both relatively and absolutely, took place in the area of hospital expense. Hospital insurance premium costs per employee almost doubled during this period, but those for life insurance and temporary disability insurance rose only about 40 percent.

Any true evaluation of these increases, of course, must take into consideration any additional benefits and improvements in services that may be provided. The Bureau of Labor Statistics reports in its consumer price index, which does not reflect benefit improvements, that hospitalization insurance rates rose 80 percent from 1954 to 1963.

As already noted, the annual premium costs per employee for group annuities has fluctuated during the period under review, reaching a high of $348.11 in 1957. Federal tax relief legislation made it possible for insurance companies to reduce premium rates in the following years. Although the 1963 average is higher than the 1960 low of $288.53, it has still not reached the highs reported for 1954 or 1957.

Table 6 shows that annual premiums for the average dependent are generally lower than those for the average employee. The averages for dependents (adults and children) in the health insurance area, however, must be treated with care. Since the usual practice is to charge a single premium rate for all dependents of an employee or perhaps to use a two-class rate system—one for an employee with one dependent and another for an employee with two or more dependents—there is no direct correspondence between premium rates and number of dependents. An average derived from these figures will thus be affected by the inclusion of large families.

Comparison of an average employee's costs for his benefits excluding and including his dependents' benefits might be more meaningful. The data do not permit such a comparison, but according to the manual rates quoted by health insurance companies the addition of dependents' benefits inevitably results in at least a doubling, and often a tripling, of premium costs per average employee.

For life insurance, the lower average cost for dependents' coverage undoubtedly reflects the smaller amount of insurance carried by dependents. Most dependents with life insurance have merely token death or funeral benefits of $100–$500, but most active workers with life insurance have policies with face values equivalent at least to 1 or 2 years' salary.

Estimates of per capita contributions to retirement plans—both insured and noninsured—may also be derived from the series on pension plans shown in table 5, which were developed by the Division of the Actuary.[16] For the insured plans, the data closely follow the trends evident in table 6. Combined employer-employee contributions per worker reached their heights in the years preceding 1960, when they ranged from $350 to $385 per annum. They then dropped to a low of $294 in 1961, climbing again to $319 in 1963. These dollar averages differ from those presented in table 6, however, partly because contributions for the more costly individual policy pension trusts and insured plans other than group annuities are included in the data developed for table 6 but excluded from table 5. Another reason for the difference is that contributions are shown in table 5 after reduction for dividend payments and refunds, but in table 6 on a gross basis.

In contrast, the average combined employer-employee contribution per employee under noninsured plans has shown a gradual though halting upward trend. The average in 1963 was $247, $233 in 1958, and $213 in 1951.

The overall effect, when the data for the insured and noninsured plans, are combined, is to produce some sharp year-to-year fluctuations in the average contribution amount per employee, without any discernible trend. The range was from a low of $256 in 1951 to a high of $279 in 1953, with higher average contribution amounts in 1957–60 than in subsequent years. The average in 1963 was $264.

COST IN RELATION TO PAYROLL

For purposes of determining the real burden of employee-benefit plans, per capita costs are not too meaningful unless related to payrolls. Such data are available on a limited basis from sample studies conducted by the Chamber of Commerce of the United States and by the Bureau of Labor Statistics.

Table 7 shows the employer cost of selected employee benefits as a percentage of gross payroll for a group of manufacturing and nonmanufacturing companies sampled by the Chamber of Commerce in its biennial studies of fringe benefits. The percentages refer only to those companies reporting the specific type of benefit. Employer payments are computed as net amounts after deducting any dividends or credits returned to the employer by the insurer.

Contrasting trends developed from 1955 to 1963. The cost of health, life insurance, temporary disability (weekly accident and sickness), and accidental death and dismemberment insurance benefits, in combination, as a percentage of

[16] These averages are obtained by dividing total annual contributions by the average number of employees covered during the year.

