Ten Years of Employee-Benefit Plans

by ALFRED M. SKOLNIK*

In the 10 years since 1954, the first year for which data on employee-benefit plans were compiled by the Social Security Administration, the plans have grown tremendously. By 1964, contributions had more than doubled and benefit outlays more than tripled. The number of persons covered for most types of benefits also increased sharply. The following article analyzes these statistics and discusses trends in the field of private pension plans, which are increasingly being used to supplement the protection provided by the Federal program of old-age, survivors, disability, and health insurance (OASDHI).

EMPLOYEE-BENEFIT PLANS enjoyed another year of sustained growth in 1964. Both contributions and benefits recorded dollar increases that were the greatest of the past decade. Contributions, totaling $17.2 billion, were 10.4 percent larger than those a year earlier and benefits, amounting to $11.8 billion, were 10.7 percent greater. The relative gain in contributions was the greatest since 1959.

Coverage gains were less impressive. All the plans showed some increase in the numbers covered in 1964, but for hospital and surgical expense insurance the advances did no more than keep pace with the growth in the labor force. Coverage for other major types of employee benefits, for the most part, showed smaller gains in 1964 than in 1963.

The changes from 1963 to 1964, however, should not obscure the long-term trends revealed by the data compiled on fringe benefits by the Social Security Administration. From 1954 to 1964, the proportion of the Nation's total civilian wage and salary labor force covered by life insurance rose from 49 percent to 64 percent; and the proportion covered by some form of health insurance from 59 percent to 73 percent. Private retirement plans increased their coverage from 31 percent of the private wage and salary labor force to 46 percent.

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HIGHLIGHTS OF 1964

Nineteen hundred and sixty-four was another year in which the major emphasis was on job security and fringe benefits, rather than on general wage increases. Reflecting the tenor of the times, perhaps, was the strike of 8,000 bituminous-coal miners who complained of the lack of fringe benefits and employment security in negotiated contracts, which had emphasized instead two successive $1-a-day wage increases.

Benefit increases for all types of programs were widespread. In many instances, dollar amounts were adjusted upward in an attempt to keep pace with rising wage levels and unit medical care costs. In others, the increases represented real improvements in the scope of benefits.

An example of actual gains was the increase reported in the duration of various types of benefits. In the rubber and meatpacking industries, hospitalization coverage for a single confinement was extended to 365 days—a gain similar to those secured earlier by the United Steelworkers of America and the United Automobile Workers. The New York City brewing industry, in agreements with the truckers' unions, extended Blue Cross coverage from 21 days to 120. The union-negotiated agreements in the automobile industry in late 1964 extended the duration of benefits for weekly accident and sickness (temporary disability) insurance from 26 weeks to 52.

Another example of a real gain was the adoption of new types of employee-benefit plans. Major medical expense insurance plans with a 75-percent coinsurance factor were instituted in the meatpacking industry agreements of September 1964. A comprehensive major medical plan was negotiated between the Switchmen's Union of North America and the Nation's railroads, effective April 1, 1964. Long-term disability plans providing benefits of as much as $250 a month or 50–70 percent of an employee's wages were incorporated in agreements negotiated by the Oil, Chemical, and Atomic Workers International Union. In the food industry on the Pacific Coast, several unions negotiated agreements for company-paid dental care plans and prescription drug plans.

Because of the difficulty of obtaining aggregate figures, not all these new types of plans are reflected in the statistics presented in tables 1–4. Some fragmentary data are available; for example, the Public Health Service has estimated that about 1,350,000 persons were covered by comprehensive dental care plans in June 1964, compared with 550,000 in 1960.

Substantial advances were also made in pension plans during 1964. Under the plans negotiated by the UAW with major car and truck manufacturers, the basic monthly benefit for normal retirement was increased from $2.80 to $4.25 for each year of service. In plans negotiated by the rubber workers' and the packinghouse workers' unions, the monthly benefit was increased from $2.50 to $3.25.

Liberalization of early retirement provisions continued to dominate developments in private pension plans. The 1964 automobile industry agreements reduced from 60 to 55 the age at which persons may retire at the employer's request or under "mutually satisfactory" conditions without an actuarial reduction. The amount of the early retirement benefit was increased to more than double the normal pension (payable until cash benefits under the old-age, survivors, disability, and health insurance (OASDHI) program begin). Effective September 1, 1965, the amounts payable for early retirement (including voluntary) are supplemented until retirees reach age 65; an employee retiring at age 60 with 30 years' service can receive as much as $400 or 70 percent of final monthly pay, whichever is smaller (if he meets a strict earnings test). For voluntary early retirees the pension payable at age 65 is actuarially reduced if retirement occurs before age 62.

Many other plans also liberalized early retirement provisions. The retail clerks' settlements with West Coast grocery concerns called for early retirement at age 50 instead of 55 and full benefits at age 60 with 20 years' service (formerly, age 65 with 30 years' service). As a result of the rubber workers' negotiations with the tire manufacturers, early retirement is possible at age 55 with 15 years' service, instead of 20 years, and full retirement at age 62 rather than 65. The meatpacking industry also agreed to reduce from 20 years to 15 the service requirement for early retirement at age 60. Electrical workers secured early retirement provisions at age 55 after 10 years of service; a company's consent for early retirement is no longer required.

The settlements in several plans also reflect concern about the need for improved survivor benefits, especially for the dependents of workers who die before retirement. In the meatpacking industry, survivor benefits were extended to widows of deceased employees who had acquired 10 years of service and reached age 40. The Radio Corporation of America in settlements with the electrical workers' unions provided that widows of qualified workers who die before age 55 will receive 50 percent of the normal retirement benefit accrued at time of death; the percentage will be reduced for a widow more than 5 years younger than the deceased worker. Settlements in the automobile and farm equipment industries amended the group life insurance program to provide "transition" benefits of $100 a month for 2 years after a worker's death; widows aged 50 and over would receive additional "bridge" benefits until they reach age 62. The automobile manufacturers' subsidized joint-and-survivor option was also improved to permit a widow to receive 55 percent, instead of 50 percent, of the reduced benefit payable to the employee under the option.

Another trend that showed no abatement in 1964 was the assumption by employers of a larger part of fringe benefit costs. The garment workers' unions obtained hikes in the proportion of payrolls set aside for health and welfare funds by employers. Several airline companies agreed to assume full premiums for employee hospitalization (instead of 75 percent) and 75 percent of the cost of covering dependents. The auto industry settlement called for company payment of the full cost of life insurance and of accident and sickness benefits instead of part. Effective January 1, 1966, New York City policemen have the full cost of hospitalization coverage paid for by the city. In the metal-working industry, several companies agreed to pay the employee contribution for life and hospital insurance benefits.

Recognition of the significant role that fringe benefits now play in relation to wages was shown by Congress when it amended the Davis-Bacon Act, which governs Government contracts for federally financed construction projects. The amendment, signed July 2, 1964, provides that the Department of Labor take into account the costs of prevailing fringe benefits as part of the prevailing minimum wage rates that contractors on such projects must pay.

