

# Trends in Employee-Benefit Plans in the Sixties

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*Employee-benefit plans providing income-maintenance payments and health-expense benefits have gone through an adjustment period since 1960, influenced by new and expanded public programs and the pressure for expansion of private benefits. The growth rates of the traditional types of coverage have leveled off, but new types of coverage, as well as the scope and levels of benefits, have had vigorous development, especially in the past few years. This article discusses recent trends in these plans and analyzes changes in private pension plan provisions.*

STEADY GROWTH marked the membership, contributions, and benefits of employee-benefit plans in 1969. Contributions and benefits rose sharply during the year, reflecting a continued upward spiraling of health care costs, improvement and broadening of the scope of benefits, the rising earnings levels, and expansion in employment. Benefit payments amounted to \$21.5 billion—almost 16 percent more than the 1968 total. Contributions rose 15 percent to a level of \$30 billion.

At the end of 1969, an estimated 146 million persons (employees and dependents) had hospital expense coverage, 57 million had life insurance and death benefit protection, 31 million employees had temporary disability protection, and 29 million active workers had private retirement plan coverage through employee-benefit plans. These totals mark the end of a decade during which the membership in plans covering hospital, surgical, and medical insurance, life insurance, and retirement has grown 40–50 percent. Major medical insurance coverage expanded at an even greater pace; temporary disability insurance grew less rapidly. During the sixties, total contributions to provide these benefits have more than doubled and benefit payments have about tripled.

Another measure of the long-run gains made

under these plans is the growth in the proportion of the employed labor force they include. From 1960 to 1969 the percentage of employed workers included in health care plans has risen fairly rapidly, but for retirement plans the proportion has had slower growth.

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 medical expenses associated with illness or injury.

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

## HIGHLIGHTS IN 1969

The number of corporate pension and profit-sharing plans submitted for approval to the Internal Revenue Service rose sharply in 1969; about 14,700 pension plans and 13,300 profit-sharing plans were approved.<sup>1</sup> At the end of 1969, the estimated total number of qualified corporate plans (after adjustment for termina-

\* Office of Research and Statistics. Earlier reviews of employee-benefit plans have appeared in the April issues of the *Bulletin*.

<sup>1</sup> Treasury Department, Internal Revenue Service, *Determination Letters Issued on Employee-Benefit Plans*, quarterly.

tions) was about 200,000. The number of pension plans for the self-employed also rose sharply, and more than 100,000 of these plans were approved that year. Plans qualified under the Self-Employed Individuals Tax Retirement Act totaled about 250,000, with an estimated 400,000 persons participating.

A recent analysis of the 1969 developments in major collective-bargaining settlements (covering 1,000 or more workers) showed a decline from the preceding year in the number and proportion of workers involved in changes of supplementary benefits. Health and welfare benefits were improved for about 60 percent of the 2.8 million workers concerned in major settlements in 1969—50 percent of them in settlements dealing with pension improvements.<sup>2</sup>

## HISTORICAL DATA

Some of the figures previously published have been changed to take account of small revisions in source material used to derive the estimates. An innovation this year involves the coverage series. Starting with 1965 data, separate estimates of coverage for "other medical services" have been developed to better assess the trend toward broader health coverage through employee benefit plans. Included are estimates of coverage for physicians' office and home visits, X-ray and laboratory examinations (out-of-hospital), prescribed drugs (out-of-hospital), private-duty and visiting-nurse services, nursing-home care, and dental care.

### Coverage for Employees

Growth rates for traditional employee-benefit coverages continued the modest growth of the past few years—a contrast to the dynamic growth of the fifties. Some of the extended forms of health and disability protection, however, have been showing substantial increases in coverage in recent years.

Employee coverage under the various types of health plans was 4–6 percent higher than it

had been in the previous year—except for major medical expense, which advanced 8 percent (table 1). Hospital coverage took in an estimated 56.8 million workers—2.5 million more than in 1968. Surgical coverage added 3.2 million workers, and reached a total of 56.0 million—almost as many workers as under hospital plan coverage. Regular in-hospital medical expense coverage, which has lagged behind other health coverages, rose by 2.8 million workers to reach almost 49 million. Major medical expense plans covered 24.6 million workers.<sup>3</sup>

Temporary disability plans provided protection to 31 million workers in 1969—1.4 million more than in 1968. About 1.1 million workers obtained retirement plan coverage during 1969. This 4-percent rise brought total membership in these plans to an estimated 29.3 million. Only a small number of workers were added in the programs offering death benefits; the total number was 48.5 million in 1969. Long-term disability plans—the fastest-growing type of benefit covered in this series—now include 5.7 million workers, 21 percent more than last year's coverage.