TABLE 7.—Average payments [1] for selected employee benefits as percent of gross payroll for manufacturing and nonmanufacturing companies paying such benefits, 1955, 1957, 1959, 1961, and 1963

Type of benefit	1955	1957	1959	1961	1963
	All industries				
Insurance and welfare [2]	2.1	2.3	2.3	2.8	2.9
Paid sick leave	1.1	1.2	1.2	1.3	1.3
Supplemental unemployment [3]	.6	1.4	1.1	1.2	1.3
Retirement [4]	5.1	5.1	5.0	4.9	4.6
	Manufacturing				
Insurance and welfare [2]	2.0	2.3	2.4	3.0	3.2
Paid sick leave	.6	1.0	.8	1.2	.9
Supplemental unemployment	.7	1.8	1.1	1.1	1.3
Retirement [4]	3.8	3.9	3.9	4.0	3.7
	Nonmanufacturing				
Insurance and welfare [2]	2.1	2.0	2.2	2.2	2.4
Paid sick leave	1.4	1.6	1.6	1.6	1.5
Retirement [4]	6.9	7.0	6.9	6.7	6.1

[1] Net amounts after deducting any dividends and credits returned to employer by the insurer.
[2] Includes life, sickness, accident, surgical, medical care, and hospitalization insurance, as well as death, accident, and surgical and medical care payments not insured. Excludes workmen's compensation costs and contributions to temporary disability insurance plans where required by State law.
[3] Includes a few nonmanufacturing companies, not shown separately.
[4] Insured and noninsured pension plans.

Source: Chamber of Commerce of the United States, *Fringe Benefits*, 1955, 1957, 1959, 1961, and 1963 surveys.

payroll constantly rose during this period, with a substantial spurt in 1961. The rise, which was most pronounced in the manufacturing sphere, is not surprising in view of the rising unit cost of health and welfare services and the improvement and extension of benefit provisions under existing employee-benefit plans.

The cost of retirement plans, on the other hand, has shown a decline in terms of payroll from about 5 percent in 1955–61 to 4.6 percent in 1963. This decline occurred in both the manufacturing and nonmanufacturing sectors. In addition to the reduced premium rates under insured plans produced by favorable Federal tax legislation, other factors contributing to the drop were (1) rising income from investments, which meant that a smaller proportion of costs need be provided through contributions, and (2) increased liquidation of past-service liabilities, with the result that a growing number of older pension plans need make contributions to finance current-service liabilities only.

Paid sick-leave costs as a percent of payroll have remained relatively stable during 1955–63. The year-to-year fluctuations that appear in the manufacturing sector for sick leave are not too significant because of the relatively small number of manufacturing companies that had such plans in the sample.

Contributions to supplemental unemployment benefit funds are most sensitive to the business cycle in that heavy benefit drains on these funds automatically call for increased contributions in most cases. Table 7 does not, however, reflect extreme fluctuations in such contributions, possibly because the recession years are not fully represented in the data.

Table 8 shows the results of three BLS studies of employers providing specific types of benefits for production workers in manufacturing industries. The study based on 1953 data was experimental and used a much smaller and less representative sample than the more fully developed studies based on 1959 and 1962 data. The BLS has also made one-time studies for such selected nonmanufacturing industries as mining and finance, insurance, and real estate.

Although the methodological differences between the 1953 study and the later studies preclude definitive results, an upward pattern in employer expenditures for health, disability, and life insurance benefits as a percentage of gross payroll is clearly indicated. The cost of paid sick-leave and retirement plans, on the other hand, has remained relatively unchanged during

TABLE 8.—Average employer expenditures [1] in establishments reporting selected employee benefits for production workers in manufacturing industries, 1953, 1959, and 1962