Executive recognition of the significance of fringe benefits was also reflected in the report by the President's Committee on Corporate Pension and Other Retirement and Welfare Programs, *Public Policy and Private Pension Programs*. The report, released at the end of 1964, noted that private retirement plans had become a major element in the economic security of millions of American workers and that their strength rests on the supplementation they can provide to the basic Federal OASDHI program.

HISTORICAL DATA

The historical data on employee-benefit plans (tables 1–4) have undergone one major revision this year. The series dealing with group life insurance has been adjusted downward to exclude group plans not organized on the basis of an employer-employee relationship. The statistics collected annually by the Institute of Life Insurance include all types of group life insurance policies. About one-tenth of these policies are currently sold to farm, professional, and other associations, including credit unions, mutual funds, and other investment groups. Since membership in these groups is increasing and is rarely related to wage and salary employment, their exclusion from the series on employee-benefit plans has become more important.

On the basis of data from periodic surveys conducted by the Institute that measures the extent of this nonemployment-related membership,[1] the coverage figures for recent years have now been reduced by about 25 percent and the contribution and benefit figures by 5 percent. Progressively smaller ratios were used in reducing the figures for the earlier years. The Institute concurs in these adjustments as representing the best possible use of the available benchmark data.

Coverage

As a result of the revision in the coverage figures, the data no longer show life insurance as the most common type of employee protection. The new estimate of employees covered by such plans totaled only 37.8 million in 1963 (compared with the original estimate of 50.6 million published in last year's article)[2]; it is 39.8 million for 1964 (table 1). The most prevalent form of employee benefit is now hospital expense insurance, with 45.8 million employees covered at the end of 1964. Even surgical expense insurance covers more employees (44.0 million in 1964) than life insurance. In addition, hospital expense insurance covered 72.3 million dependents, and surgical expense insurance covered 69.0 million dependents at the end of 1964.

In the 10-year period since 1954, employee coverage under both life insurance and hospital expense insurance has grown by roughly the same number—14–15 million. Surgical expense insurance shows a slightly larger increase (16 million) and regular medical expense insurance a still larger gain (almost 20 million). In contrast, the coverage of plans providing temporary disability and sick-leave benefits has increased by less than 4 million and that of retirement plans by 10 million.

Developments in 1964 reinforce the long-term trends. Both the plans furnishing temporary disability benefits and those providing retirement benefits increased their coverage by less than 1 million during the year. In the health insurance field, the greatest numerical gain (1.7 million) in employee coverage occurred in regular medical expense insurance. The major countertrends in 1964 were the 2.0 million spurt in the number of employees with life insurance coverage and the relatively small increase (0.9 million) in the number with hospitalization protection.

In the area of health benefits the difference between hospital insurance and surgical expense insurance in the number of persons covered has remained the same since 1958. In both years about 2 million more employees and 3 million more

[1] Institute of Life Insurance, *The Tally of Life Insurance Statistics*, March 1958, January 1965, and March 1965; and chapter 7 in *Group Insurance Handbook* (edited by Robert D. Eilers and Robert M. Crowe), 1965.

[2] See the *Bulletin*, April 1965.

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 1956–64

[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 number covered										
1954	26.9	14.0	75.3	1.4	66.2	38.1	1.9	22.9	6.7	----------	14.2
1956	32.1	17.3	89.0	1.5	82.0	54.6	8.3	24.7	7.1	2.0	16.9
1957	33.9	18.4	93.8	1.6	87.7	60.5	12.4	24.9	7.2	1.9	18.1
1958	34.5	18.7	95.0	1.4	89.5	63.6	16.2	23.8	6.8	1.7	18.8
1959	36.5	19.7	98.1	1.5	93.5	69.7	20.3	24.4	6.9	1.9	19.9
1960	37.3	20.9	103.5	1.2	98.8	74.8	25.6	24.5	6.8	1.7	21.2
1961	39.1	21.3	107.4	1.1	102.3	79.6	31.5	24.6	6.8	1.8	22.2
1962	40.6	22.6	110.7	0.9	105.8	82.8	35.1	25.2	6.8	1.8	23.1
1963	42.8	24.7	115.4	0.3	110.1	87.2	38.7	25.7	6.2	1.8	23.8
1964	44.9	26.5	118.1	0.3	113.0	92.6	42.6	26.4	6.2	1.9	24.6
	Employees										
1954	25.7	14.0	31.1	1.4	27.8	17.0	0.8	22.9	6.7	----------	14.2
1956	29.8	17.3	35.6	1.5	33.2	22.7	3.6	24.7	7.1	2.0	16.9
1957	31.2	18.4	37.0	1.6	34.9	24.8	5.1	24.9	7.2	1.9	18.1
1958	31.7	18.7	37.2	1.4	35.2	25.7	6.3	23.8	6.8	1.7	18.8
1959	33.5	19.7	38.3	1.5	36.7	28.1	7.8	24.4	6.9	1.9	19.9
1960	34.2	20.9	40.4	1.2	38.7	30.0	9.7	24.5	6.8	1.7	21.2
1961	35.5	21.3	42.0	1.1	40.2	32.1	11.6	24.6	6.8	1.8	22.2
1962	36.4	22.6	43.2	0.9	41.4	33.2	12.9	25.2	6.8	1.8	23.1
1963	37.8	24.7	44.9	0.3	43.0	34.9	14.6	25.7	6.2	1.8	23.8
1964	39.8	26.5	45.8	0.3	44.0	36.6	15.6	26.4	6.2	1.9	24.6
	Dependents										
1954	1.2	----------	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	5.0	----------	70.5	----------	67.1	52.3	24.1	----------	----------	----------	----------
1964	5.1	----------	72.3	----------	69.0	56.0	27.0	----------	----------	----------	----------

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

[2] Group and wholesale life insurance coverage based on data from Institute of Life Insurance and Health Insurance Association of America, *Group Insurance Coverages in the United States*, annual issues, modified to exclude group plans not related to employment. Self-insured death benefit plan coverage based on data for various trade-union, mutual benefit association, and company-administered plans.

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

[4] Data from *Extent of Voluntary Insurance Coverage in the United States* (Health Insurance Council, 1954 and 1956-64) 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 3,980,000 employees and 6,827,000 dependents in 1964.

[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 based on Bureau of Labor Statistics estimates 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 Office 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.

dependents were covered for the former type of benefit than for the latter. The gap between the number covered by surgical expense insurance and by regular medical expense insurance, however, has been narrowed from 26 million in 1958 to a little more than 20 million in 1964. Major medical expense insurance[3] continued to grow in 1964 but is still covering only about two-fifths of

[3] Data on major medical expense insurance refer exclusively to plans underwritten by commercial insurance companies and exclude plans of this type (covering about 15 million persons as of the end of 1964) under Blue Cross and Blue Shield.