In general, coverage under all types of employee-benefit plans grew at a faster rate than the labor force during 1969, reflecting new plan coverage as well as expanded employment under existing plans. With a few exceptions, the gains in employee-benefit plan coverage during the sixties have been significant when they are related to the labor force (table 2). A decade ago, 58 percent of the civilian wage and salary labor force had life insurance protection; in 1969, 65 percent had this protection. Plans providing surgical and hospital benefits show a similar pattern, with coverage about 66–69 percent in 1960 and about 75–76 percent in 1969.

The other components of health insurance plans demonstrated livelier growth, as the trend toward widening the scope of coverage gathered momentum. Regular (in-hospital) medical expense coverage rose from 50 percent of the labor force, as the sixties began, to about 65 percent as the decade ended. Major medical expense grew most rapidly, with coverage growing from one-sixth of the civilian labor force in 1960 to one-third in 1969.

<sup>3</sup> Data for major medical expense plans relate to those underwritten by commercial insurers and exclude Blue Cross-Blue Shield plans of this type (covering 20.3 million workers in 1969).

<sup>2</sup> Department of Labor, Bureau of Labor Statistics, *Current Wage Developments* (No. 268), April 1970.

The proportion of wage and salary workers in private industry that are covered under retirement plans has risen, on the average, by less than one percentage point each year since 1960, when the ratio was 42 percent. Temporary disability and supplemental unemployment plans have

shown little change since 1960 in the proportion of the private labor force they cover.

The trend toward broader coverage under health insurance is clear from the data in table 3, which presents for the first time figures for services other than the traditional coverages pro-

TABLE 1.—Estimated number of wage and salary workers and their dependents covered under employee-benefit plans,<sup>1</sup> by type of benefit, 1950-69

(In millions)