Type of expenditure	1953	1959	1962
	As percent of gross payroll		
Insurance and welfare [2]	1.7	2.3	2.9
Paid sick leave [3]	.9	1.0	.9
Retirement [4]	3.5	3.6	3.5
	Cents per hour paid for		
Insurance and welfare [2]	3.1	5.4	7.3
Paid sick leave [3]	1.7	2.3	2.5
Retirement [4]	7.0	9.0	9.3

[1] Net expenditures after deducting any rebates, refunds, and dividends returned to employer by insurance carrier.
[2] Includes life, sickness, accident, surgical, medical care, and hospitalization insurance, as well as death, accident, and surgical and medical care payments not insured. Excludes workmen's compensation costs and contributions to temporary disability insurance plans where required by State law.
[3] Excludes payments made by the company directly to the worker in compliance with a State temporary disability insurance law.
[4] Includes insured and noninsured pension and profit-sharing plans.

Source: Bureau of Labor Statistics, *Problems in Measurement of Expenditures on Selected Items of Supplementary Employee Remuneration, Manufacturing Establishments, 1953* (Bulletin No. 1186), pp. 47 and 49; *Employer Expenditures for Selected Supplementary Remuneration Practices for Production Workers in Manufacturing Industries, 1959* (Bulletin No. 1308), 1962, pp. 17, 18, 71, and 73; and a forthcoming Bulletin, *Employer Expenditures for Selected Supplementary Compensation Practices for Production and Related Workers and Composition of Payroll Hours, Manufacturing Industries, 1962.*

the past decade. The BLS also reports that establishments with separate expenditures for supplemental unemployment benefits spent about 1 percent of gross payroll for this purpose in 1962—little different from the proportion in 1959.

As would be expected, the BLS data show that the cost of benefits in terms of cents per hour has been rising. The rise has been most pronounced in the area of health, disability, and life insurance benefits; company contributions in 1962 were more than double the amount in 1953. For retirement plans, some slackening in the rate of increase has taken place since 1959; company contributions were only 0.3 cents higher in 1962 than in 1959.

Indicative of the increasing importance of fringe benefits is the fact that, while average hourly earnings of production workers in manufacturing rose 9 percent from 1959 to 1962, employer expenditures (in terms of cents per hour paid for) for private health, disability and life insurance benefits rose 35 percent for those employers having such programs.

The Chamber of Commerce and BLS surveys show marked points of similarity, despite differences in sampling and study procedures. This similarity applies especially to trend data, which show for manufacturing industries substantial increases in expenditures for insurance and welfare benefits, some dropping off in pension costs, and relative stability in paid sick-leave costs as measured in terms of gross payroll.

The overall absolute figures in the two surveys are also reasonably consistent. Differences do show up, however, when data for individual industries are considered. A comparison of the 1959 data show that for most manufacturing industries the Chamber of Commerce study reported higher expenditures in terms of payroll than the BLS study, especially with respect to pension costs. A later BLS study of a group of nonmanufacturing industries—finance, insurance, and real estate—showed the same tendency. Employer expenditures in 1961 in these industries amounted to 2.1 percent of gross payroll for insurance and welfare plans and 6.1 percent for retirement plans.[17] For the same year, the Chamber of Commerce reported comparable percentages of 2.7 percent and 7.9 percent for finance and 1.8 percent and 7.7 percent for insurance companies.

It should be observed that the relative level of expenditures for the various benefits would undoubtedly be affected if employee contributions were taken into consideration. Such contributions are found most frequently in the insurance and welfare field, less often in pension plans, and rarely in paid-sick-leave and supplemental unemployment benefit plans.

The Chamber of Commerce found in its 1963 fringe benefit study that employee payroll deductions amounted to 1.7 percent of payroll for pensions and 1.6 percent for insurance and welfare benefits among firms making such deductions. In 1955 the average was 1.8 percent for pensions and 1.3 percent for insurance and welfare benefits. Overall cost figures cannot be obtained by combining these averages with average employer contributions, since the latter are based on data for all plans—contributory and noncontributory. The BLS studies indicate that, for insurance and welfare benefits, employers generally make a smaller contribution when their employees are also contributing. It seems to make little difference in the average employer contribution for pensions, however, whether the plan is contributory or noncontributory.