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 1956–64

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	48.6	26.4	58.8	52.6	32.1	1.5	50.0		31.0
1956	52.4	30.4	62.8	58.5	40.0	6.3	50.3	4.1	34.4
1957	54.6	32.2	64.7	61.0	43.4	9.0	50.4	3.8	36.7
1958	56.7	33.4	66.5	62.9	46.0	11.2	49.7	3.6	39.3
1959	58.0	34.2	66.4	63.6	48.7	13.6	49.4	3.8	40.3
1960	58.1	35.5	68.7	65.9	51.0	16.6	49.0	3.4	42.3
1961	60.5	36.2	71.5	68.5	54.6	19.7	49.3	3.6	44.5
1962	60.3	37.4	71.4	68.4	54.9	21.3	49.2	3.6	45.1
1963	61.5	40.1	73.1	70.0	56.8	23.8	49.5	3.6	45.9
1964	63.5	42.2	73.0	70.1	58.3	24.9	49.9	3.6	46.4
	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	0.39	0.02	0.65	[6] 0.37		0.01	0.48		2.17
1956	.46	.02	.73	[6] .41		.04	.48	0.07	2.23
1957	.47	.02	.79	[6] .45		.07	.51	.09	2.38
1958	.51	.03	.85	[6] .47		.12	.53	.06	2.45
1959	.52	.03	.90	[6] .48		.14	.51	.06	2.52
1960	.54	.03	.96	[6] .49		.18	.53	.05	2.47
1961	.58	.03	1.05	[6] .54		.24	.53	.05	2.47
1962	.59	.03	1.10	[6] .56		.26	.54	.07	2.45
1963	.62	.03	1.14	[6] .55		.28	.53	.06	2.46
1964	.63	.03	1.18	[6] .57		.30	.51	.05	2.56

[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—estimated at 62.8 million in 1964 (projected from table VI-14, *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—estimated at 53.0 million in 1964 (projected from table VI-14 in source listed in footnote 2).
[4] Amounts for private and public employees related to private and government civilian wages and salaries—$321.8 billion in 1964 (from table 3, *Survey of Current Business*, August 1965).
[5] Amounts for private employees related to wages and salaries in private industry—$269.2 billion in 1964 (from table 3 in source listed in footnote 4).
[6] Data on contributions for surgical and regular medical benefits not available separately.

the number of employees covered by regular medical expense insurance.

In terms of the labor force, the coverage gains registered in 1964 were not impressive (table 2). Employee coverage under hospital and surgical expense insurance plans showed no change from 1963, remaining at 73 percent and 70 percent, respectively, of the total wage and salary employed labor force. Regular medical and major medical expense insurance showed less-than-average increases of 1–2 percentage points. The largest increases—about 2 percentage points—were registered for life insurance and accidental death and dismemberment insurance.

Coverage under retirement plans continued to exceed the growth in the private wage and salary labor force to reach a new high of 46.4 percent of the total. The 1964 gain, however, was the lowest recorded for the series. A small growth was registered by plans providing temporary disability benefits, but the proportion of employees with coverage at the end of 1964 was still smaller than that in the mid-1950's.

Contributions

Higher payments to private retirement and health insurance plans were mainly responsible for the $1.6 billion increase in the total 1964 employer-employee contributions paid under employee benefit plans. Of the $1.6 billion increase, which was the largest recorded for any year since the series began in 1954, $710 million was accounted for by pension funds and $685 million by the three types of health insurance programs shown in table 3. For both retirement and health benefits plans, these increases were also the largest recorded.

Percentagewise, the 1964 rise in total contributions—10.4 percent—was the greatest since 1959. The 11.5-percent jump in retirement contributions

TABLE 3.—Estimated total employer and employee contributions [1] under employee-benefit plans,[2] by type of benefit, 1954 and 1956–64

[In millions]

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962	1963	1964
Total	$6,984.5	$8,902.5	$10,033.7	$10,510.6	$11,703.5	$12,505.1	$13,441.5	$14,561.1	$15,536.0	$17,150.2
Benefits for all wage and salary workers:										
Life insurance and death benefits [3]	731.5	1,002.0	1,076.9	1,179.0	1,291.7	1,416.2	1,556.6	1,677.1	1,867.0	2,039.0
Accidental death and dismemberment [4]	33.5	49.7	56.5	60.9	66.0	70.0	75.0	80.0	92.0	99.0
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	3,421.7	3,801.2
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	1,662.6	1,840.0
Major medical expense [7]	18.0	94.0	169.0	266.0	357.0	470.0	651.0	753.0	837.0	965.0
Benefits for wage and salary workers in private industry:										
Temporary disability, including formal sick leave [8]	780.9	906.1	1,014.5	1,039.3	1,086.6	1,166.9	1,200.6	1,291.1	1,333.7	1,369.0
Written in compliance with law	*178.1*	*177.1*	*217.2*	*232.3*	*232.8*	*238.8*	*255.3*	*255.4*	*244.4*	*242.4*
Supplemental unemployment benefits [9]	----------	125.0	170.0	125.0	125.0	115.0	120.0	158.0	142.0	147.0
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	6,890.0

[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 statue and employer's liability.

[3] Group and wholesale life insurance premiums based on data from Institute of Life Insurance and Health Insurance Association of America, *Group Insurance Coverages in the United States*, annual issues, modified to exclude group plans not related to employment. Self-insured death benefits 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 Health Insurance in the United States: An Overview," *Social Security Bulletin*, December 1965. 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: 1948–64," *Social Security Bulletin*, January 1966. 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 based on Bureau of Labor Statistics estimates 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 Office 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.

was the greatest since 1957. The 1964 rate of increase (11.6 percent) for the health benefit plans was, however, lower than those registered in the years 1959–61.

Other types of employee-benefit plans showed only moderate increases in contributions from 1963 to 1964. The 9.2 percent increase in premiums for group life insurance was slightly less than the average for the period under review, and the 2.6-percent rise reported by plans providing temporary disability benefits was next to the lowest for any single year in the series.

Exclusion of the group life insurance plans that are not based on the employer-employee relationship brought a reduction of about $100 million in the 1963 estimate of contributions attributable to the "life insurance and death benefits" category. (It reduced the 1964 estimate by about $115 million.)