End of year	Benefits for all wage and salary workers						Benefits for wage and salary workers in private industry					
	Life insurance and death <sup>2</sup>	Accidental death and dismemberment <sup>3</sup>	Hospitalization <sup>4,5</sup>		Surgical <sup>4</sup>	Regular medical <sup>4</sup>	Major medical expenses <sup>4,6</sup>	Temporary disability including formal sick leave <sup>7</sup>		Long-term disability <sup>8</sup>	Supplemental unemployment <sup>9</sup>	Retirement <sup>10</sup>
			Total	Written in compliance with law				Total	Written in compliance with law			
<b>Total:</b>												
1950.....	19.6	8.1	54.5	1.2	37.5	15.6	.....	20.1	6.0	.....	.....	9.8
1955.....	29.6	15.6	81.4	1.4	73.1	47.0	4.8	23.5	6.8	.....	1.0	15.4
1960.....	37.3	20.9	103.9	1.2	98.3	73.3	25.6	24.5	6.8	.....	1.7	21.2
1961.....	39.1	21.3	107.3	1.1	102.3	78.2	31.5	24.6	6.8	.....	1.8	22.2
1962.....	40.6	22.6	110.9	0.9	105.9	82.0	35.1	25.2	6.8	.....	1.8	23.1
1963.....	42.8	24.7	116.2	0.3	111.3	87.2	38.7	25.7	6.2	.....	1.8	23.8
1964.....	45.2	26.5	119.6	0.3	114.9	92.9	42.6	26.4	6.2	.....	1.9	24.6
1965.....	47.4	28.4	123.9	0.3	119.9	99.4	47.3	27.6	6.4	.....	2.1	25.4
1966.....	50.0	28.5	128.2	0.4	124.0	104.2	52.0	26.9	6.6	2.4	2.2	26.4
1967.....	52.8	30.4	133.8	0.4	130.3	111.5	57.4	27.4	6.7	3.8	2.2	27.6
1968.....	55.7	33.7	139.1	0.4	135.7	115.9	61.7	29.5	6.7	4.7	2.3	28.2
1969.....	56.6	36.5	145.6	0.4	143.5	123.0	66.6	30.9	6.9	5.7	2.4	29.3
<b>Employees:</b>												
1950.....	19.4	8.1	24.3	1.2	17.7	8.2	.....	20.1	6.6	.....	.....	9.8
1955.....	28.0	15.6	33.1	1.4	30.2	20.4	2.3	23.5	6.8	.....	1.0	15.4
1960.....	34.2	20.9	40.6	1.2	38.6	29.5	9.7	24.5	6.8	.....	1.7	21.2
1961.....	35.5	21.3	42.0	1.1	40.2	31.5	11.6	24.6	6.8	.....	1.8	22.2
1962.....	36.4	22.6	43.3	0.9	41.4	32.8	12.9	25.2	6.8	.....	1.8	23.1
1963.....	37.8	24.7	45.3	0.3	43.5	34.9	14.6	25.7	6.2	.....	1.8	23.8
1964.....	40.1	26.5	46.5	0.3	44.8	36.6	15.6	26.4	6.2	.....	1.9	24.6
1965.....	41.9	28.4	48.5	0.3	47.0	39.4	17.5	27.6	6.4	.....	2.1	25.4
1966.....	43.5	28.5	50.1	0.4	48.6	41.2	19.0	26.9	6.6	2.4	2.2	26.4
1967.....	45.7	30.4	52.1	0.4	50.8	43.9	21.2	27.4	6.7	3.8	2.2	27.6
1968.....	48.2	33.7	54.3	0.4	52.8	45.9	22.8	29.5	6.7	4.7	2.3	28.2
1969.....	48.5	36.5	56.8	0.4	56.0	48.7	24.6	30.9	6.9	5.7	2.4	29.3
<b>Dependents:</b>												
1950.....	.2	.....	30.2	.....	19.8	7.4	.....	.....	.....	.....	.....	.....
1955.....	1.6	.....	48.3	.....	42.9	26.6	2.5	.....	.....	.....	.....	.....
1960.....	3.1	.....	63.3	.....	59.7	43.8	15.9	.....	.....	.....	.....	.....
1961.....	3.6	.....	65.3	.....	62.1	46.7	19.9	.....	.....	.....	.....	.....
1962.....	4.2	.....	67.6	.....	64.5	49.2	22.2	.....	.....	.....	.....	.....
1963.....	5.0	.....	70.9	.....	67.8	52.3	24.1	.....	.....	.....	.....	.....
1964.....	5.1	.....	73.1	.....	70.1	56.3	27.0	.....	.....	.....	.....	.....
1965.....	5.5	.....	75.4	.....	72.9	60.0	29.8	.....	.....	.....	.....	.....
1966.....	6.5	.....	78.1	.....	75.4	63.0	33.0	.....	.....	.....	.....	.....
1967.....	7.1	.....	81.7	.....	79.5	67.6	36.2	.....	.....	.....	.....	.....
1968.....	7.5	.....	84.8	.....	82.9	70.0	38.9	.....	.....	.....	.....	.....
1969.....	8.1	.....	88.8	.....	87.5	74.3	42.0	.....	.....	.....	.....	.....

<sup>1</sup> 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.

<sup>2</sup> 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, and *Tally*, October 1970, modified to exclude group plans not related to employment. Also excludes Servicemen's Group Life Insurance issued to cover 3,780,000 members in the Armed Forces. Self-insured death benefit plan coverage based on data for various trade-unions, mutual benefit association, and company-administered plans.

<sup>3</sup> Data from the Institute of Life Insurance (see footnote 2).

<sup>4</sup> Data from "Private Health Insurance in 1969: A Review," *Social Security Bulletin*, February 1971, and from sources cited in footnote 2. In estimating number of employees covered under plans other than group insurance and union and company plans, it was assumed that the proportion of subscribers in employed groups increased gradually from 75 percent in 1950-60 to 80 percent in 1969. Data for hospitalization, surgical, and regular medical coverage adjusted to include employees and their dependents covered by group comprehensive major-medical expense insurance.

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

<sup>6</sup> 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 an estimated 6,270,000 employees and 10,485,000 dependents in 1969.

<sup>7</sup> Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York. Data from *A Survey of Accident and Health Coverage in the United States* (Health Insurance Council, 1950) and *Extent of Voluntary Insurance Coverage in the United States* (Health Insurance Council, 1951-68) and from the Institute of Life Insurance (see footnote 2), adjusted to exclude credit accident and health insurance. Data for 1950 modified slightly to adjust for effect of State temporary disability insurance laws on formal paid sick leave and other self-insured plan coverage. Beginning in 1966, group accident and sickness insurance coverage has been adjusted to exclude those with long-term benefit policies, which usually do not provide short-term benefits. This coverage is now shown separately.