Method of Financing

Unpublished data compiled under the Welfare and Pension Plans Disclosure Act show that contributions from employers or from employer groups made up about 78 percent of all contributions reported by the employee-benefit plans for the year 1961. The ratio was 77 percent for 1959, the first year for which data were compiled under the act. For health and welfare plans, employers assumed about 72 percent of the cost. Again the percentage is greater than that for 1959 (70 percent). For pension plans, employers contributed 83 percent in both 1961 and 1959, close to the 85 percent estimated by the Division of the Actuary for 1961 in table 5.

Employers contribute a smaller proportionate amount to insured plans than to self-insured and other types of plans. According to the data col-

[17] *Employer Expenditures for Selected Supplementary Remuneration Practices: Finance, Insurance, and Real Estate Industries, 1961*, BLS Bulletin No. 1419, 1964, table 23.

lected under the Welfare and Pension Plans Disclosure Act, employer contributions for health and welfare benefits amounted to 68 percent of the total in 1961 for insured plans alone, in contrast to 87 percent for other types of plans. In the pension field, employers contributed 81 percent of the total to insured plans and 84 percent to noninsured plans. The estimates made by the Division of the Actuary show somewhat more divergency, with employer contributions equaling 80 percent of the total for insured pension plans and 87 percent for noninsured plans.

The BLS study for the winter of 1962–63 shows that 3 out of 4 covered workers were in private pension plans that were financed entirely by employers; about one-fourth were in plans financed by joint employer-employee contributions. About 2 percent of the workers were in plans that were completely financed by the employees. A higher proportion of nonbargained plans than of bargained plans were contributory.

The trend toward assumption by employers of a greater proportion of costs is found mainly in the health and welfare field. The annual sample surveys of new group health policies issued by insurance companies give some indication of this trend. The Health Insurance Institute reports that 46 percent of the employees covered by newly written group plans had the full cost borne by the employer in 1963. The ratio was 40 percent in 1961 and 34 percent in 1960. Jointly financed health plans accounted for 53 percent of the employees covered by new policies in 1963, and for 45 percent in 1961. Only 1 percent of the employees covered by new plans in 1963 were in plans financed entirely by employee contributions, compared with 15 percent in 1961.

Further trends in this direction are evident in collective-bargaining settlements in the communications and automobile industries. In the summer of 1963 the Communications Workers of America reached a pattern-setting agreement with the Bell telephone system calling for the companies to assume 50 percent (instead of 25 percent) of the cost of basic hospital-surgical-medical coverage. The settlement of 1964 in the autombile industry called for company payment of the full cost of Blue Cross-Blue Shield coverage for retirees, instead of 50 percent as in the past, and, for those on the payroll, payment of the full cost of life insurance and sickness and accident benefits instead of part of it.

There is some question of the extent to which employer assumption of costs is carrying over into the field of health and life insurance protection after retirement. The comparative study by the National Industrial Conference Board of 131 plans in 1955 and 122 plans in 1964 that continued commercial group insurance for basic health benefits after retirement found that 37 percent in both years were financed entirely by employers.[18] Plans financed entirely by pensioners were actually more prevalent in 1964 than in 1955 (41 percent in comparison with 26 percent) and jointly financed plans were less prevalent (22 percent and 37 percent). Differences in the industry composition of the two samples may have unduly influenced the results. (The 1955 study included nonmanufacturing companies; the 1964 study did not.)

The same study showed little change in the financing of group life insurance coverage after retirement. A review of 432 companies in 1964 with such coverage revealed that 77 percent pay the entire premium for postretirement coverage. The proportion found in a similar 1953 study was 75 percent.

[18] Harland Fox and Miriam C. Kerpen, *op. cit.*, page 61.