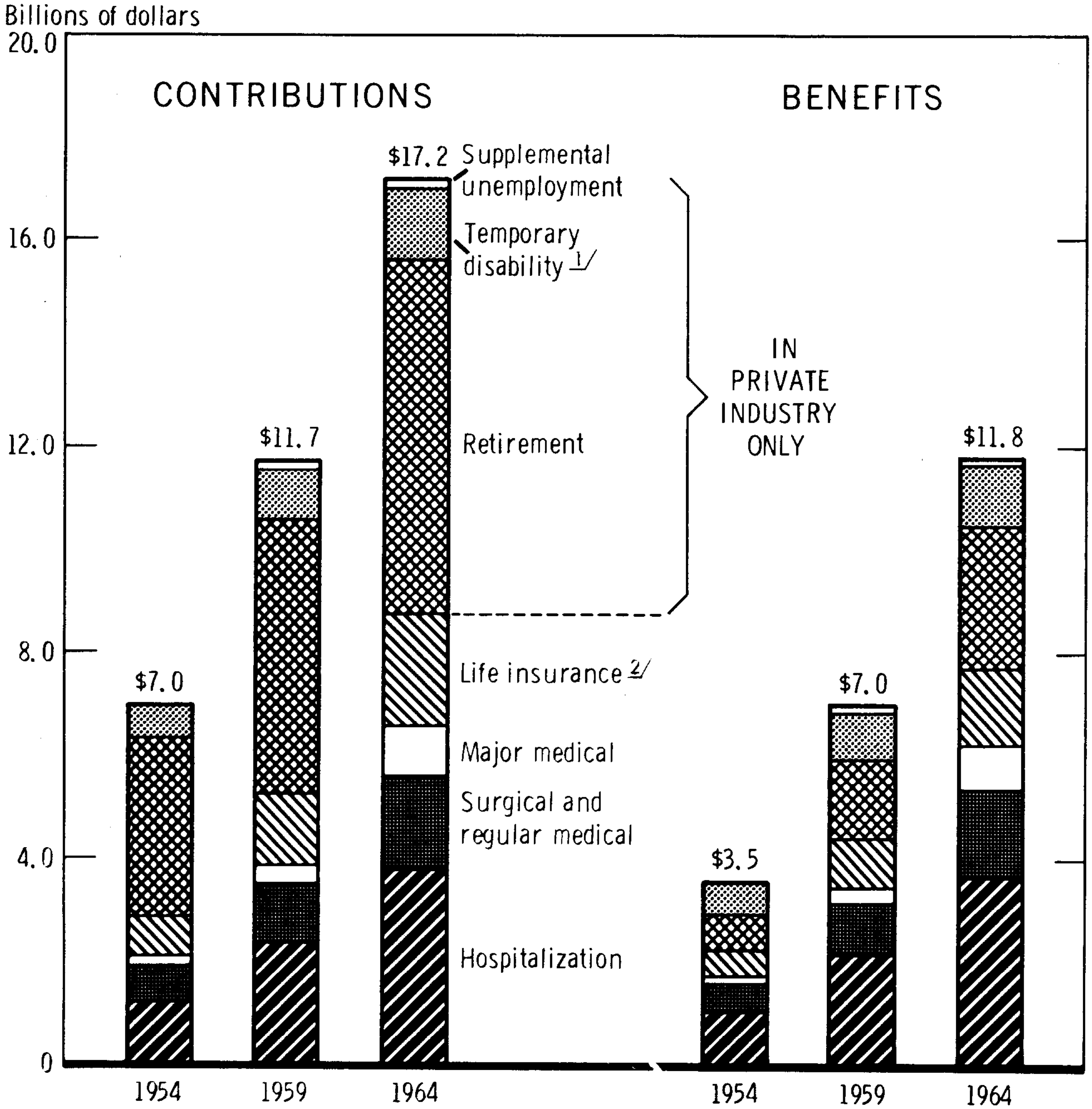
The rise in contributions to retirement and health plans is also reflected in the proportion of aggregate wages and salaries set aside for these purposes—proportions that reached new heights in 1964. For retirement plans, employer-employee contributions advanced from $2.46 per $100 of private wages and salaries in 1963 to $2.56 per $100 in 1964. This 10-cent rise followed 4 years of stable rates. A smaller increase was registered for the three types of health insurance shown in table 2. Contributions to these plans equaled $2.05 per $100 of all wages and salaries in 1964, compared with $1.97 in 1963, but the rise of 8 cents was one of the smallest in the series.

Premiums for life insurance (including accidental death and dismemberment insurance) went up 1 cent in 1964 to equal 63 cents per $100 of all wages and salaries. For temporary disability benefits, there was a drop of 2 cents per $100 of private payroll in the contribution rate. Reflecting the general lack of coverage growth in temporary disability insurance, contributions leveled off at about 51–54 cents per $100 of payroll.

Benefits

Benefits under employee-benefit plans, like contributions, experienced the largest increase of the series in 1964. Expenditures amounted to an estimated $11.8 billion, about $1.1 billion higher than in 1963. Percentagewise, however, the increase of 10.7 percent was in keeping with the

Contributions and benefits under employee-benefit plans by type of benefit, 1954, 1959, and 1964



[1] Including sick leave.

[2] Including accidental death and dismemberment insurance.

average annual increase, which for most years has been a consistent 10–12 percent (table 4).

Health insurance plans were the most important element in the increased benefit outlays in 1964. Two-thirds of the $1.1 billion increase resulted from larger payments for hospitalization, surgical-medical, and major medical expense benefits. Only about one-fourth was attributable to increased pension plan expenditures.

Among the health insurance plans, those providing for medical care reported the greatest percentage increase in benefits from 1963 to 1964—17.7 percent. This was the greatest single-year advance—both absolutely and relatively—for such plans since the series began. Hospital expense insurance plans also had an absolute (though not percentage) increase in 1964 that was the highest for the series.

TABLE 4.—Estimated benefits paid under employee-benefit plans,[1] by type of benefit, 1954 and 1956–64

[In millions]

Type of benefit	1954	1956	1957	1958	1959	1960	1961	1962	1963	1964
Total	$3.526.6	$4,821.0	$5,587.3	$6,264.7	$6,988.8	$7,844.5	$8,739.9	$9,797.3	$10,620.5	$11,754.5
Benefits for all wage and salary workers:										
Life insurance and death benefits [2]	508.9	649.7	779.4	850.9	918.5	1,017.6	1,122.3	1,236.5	1,341.8	1,426.3
Accidental death and dismemberment [3]	25.1	30.5	36.7	42.3	43.0	47.3	58.0	68.8	82.5	88.0
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	3,264.5	3,650.8
Written in compliance with law	*5.1*	*6.3*	*6.8*	*8.5*	*8.9*	*8.0*	*7.3*	*6.3*	*3.5*	*2.4*
Surgical and regular medical [4]	552.6	757.9	876.9	929.1	1,024.2	1,116.2	1,239.7	1,369.5	1,452.4	1,709.2
Major medical expense [6]	10.0	67.0	131.0	233.0	332.0	427.0	562.0	667.0	752.0	869.0
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	1,176.3	1,194.2
Written in compliance with law	*132.0*	*151.2*	*178.1*	*183.7*	*189.5*	*196.1*	*201.4*	*204.3*	*198.2*	*195.1*
Supplemental unemployment benefits [8]	----------	5.0	20.0	135.0	75.0	105.0	100.0	108.0	91.0	57.0
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	2,760.0

[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 based on data from Institute of Life Insurance, *Life Insurance Fact Book* (1965), modified to exclude group plans not related to employment. 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 Health Insurance in the United States: An Overview," *Social Security Bulletin*, December 1965. 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: 1948–64," *Social Security Bulletin*, January 1966. 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 based on Bureau of Labor Statistics estimates 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 Office 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.

Also experiencing the greatest dollar increase since 1954 in benefit payments were private retirement plans. Expenditures rose $300 million, bringing the total outlay for pensions in 1964 to $2.8 billion. The percentage gain of 12.2 percent was not, however, exceptional. It was, in fact, less than those reported for 1962 and for years before 1960.