<sup>8</sup> Data from Health Insurance Association of America (see footnote 2). Estimates for years prior to 1966 are not available.

<sup>9</sup> Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent lay-offs.

<sup>10</sup> 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 private plans supplementing the Federal railroad retirement program. Data exclude annuitants.

TABLE 2.—Coverage and contributions under employee-benefit plans,<sup>1</sup> by type of benefit in relation to employed wage and salary labor force and payroll, 1950-69

Year	Life insurance and death	Accidental death and dismemberment	Hospitalization	Surgical	Regular medical	Major medical expense	Temporary disability, including formal sick leave	Long-term disability	Supplemental unemployment	Retirement
	Covered employees as percent of all wage and salary workers <sup>2</sup>						Covered employees as percent of wage and salary workers in private industry <sup>3</sup>			
1950.....	38.9	16.2	48.7	35.5	16.4	-----	46.2	-----	-----	22.5
1955.....	50.7	28.3	60.0	54.7	37.0	4.0	49.2	-----	2.1	32.2
1960.....	58.2	35.5	68.9	65.5	50.2	16.5	49.0	-----	3.4	42.4
1961.....	60.4	36.2	71.3	68.4	53.6	19.7	49.4	-----	3.6	44.6
1962.....	60.4	37.4	71.5	68.5	54.5	21.2	49.4	-----	3.5	45.3
1963.....	61.5	40.2	73.5	70.7	56.7	23.7	49.6	-----	3.5	45.9
1964.....	63.8	42.1	73.8	71.2	58.3	24.8	49.9	-----	3.6	46.5
1965.....	64.2	43.5	74.3	72.0	60.3	26.8	50.4	-----	3.8	46.4
1966.....	63.4	41.5	73.0	70.8	60.1	27.7	46.9	4.2	3.8	46.1
1967.....	65.2	43.4	74.3	72.5	62.6	30.2	47.1	6.5	3.8	47.4
1968.....	66.9	46.7	75.3	73.2	63.7	31.6	49.3	7.9	3.8	47.2
1969.....	65.3	49.1	76.4	75.4	65.5	33.1	50.2	9.3	3.9	47.6
	Employer and employee contributions as percent of all wages and salaries <sup>4</sup>						Employer and employee contributions as percent of wages and salaries in private industry <sup>5</sup>			
1950.....	0.34	0.01	0.40	0.21	-----	-----	0.40	-----	-----	1.67
1955.....	.44	.02	.69	.38	-----	0.02	.49	-----	0.02	2.19
1960.....	.54	.03	.96	.49	-----	.18	.53	-----	.05	2.40
1961.....	.58	.03	1.06	.54	-----	.24	.53	-----	.05	2.51
1962.....	.59	.03	1.11	.56	-----	.26	.54	-----	.06	2.52
1963.....	.62	.03	1.16	.56	-----	.28	.53	-----	.06	2.54
1964.....	.63	.03	1.21	.58	-----	.30	.51	-----	.04	2.64
1965.....	.64	.03	1.25	.61	-----	.31	.54	-----	.04	2.79
1966.....	.62	.03	1.20	.61	-----	.31	.54	-----	.04	2.78
1967.....	.62	.03	1.16	.63	-----	.32	.55	-----	.03	2.86
1968.....	.66	.04	1.23	.65	-----	.36	.61	-----	.03	2.88
1969.....	.66	.04	1.26	.68	-----	.38	.65	-----	.03	3.05

<sup>1</sup> 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.

<sup>2</sup> Coverage of private and public employees related to average number of private and government full-time and part-time civilian employees—74.3 million in 1969 (table 6.3 in *Survey of Current Business*, July 1970) and the *National Income and Product Accounts of the United States, 1929-1965 Statistical Tables (Supplement to the Survey of Current Business)*, 1966.

<sup>3</sup> Coverage of private employees related to wage and salary employed labor

force in private industry—61.6 million in 1969 (from table 6.3 in source listed in footnote 2).

<sup>4</sup> Amounts for private and public employees related to private and government civilian wages and salaries—\$490.0 billion in 1969 (from table 6.2 in source listed in footnote 2). Data for surgical and regular medical benefits not available separately.