Death benefits paid under life insurance policies rose 6.3 percent in 1964, the smallest advance for the series. The exclusion of group plans not related to employment reduced the 1963 estimate by $70 million and the 1964 estimate by $80 million.

Benefits for temporary disability showed hardly any increase in 1964, but this result is not unexpected in light of the minimal growth of such protection. One factor may have been the decline in private plans written under the California temporary disability insurance law. The lower morbidity rates in 1964, as reported by the National Health Survey, may also have affected the total.

The three types of health insurance plans accounted for 53 percent of all benefits paid under employee-benefit plans in 1964. In 1954 the ratio was 47 percent. The entire increase can be attributed to major medical expense insurance, which accounted for less than 1 percent of the total outlay in 1954 but for 7 percent in 1964. The other types of health plans, though steadily increasing their dollar expenditures, have no more than maintained their relative shares of the total. The data here on major medical expense insurance refer exclusively to policies sold by commercial insurance carriers. Comparable benefits provided by Blue Cross-Blue Shield plans and prepayment group-practice plans are included under the hospitalization and surgical-medical categories.

RETIREMENT PLAN TRENDS

The grand totals of coverage, contributions, beneficiaries, benefit payments, and reserves under private retirement plans have moved upward without interruption during the 15-year period reviewed in table 5. Year-to-year percentage changes in these aggregates show a more robust pattern of growth in the 1950's than in the 1960's, however. For every item shown in the tabulation that follows, the average annual rate of increase has declined in each successive time period.

Item	Average annual rate (percent) of growth		
	1950–55	1955–60	1960–64
Coverage	9.5	6.6	3.8
Contributions	13.0	7.4	5.9
Beneficiaries	16.8	12.5	8.8
Benefits	18.1	15.5	12.1
Reserves	17.8	13.6	10.4

Since the end of 1950, cumulative contributions have amounted to $65.6 billion, cumulative benefit outlays to $19.3 billion. Reserves have increased by $65.1 billion. The $18.8 billion difference between contributions and the combined benefit and reserve figures is, of course, made up of investment income. This difference is growing each year, and for 1964 alone it amounted to $3.2 billion.

Reserves reached a total of $77.2 billion in 1964. The 10.4-percent increase from the 1963 year-end total exactly equaled the average rate of growth during 1960–64. Contributions spurted to $6.9 billion; the 11.5-percent rise approximated the rates of growth experienced in the fifties. This movement was led by employer's contributions to noninsured plans, which grew by 13.3 percent and accounted for 64 cents out of every $1 contributed to pension funds (insured and noninsured) during the year.

It is not clear whether this increase represents a breakout from the recent historical pattern or is the result of special factors operating in 1964. The Federal income-tax cut enacted in 1964, for example, reduced corporate tax rates in two steps. The first step took effect in 1964 and the second in 1965. Thus, there might have been accelerated funding in 1964 to take advantage of the special situation.

Though the average reserve per worker has risen steadily since 1950—from $1,235 in that year to $3,138 in 1964—combined employer-employeee contributions per covered worker have fluctuated. For 1951, the earliest year for which this figure can be calculated, per capita contributions amounted to $256. They advanced to $279 in 1953 and then dropped below this level until 1964, when they reached $285.

Generally speaking, aggregate benefits since 1950 have been growing at a faster pace than the number of beneficiaries, thus producing a gradual increase in outlays per beneficiary. The 1964 average benefit expenditure of $1,157 was 3 percent higher than the 1963 average, but lagged behind the 3.4-percent increase reported in wage and salary levels in private industry.

The number of workers covered by pension plans advanced in 1964 to 24.6 million—a modest increase of about 3 percent. An unusual feature of this growth was that most of it occurred under insured plans.

Historically, insured plans have accounted for

TABLE 5.—Private pension and deferred profit-sharing plans: [1] Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950–64

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 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
1964	24,600	6,000	18,600	5,900	1,470	4,430	990	370	620	2,490	740	1,750	2,760	640	2,120	77.2	25.2	51.9

[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 the insured plans.

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

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

a declining share of coverage. The reversal in 1964 may be the result of several developments that have tended to put insured plans in a more competitive position vis-a-vis noninsured plans:

1. The Life Insurance Company Income Tax Act of 1959 excluded from taxation investment income attributable to insured pension reserves; noninsured plans have enjoyed a similar exemption.

2. The adoption by many life insurance companies of the "investment year method" of crediting interest on pension funds has raised yields. Under this method, interest is credited on the basis of the prevailing rate for new investments rather than on the basis of average portfolio results that include investments made many years before. In periods of rising investment yields, the average rate of return on overall portfolios tends to be lower than the yield from newly invested and reinvested funds.

3. Separate account contracts have been authorized for insured pension reserves by several States. Such contracts permit greater flexibility in investing these funds in common stocks and equities and offer an opportunity for higher investment yields.

The estimates of retirement plan coverage and trends in this article are less precise than is desired because of the problems involved in adjusting for dual coverage. A growing number and proportion of employees are covered by more than one type of pension or deferred profit-sharing plan. This dual coverage often arises when companies with collectively bargained plans for all employees use a supplemental plan for salaried employees and employees earning more than a certain amount. In some instances, workers are covered by both an insured plan and a noninsured plan or by a company plan and a multiemployer or union plan. Much dual coverage also arises in connection with deferred profit-sharing plans, which often are specifically designed to provide supplemental protection.[4]

A comparison of the Social Security Administration coverage figures with those developed from the reports filed under the Welfare and Pension Plans Disclosure Act suggests that the former may significantly overstate the coverage of retirement systems. To what extent this overstatement may reflect failure to adjust fully for dual coverage is not known. The Social Security Administration is now reviewing the estimates in the hope of making better adjustments that will eliminate the effects of dual coverage.

RETIREMENT PLAN CHARACTERISTICS

Insurance companies underwrite the majority of pension plans, and these insured plans cover about one-fourth of the employees in pension plans and deferred profit-sharing plans. Three-fourths of the employees are under noninsured or "trusteed" plans, among which are classified the multi-employer plans, union-financed plans (with no employer participation), unfunded or "pay-as-you-go" plans, plans of nonprofit organizations, and deferred profit-sharing plans.

Insured pension plans can take any one of many forms or combinations. Under the conventional group deferred-annuity plan, the annuity accruing to the employee is purchased annually and guaranteed, with the yearly amount payable at retirement equaling the sum of the annual purchases. Under "deposit administration" group annuity plans, 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. Another type of insured plan, frequently used for small groups, is the individual policy pension trust, which, unlike group annuity plans, usually provides life insurance as well as retirement benefits.

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

A recently released study by the Bankers Trust

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[4] A recent survey by McKinsey & Company, management consultants, of 490 large companies with provisions for retirement income for salaried personnel revealed that out of 117 with deferred profit-sharing plans, only 26 were the sole source of employee retirement benefits. George H. Foote and David J. McLaughlin, *Corporate Retirement Programs*, McKinsey & Company, Inc., 1965, page 35.