<sup>5</sup> Amounts for private employees related to wage and salaries in private industry—\$404.9 billion in 1969 (from table 6.2 in source listed in footnote 2). Data for temporary and for long-term disability benefits not available separately.

vided under employee-benefit plans (hospital and surgical care and in-hospital physicians' visits).

Coverage of X-ray and laboratory examinations, for example, went from a total of 31 million workers in 1965 to 47 million in 1969; protection of covered workers for physicians' home and office visits rose from 25 million to 31 million; for private-duty and visiting-nurse services, the number of covered workers advanced from about

22-23 million to 33-37 million. Growth in the number of dependents covered for these types of benefits also rose dramatically.

Since these types of coverage are relatively new, the number of employees (and dependents) with such protection is smaller than the number under the traditional health care plans. Their high growth rate from 1965 to 1969 has outstripped that for other types of health care.

TABLE 3.—Estimated number of wage and salary workers and their dependents under employee-benefit plans,<sup>1</sup> by selected type of medical care service, 1965 and 1969

Type of benefit	[In millions]					
	1969			1965		
	Total	Employees	Dependents	Total	Employees	Dependents
Physicians' office and home visits.....	80.0	30.9	49.1	63.7	24.6	39.1
X-ray and laboratory examinations.....	121.2	46.9	74.3	80.0	31.1	48.9
Prescribed drugs (out-of-hospital).....	85.9	32.7	53.2	54.4	20.8	33.6
Private-duty nursing.....	86.8	33.2	53.6	56.9	21.7	35.2
Visiting-nurse service.....	95.3	36.6	58.7	60.5	23.1	37.4
Nursing-home care.....	22.9	9.3	13.6	9.6	3.8	5.8
Dental care.....	8.3	3.3	5.0	3.0	1.3	1.7

<sup>1</sup> Plans whose benefits flow from an employment relationship and are not paid directly by government (Federal, State, or local).

Widespread interest in this kind of protection suggests continued, rapid expansion in the field of extended health services through employee-benefit plans.

Much of the rise in coverage in this area reflects growth in major medical policies of insurers and extended benefits under Blue Cross-Blue Shield plans. Insured major medical policies normally cover all types of medical care expense. The extended contracts of Blue Cross-Blue Shield plans are usually more restrictive, but increasingly they offer some coverage of outpatient care and physicians' services.<sup>4</sup>

In 1969, about 42 percent of the labor force had coverage of physicians' home and office visits—a rate not much greater than the 38 percent with coverage in 1965 (table 4). For X-ray and laboratory expense outside the hospital, however, 63 percent of the work force had coverage in 1969, but only 50 percent has this protection 5 years earlier.

Similarly, the growth in coverage of the work force through plans providing prescribed out-of-hospital drugs and private-duty and visiting-

<sup>4</sup> Louis Reed, *The Benefit Structure of Private Health Insurance in 1968* (Research Report No. 32), Social Security Administration, Office of Research and Statistics, 1970.

TABLE 4.—Coverage under employee-benefit plans,<sup>1</sup> as percent of employed wage and salaried labor force,<sup>2</sup> by selected type of medical care service, 1965 and 1969

Type of benefit	1969	1965
Physicians' office and home visits.....	41.6	37.7
X-ray and laboratory examinations.....	63.1	47.6
Prescribed drugs (out-of-hospital).....	44.0	31.9
Private-duty nursing.....	44.7	33.2
Visiting-nurse service.....	49.3	35.4
Nursing-home care.....	12.5	5.8
Dental care.....	4.4	2.0

<sup>1</sup> See footnote 1, table 2.

<sup>2</sup> See footnote 2, table 2.

nurse services has been substantial in the past few years. These plans covered from 45 to 50 percent of the work force in 1969, compared with about 35 percent in 1950. In 1969, 4 percent of the labor force had dental care coverage through employee-benefit plans, and 12 percent had protection for nursing-home care. Few plans of this type had been in existence in the early sixties.