Company on pension practices in employer-administered plans amended or newly adopted in the period 1960–64 discusses funding methods, benefit provisions, and a wide variety of other plan characteristics.[5] Some indication of trends is available by comparing its findings with the results of two earlier studies covering the periods 1956–59 and 1953–55. The size and composition of the sample have shifted from period to period, and it is not known how many plans were common to more than one study. The latest study, which reports on 201 plans, is confined to plans having at least 200 employees but typically having many more. Plans in 88 industries, covering 5.5 million employees, are represented. The vast majority of workers covered by pension plans are in the large plans.

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

According to the Bankers Trust Company, there has been a growing preference for the trusteed method of financing among both pattern and conventional plans. Ninety percent of the pattern plans included in the 1960–64 survey used the pension trust medium, compared with 71 percent of those included in the 1953–55 study. Among conventional plans, the prevalence of this method grew from 66 percent in 1955 to 72 percent in 1964.

The Institute of Life Insurance reports that the most widely used type of insured pension plan in 1964 was the individual policy plan, accounting for 66 percent of the plans.[6] Deferred group annuity contracts accounted for 13 percent and deposit-administration plans for 11 percent. In terms of employees covered, however, the distribution was very different.

Deposit-administration plans accounted for 47 percent of the coverage, deferred group annuities for 34 percent, and individual policies for 11 percent. Since 1959, deposit-administration plans and deferred group annuities have virtually exchanged positions; deposit-administration plans had 31 percent of coverage in 1959 and deferred annuities 48 percent. These figures, of course, reflect the fact that the group annuity and deposit-administration plans are more suitable for large firms.

Financing

Union-negotiated pension plans are generally noncontributory; that is, they are completely employer-financed. Among nonnegotiated plans, the gradual trend is toward eliminating or reducing employee contributions, though the number of contributory plans is still substantial. The Bankers Trust Company study found that 49 percent of the conventional plans in 1964 required employees to contribute, compared with 54 percent in 1955. The McKinsey & Company survey of 490 salaried pension plans in 1964 also reported that slightly less than half required their employees to share the cost.

Employee contributions may be based on either a uniform percentage of annual compensation or a graduated percentage. Often the contributory base may be only compensation in excess of a fixed amount (breaking point), usually the OASDHI taxable wage base. Sometimes a lower contribution rate may be applied to earnings up to the breaking point and a higher rate to earnings above that figure.

Among 227 contributory pension plans for salaried personnel included in the McKinsey & Company study, maximum employee contribution rates ranged from a low of 1 percent of pay to a high of 7 percent. Sixty-three percent of the plans specified a top contribution of less than 5 percent.

Age and Service Requirements

Virtually every pension plan requires that the male worker attain a specified age, usually 65,

[5] Bankers Trust Company, New York, *1965 Study of Industrial Retirement Plans.*

[6] Institute of Life Insurance, *The Tally of Life Insurance Statistics,* May 1965 and May 1961.

to be eligible for normal retirement benefits. In addition, most plans require a minimum number of years of service, usually 10 or 15 under union-negotiated plans and from 5 to 10 under other plans.

The Bankers Trust Company studies reveal little trend toward reducing the normal retirement age.[7] There seems to be some tendency, however, toward reducing the service requirements that an employee must meet to qualify for full benefits. Half the conventional plans reported in 1955 that more than 5 years of service were required for a normal retirement benefit, but by 1964 the ratio had dropped to 40 percent; the proportion having no service requirements increased from 13 percent to 18 percent.[8] Among pattern plans, the proportion requiring 15 years or more of service dropped from 47 percent in 1955 to 37 percent in 1964.

Generally, union-negotiated plans permit employees to work beyond normal retirement age if they wish, and nonnegotiated plans require the company's consent to defer retirement. The Bankers Trust Company studies show a growing trend toward use of the normal retirement age as the compulsory retirement age. The percentage of pattern plans that permit an employee to work after normal retirement age, if he wishes, dropped from 73 percent in 1953 to 58 percent in 1964, and the proportion that incorporate a compulsory retirement age rose from two-thirds to four-fifths. Among the conventional plans, almost all have a compulsory retirement age, and only 1 in 10 lets employees defer retirement at their own election; in 1959, the ratio was 1 in 5.

According to a recent Bureau of Labor Statistics study of all pension plans (including multi-employer plans) reporting under the Welfare and Pension Plans Disclosure Act, 73 percent of plans (with 62 percent of the workers) had involuntary retirement provisions.[9]

The great majority of pension plans permit retirement before attainment of normal retirement age, either at the employee's or the company's election or at the employee's election, subject to the company's consent. In recent years, early-retirement provisions have been receiving priority in union-management negotiations as a means of easing work-force reductions caused by plant shutdowns, automation, or other technological or economic changes. As a result, the percentage of pattern plans in the Bankers Trust Company studies that contain early-retirement provisions has increased from 70 percent in 1955 to 100 percent in 1964. A large proportion of conventional plans have always contained provisions for early retirement; both the Bankers Trust Company and the McKinsey & Company surveys show that more than 95 percent had such provisions in 1964.

In the BLS study of all pension plans (including multi-employer plans) reporting under the Welfare and Pension Plans Disclosure Act, about three-fourths of the plans had early-retirement provisions.

A recent innovation has been special early-retirement provisions designed to protect a worker compelled to retire early or who retires under "mutually satisfactory" conditions. They usually grant substantially higher benefits than regular early-retirement benefits and, in some plans, even more than normal retirement benefits.

There has been a significant growth in the number of plans that permit early retirement simply at the employee's option. In 1964 about nine-tenths of the pattern plans included in the Bankers Trust Company sample permitted retirement at the employee's option, compared with two-fifths of the plans in 1955 that had early-retirement provisions. Among conventional plans with early-retirement provisions, the increase has been from about one-third to two-thirds.

[7] For technical reasons related to other benefits, age 65 is still termed the "normal retirement age" in some plans, even though full unreduced benefits are payable to all eligible workers retiring at specified ages under 65. The Bankers Trust Company notes this development in a growing number of cases.

The Bureau of Labor Statistics' continuing study of 100 selected pension plans under collective bargaining, ranging in size from 1,000 to several hundred thousand workers, reported 16 plans that were changed between the spring of 1961 and the winter of 1964 to permit retirement before age 65 with unreduced normal benefits. Eleven of these plans, including the major automobile and farm-equipment plans, lowered the normal retirement age to age 62. Harry E. Davis, "Changes in Negotiated Pension Plans, 1961–64," *Monthly Labor Review*, October 1965.

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

[9] U.S. Department of Labor, *The Older American Worker: Age Discrimination in Employment* (Report of the Secretary of Labor to the Congress Under Section 715 of the Civil Rights Act of 1964), June 1965, page 28.

Early retirement under both pattern and conventional plans usually requires the attainment of age 55 or 60, plus 10 or 15 years of service. There has been little tendency to adopt earlier ages, but there has been some shifting of emphasis from age 60 to age 55 for early retirement both at the employee's election and with the company's consent.