### Contributions

Total contributions to employee-benefit plans (by employers and employees) during 1969 were estimated at \$30 billion, \$3.8 billion more than the 1968 total (table 5). The 1968 rise was also

TABLE 5.—Estimated total employer and employee contributions<sup>1</sup> under employee-benefit plans,<sup>2</sup> by type of benefit, 1950, 1955, 1960, 1965-69

[In millions]

Type of benefit	1950	1955	1960	1965	1966	1967	1968	1969
Total.....	\$3,937.0	\$7,851.6	\$12,562.1	\$19,602.0	\$21,200.6	\$22,846.6	\$26,134.9	\$29,971.0
Benefits for all wage and salary workers:								
Life insurance and death benefits <sup>3</sup> .....	480.0	880.5	1,416.2	2,233.0	2,375.7	2,538.0	2,936.5	3,223.6
Accidental death and dismemberment <sup>4</sup> .....	18.4	43.4	70.0	116.0	131.0	142.0	169.0	190.0
Total health benefits.....	856.3	2,103.6	4,257.0	7,520.0	8,041.5	8,548.8	10,020.5	11,464.2
Hospitalization <sup>5</sup> .....	562.4	1,385.1	2,504.8	4,332.8	4,546.8	4,702.7	5,502.4	6,254.0
Surgical and regular medical <sup>6</sup> .....	239.9	769.5	1,282.2	2,109.2	2,299.7	2,552.1	2,897.1	3,320.2
Major-medical expense <sup>7</sup> .....		39.0	470.0	1,078.0	1,195.0	1,294.0	1,621.0	1,890.0
Benefits for wage and salary workers in private industry:								
Temporary disability, including formal sick leave <sup>8</sup> .....	502.3	854.1	1,170.9	1,547.0	1,722.4	1,844.8	2,243.9	2,633.2
Written in compliance with law.....	75.9	178.8	238.8	258.4	280.1	310.6	342.0	391.2
Supplemental unemployment benefits <sup>9</sup> .....		40.0	118.0	116.0	130.0	113.0	125.0	110.0
Retirement <sup>10</sup> .....	2,080.0	3,840.0	5,530.0	8,070.0	8,800.0	9,660.0	10,640.0	12,350.0

<sup>1</sup> Excludes dividends in group insurance.

<sup>2</sup> 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.

<sup>3</sup> 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, and *Tally*, October 1970, modified to exclude group plans not related to employment, and excludes premiums of \$101.5 million for the Servicemen's Group Life Insurance plan, which went into effect in late 1965. Self-insured death benefits costs based on data for various trade-union, mutual benefit associations, and company-administered plans.

<sup>4</sup> Data from Institute of Life Insurance (see footnote 3).

<sup>5</sup> Data from "Private Health Insurance in 1969: A Review," *Social Security Bulletin*, February 1971. In estimating contributions for employees under plans other than group insurance and union and company plans, it was assumed that the proportion of subscription income attributable to employed groups increased gradually from 75 percent in 1950-60 to 80 percent in 1969.

<sup>6</sup> Includes private hospital plans written in compliance with State temporary disability insurance law in California; separate data not available for these plans.

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

<sup>8</sup> Data from "Cash Benefits for Short-Term Sickness, 1949-69," *Social Security Bulletin*, January 1971. Includes private plans written in compliance with State temporary disability laws in California, New Jersey, and New York, shown separately, in next line.

<sup>9</sup> Based on trade-union and industry reports, and "Financing Supplemental Unemployment Benefit Plans," *Monthly Labor Review*, November 1969. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent layoffs.

<sup>10</sup> 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 private plans supplementing Federal railroad retirement program.

the largest dollar increase in the series, reflecting continued expansion of coverage and benefit improvements as well as increased costs and higher earnings levels. The pension contributions of \$12.4 billion (an increase of \$1.7 billion) and health contributions of \$11.5 billion (a \$1.4 billion rise) represented new highs and together accounted for much of the sharp rise in total contributions since the end of 1968. Substantial growth in contributions for temporary disability insurance accounted for part of this upward movement.

Employer-employee contributions have risen at an annual growth rate of about 10 percent since 1960. Annual total contributions have thus more than doubled in the past decade. The growth rate of contributions varied for the various types of benefits, however. Contributions for health insurance, for example, made up a larger portion of the total in 1969—about 38 percent—than in 1960, when it was 34 percent. Retirement contributions made up a smaller share of the total—41 percent in 1969, compared with 44 percent in 1960.

With the \$3.8 billion rise in total contributions to employee-benefit plans in 1969, the relationship of these contributions to aggregate wage and salary payrolls shifted upwards. This ratio has had a steady increase for most types of benefits since 1960. As a result, total health insurance contributions equaled \$2.32 per \$100 of all wages and salaries in 1969, compared with \$1.69 per \$100 in 1960. Employer-employee contributions to retirement plans went from \$2.49 per \$100 of private wage and salary payroll in 1960 to \$3.05 per \$100 in 1969. Contributions for temporary disability benefits and life and accidental death benefits when related to wage and salary payroll have paralleled the pattern of growth of retirement plan contributions, but at a much lower dollar level.