Disability and Death Benefits

Another form of early retirement occurs when a worker is retired prematurely because of total and permanent disability. The union-negotiated plans have generally contained formal provisions for disability retirement. Such provisions have been less common among nonnegotiated plans but are growing in importance. The Bankers Trust Company found that 94 percent of the pattern plans in 1964 included formal disability provisions, compared with 80 percent in 1955. Among conventional plans, 46 percent had disability provisions in 1955 and 73 percent in 1964.

Service requirements for disability benefits, like those for retirement for age, have undergone some liberalization. Although a 15-year service requirement was fairly prevalent in earlier years and is still common, the trend is toward a 10-year requirement. Age requirements have been either eliminated or lowered. The Bankers Trust Company studies found that the proportion of pattern plans with disability provisions requiring 15 years of service dropped from five-sixths in 1955 to one-half in 1964. Only one-fourth had any age requirement in 1964, compared with two-fifths in 1955. A similar but less marked trend was observed among conventional plans.

The Bureau of Labor Statistics study of 100 selected negotiated pension plans shows that 23 of the 75 plans that had disability provisions liberalized their age or service requirements during the period 1961–64. Six plans reduced age requirements, 14 trimmed service requirements, and three liberalized both age and service requirements.

A special benefit added to many pension plans in recent years is the preretirement death benefit. Such benefits, which can take the form of either lump-sum payments or installment benefits, are payable to a worker's spouse, usually as a supplement to the group life insurance coverage that most companies provide. They are designed in most cases for the employee who dies when he is near retirement age and has met specified age and service requirements, commonly age 55 with 10–15 years of service. Frequently, this benefit would compensate the surviving spouse for the loss of a benefit under a joint-and-survivor option that otherwise would be effective only on the commencement of normal, early, or disability retirement.

About one-third of the conventional plans and one-eighth of the pattern plans in the Bankers Trust Company study had such "widows' pensions." About half these plans adopted this feature in the 1960–64 period. Eight of the 100 negotiated plans in the BLS study reported adoption of such benefits between 1961 and 1964.

Benefit Formulas

Benefits under pension plans are generally computed in one of three ways: (1) They may be related to the worker's earnings and length of credited service, (2) they may be related to the length of credited service only, or (3) a uniform (flat) benefit may be provided to all workers who fulfilled specified service requirements. The first formula is characteristic of conventional plans; the second and third formulas are found in collectively bargained plans.

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

When the second formula is used, the benefit is expressed in terms of a flat dollar amount ($1.50, $2.50, or $3.25 monthly, for example) for each year of service, based on the employee's entire service or on a specified maximum number of years—say, 30. A variation of this type of formula is the provision for a flat benefit, after a specified period of service (25 years), reduced proportionately for less service.

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

Plans often employ an alternative formula to provide a minimum benefit. The benefit may be a flat dollar amount or a minimum percentage of the employee's compensation, or a combination of the two, and are based on a minimum period of service.[10]

Relatively few plans now take directly into account the cash benefits payable under the OASDHI program in determining the private pension amount. In the Bankers Trust Company study, only 11 percent of the conventional plans in 1964 deducted all or part of the OASDHI benefit amount from regular pension benefits. Among pattern plans using a flat dollar benefit formula, none offset OASDHI benefits, though the small number of plans (mainly in the steel industry) that base benefits on compensation still retain an offset provision for the most part. The trend has been more toward reducing, rather than eliminating, the offset.

A much larger proportion of pension plans indirectly take OASDHI benefits into account by incorporating the wage base for that program in their benefit or contribution formulas. As noted earlier, the usual procedure is to apply one rate up to the maximum OASDHI wage base and a higher rate on the remainder. In some plans, no pensions are payable on earnings below the specified amount.

For early retirement, the procedure has generally been for benefits to be reduced below normal retirement benefits, often on the basis of an actuarial formula designed to compensate for the increased cost. With early retirement benefits increasingly being used as an incentive to induce workers to withdraw from the labor force, the trend in collective bargaining has been to provide benefits that are greater than the actuarial equivalent. Under special early-retirement plans, the benefits provided are equal to or greater than the normal accrued pension but are payable only under specified conditions, such as permanent layoff or retirement with the consent of the company.

The Bankers Trust Company studies show that only 16 percent of the pattern plans with early-retirement provisions in 1959 provided a benefit greater than the actuarial equivalent, compared with 54 percent in 1964. Among conventional plans, the trend is not so pronounced. In the 1959 study, 10 percent of the plans provided a benefit that was greater than the actuarial equivalent of the normal accrued pension; in the 1965 study, the percentage was 23 percent.

Disability benefits, usually payable after a 6-month waiting period, are generally related to the amount of normal pension that the employee has accrued, based on his service to the date of his disability retirement. The benefit may be (1) the actuarial equivalent of the accrued pension; (2) the full accrued pension—that is, the full normal retirement benefit for equivalent service and earnings; or (3) the full accrued pension plus an additional benefit, or a special benefit independent of the accrued pension.

With the third method, benefits are payable to age 65 or until eligibility for a retirement benefit under the OASDHI system is established, when the full accrued pension becomes payable. This method is in the ascendant for collectively bargained plans. The second is the most prevalent among nonbargained plans.

Disability benefits, except those based on the actuarial equivalent, are frequently reduced by the amount of disability benefits received under a public program such as OASDHI or workmen's compensation. Offsets are more common in negotiated plans than in nonnegotiated plans, but the trend has been toward eliminating such provisions. The following data—drawn from the Bankers Trust Company studies (published and unpublished figures)—show the proportion of pension plans with disability provisions that have offsets for payments under OASDHI and workmen's compensation.

[10] The relationship between types of basic formulas and minimum benefits is shown in tabular form on page 25 of the Department of Labor study of the older American worker, *op. cit.*

Period	Percent with offset for—			
	OASDHI		Workmen's compensation	
	Pattern	Conventional	Pattern	Conventional
1956–59	74	35	68	28
1960–64	61	28	59	26

Benefit Levels

Benefit levels vary widely among pension plans and, often, within plans, depending on benefit formulas and the treatment of past service. A sample study by the Bureau of Labor Statistics of benefit formulas in effect in the winter of 1962–63 for pension plans filing reports under the Welfare and Pension Plans Disclosure Act found that the variation in benefits widens with longer service and higher pay.[11] For example, plans covering half the workers provide benefits ranging from 10 percent to 20 percent of preretirement income to workers with 20 years of future credited service and average annual earnings of $4,800 to $6,000. For workers who have longer periods of service, say 30 years, the range is from 15 percent to 30 percent. For the $8,400-a-year worker with 30 years' service, the graduation among plans is still greater—from about 10 percent to almost 35 percent.

The noncontributory plans tend to be at the lower end of this range, and the contributory plans at the higher end. Thus, the median private pension (at normal retirement) under noncontributory plans for the $4,800-a-year worker with 30 years' service equals 18.8 percent of his preretirement income; for the identical worker under contributory plans, it represents 29.8 percent. (For both contributory and noncontributory plans combined the ratio is 19.5 percent.) The difference between contributory and noncontributory plans is even greater at the higher earnings levels, since benefit formulas in contributory plans are usually geared to earnings.

Generally speaking, lower-paid workers tend to receive a larger proportion of preretirement earnings than higher-paid workers. For example, the median pension for the $3,600-a-year worker with 20 years of service was 17.3 percent of his previous earnings, compared with 10.9 percent for the $8,400-a-year worker. After 30 years of service the respective ratios are 25.0 percent and 18.6 percent.

When OASDHI benefits are included, the difference in benefit-wage ratios between low-paid and high-paid workers is clear cut. The BLS study found that at an assumed earnings level of $3,600 with 30 years' service, plans covering about 9 out of 10 workers would provide for a combined benefit (primary OASDHI benefit[12] and normal retirement pension) of at least half preretirement earnings; at $8,400 a year, only about 3 out of 10 would secure half or more.

The 1964 McKinsey & Company study of 490 plans for career salaried personnel further illustrates the wide variation in income protection provided by public and private retirement systems.[13] For the most liberal fourth of the companies surveyed, for example, the pension plus the OASDHI benefit averaged better than 50 percent of the final 5-year average pay for top executives ($15,000–$75,000 pay progression over 35 years of future service) and middle managers ($10,000–$30,000) and was more than 60 percent for clerical employees ($4,800–$8,000). Conversely, retirement benefits of less than 35 percent of final pay for both executives and middle managers, and 45 percent for clerical employees were typical of the least liberal fourth of the plans.

Benefit amounts paid under pension plans have been liberalized in several ways. Often the liberalizations merely serve the purpose of keeping pensions in line with the rising cost of living; sometimes they represent a real improvement in the relation of retirement benefits to preretirement earnings.

In periods of rising prices and earnings, a formula that relates benefits to compensation in the final years of service has obvious advantages over one that relates benefits to compensation during an entire worklife. The pension then reflects more closely the employee's living standards at the time of retirement. The Bankers Trust Com-

[11] Donald J. Staats, "Normal Benefits under Private Pension Plans," *Monthly Labor Review*, July 1965, pages 857–863. The study covered 15,818 pension plans covering 15.6 million active workers. Excluded were deferred profitsharing plans, plans of nonprofit organizations, and plans with fewer than 26 workers.

[12] Based on provisions before the 1965 amendments to the Social Security Act.

[13] Foote and McLaughlin, *op. cit.* The 490 companies surveyed represented 33 major industries and employed approximately 12 million persons.

pany studies disclose that the proportion of conventional plans basing benefits in whole or in part on compensation in the terminal years of service rose from 38 percent in 1955 to 55 percent in 1964; an increasing number of plans have been using the final 5 years, instead of the final 10 years, as the compensation base. The McKinsey & Company study found that, for the typical executive (under the above-mentioned salary-progression assumptions), the median pension under final 5-year-average plans is about 10 percent higher than that under final 10-year-average plans and almost 20 percent higher than in career-average plans. On the other hand, final 10-year-average plans offer the typical clerical employee no real advantage over 5-year plans.

The Bankers Trust Company found that the median benefit ranges of the plans whose benefits are based solely on final average pay have been rising in relation to preretirement earnings, but the increase has not been so sharp as that in career-average plans. Among the latter plans tabulated in the 1960–64 study, only 23 percent provided a benefit of 35 percent or less of annual preretirement compensation, compared with 38 percent in the 1956–59 study.

The adoption of minimum benefit formulas, especially in combination with "final average pay" formulas, has become an increasingly popular method of assuring that benefits will keep up with current compensation. According to the Bankers Trust Company, 53 percent of the conventional plans in 1964 had minimum benefit provisions, and two-fifths of them used a final-average minimum. Nine years earlier, minimum benefits were provided by 39 percent of the plans, of which less than one-sixth had final-average minimums.

Among the pattern plans that gear benefits to length of employment alone, the Bankers Trust Company reports that the median benefit credited for each year of service increased from $20 a year in 1955 to $27 a year in 1959 and to $33.60 in 1964. They also report a trend toward eliminating the maximum limitation on the period of creditable service, which has the effect of increasing benefits for longer-service employees. Seventy percent of these pattern plans in 1964 but 37 percent in 1955 set no ceiling.

Another indication of the extent to which pensions have been liberalized is available from the BLS study of 100 negotiated plans. From 1961 to 1964 there was 3 out of 4 plans with formulas based entirely on length of service that made increases in their monthly benefits ranging from 10 cents to $3.50 for each year of service. Benefits were also increased by 12 plans that provided a uniform benefit to all retirees who complete a specified amount of service. Average monthly benefits (weighted by coverage) payable to hypothetical retirees with 30 years' service under formulas for current service increased from $83.72 to $96.30 for the worker with average earnings of $4,200; for the worker earning an average of $5,400 the increase was from $93.60 to $106.31.

Vesting

The term "vesting" refers to the right of an employee to terminate his employment before retirement without forfeiting the accrued pension resulting from his employer's contributions.[14] Vesting can be established through a special provision in the pension plan or indirectly, through an early retirement provision at the employee's election. Under the first arrangement, the pension is usually deferred until normal retirement age or optional earlier retirement age; under the second, the pension is payable immediately. Sometimes the worker has the option of an immediate cash payment of all the employer's contributions to his account.

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

The Bankers Trust Company studies show a pronounced trend, especially among union-negotiated plans, in the direction of giving vested rights to employees. Of the pattern plans included in the 1960–64 study, 94 percent provided some form of vesting, compared with 41 percent in the 1953–55 study. Most of this development took

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

place in the 1950's as the result of negotiations in the steel and automobile industries. Among conventional plans, which have had a longer history of providing for vesting, 97 percent of the plans in the 1960–64 study had vesting provisions, compared with 74 percent in 1953–55. There has also been a trend toward more liberal vesting arrangements. The proportion of pattern plans, for example, that permit an employee to fully vest at age 40 with 15 years of credited service increased from 42 percent in 1959 to 75 percent in 1964. Among conventional plans, the increase was from 21 percent to 33 percent.

TECHNICAL NOTE

An "employee-benefit plan," as defined in this article, 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 layoffs. The latter 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.

Private plans written in compliance with State temporary disability insurance laws are included in the series, but workmen's compensation and statutory provisions for employer's liability are excluded. Also excluded are retirement and sick-leave plans for government employees, where the government in its capacity as an employer pays benefits directly to its employees.

Government employees who are covered by employee-benefit plans underwritten by nongovernment agencies are included, however, whether or not the government unit contributes (as an employer) to the financing of the program. Specifically involved 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.

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

Contributions under insured pension plans are on a net basis, with dividends and refunds deducted. Those under noninsured plans are, for the most part, on a gross basis, and refunds appear as benefit payments. For pay-as-you-go (unfunded) plans, contributions have been assumed to equal benefit payments. Estimates of per capita contributions are derived by dividing total annual contributions by the average number of employees covered during the year.

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

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