As a proportion of total premium payments for voluntary private medical insurance, employer-employee contributions for voluntary group health insurance have been growing steadily. In 1969, almost \$4 out of every \$5 of private health insurance premiums were paid through employee-benefit plans. In 1950, this ratio was \$2 out of every \$3. No specific data are available on the amount employers pay toward private health care benefits, but a 1967 estimate

based on fragmentary data indicated that they probably paid \$5.7 billion or about two-thirds of the total. Since the trend is toward a larger employer share or complete employer financing of the premium payments, this figure probably reached 70 percent in 1969.

## **Benefits**

Benefit expenditures from employee-benefit plans were estimated at \$21.5 billion in 1969 (table 6). They amounted to \$18.6 billion in 1968, and the rise was thus more than 15 percent. Total health benefits amounted to \$10.9 billion and retirement payments were \$5.9 billion.

Total benefits paid under employee-benefit plans in 1969 were almost triple the amount paid in 1960, going from \$7.8 billion to \$21.5 billion. Payments for all types of benefits advanced, but retirement benefit payments showed the greatest percent increase. The total outlay for that type of benefit in 1969 was more than triple the 1960 figure (\$5.9 billion, compared with \$1.8 billion). Health benefits showed roughly parallel growth, advancing from \$3.9 billion in 1960 to \$10.9 billion in 1969. The other types of benefit expenditure (except for supplemental unemployment benefits) grew rapidly in the sixties but were not of the same magnitude—either in dollar amounts or percentage growth—as health insurance and pension payments.

Health care payments from employee-benefit plans account for the major share of total voluntary health insurance payments in the Nation. In 1969, these plans accounted for 83 cents of every dollar of benefit payments of all private health insurance agencies. In 1950, they represented 71 cents per dollar of health benefit paid out.

## **PRIVATE RETIREMENT PLAN TRENDS**

### **Coverage**

The number of private wage and salary workers covered by private retirement plans rose 1.1 million in 1969 to 29.3 million (table 7). The 3.9-percent rise was close to the average growth rate of 4 percent experienced during the sixties. This average increase has been greater than that of labor-force growth. Retirement plans thus covered about 42 percent of the wage and salary

TABLE 6.—Estimated benefits paid under employee-benefit plans,<sup>1</sup> by type of benefit, 1950, 1955, 1960, 1965–69

[In millions]

Type of benefit	1950	1955	1960	1965	1966	1967	1968	1969
Total.....	\$1,812.5	\$4,070.9	\$7,834.5	\$13,393.7	\$14,659.2	\$16,009.2	\$18,602.5	\$21,479.2
Benefits for all wage and salary workers:								
Life insurance and death benefits <sup>2</sup> .....	310.0	581.5	1,017.6	1,550.0	1,706.9	1,899.0	2,137.1	2,386.2
Accidental death and dismemberment <sup>3</sup> .....	16.0	26.1	47.3	89.5	97.0	101.4	120.5	128.7
Total health benefits.....	708.7	1,902.9	3,898.2	7,012.1	7,427.5	7,973.8	9,363.1	10,859.1
Hospitalization <sup>4,5</sup> .....	477.5	1,241.8	2,355.0	4,160.5	4,312.0	4,526.3	5,252.9	6,043.1
Written in compliance with law.....	2.1	5.6	8.0	2.5	2.6	2.7	2.7	3.3
Surgical and regular medical <sup>4</sup> .....	231.2	637.1	1,116.2	1,847.6	1,979.5	2,141.5	2,452.2	2,894.0
Major-medical expense <sup>6</sup> .....		24.0	427.0	1,004.0	1,136.0	1,306.0	1,658.0	1,922.0
Benefits for wage and salary workers in private industry:								
Temporary disability, including formal sick leave <sup>7</sup> .....	407.8	710.4	1,030.4	1,310.1	1,435.8	1,506.0	1,846.8	2,145.2
Written in compliance with law.....	54.3	135.2	196.1	197.6	208.4	222.4	251.7	281.2
Supplemental unemployment benefits <sup>8</sup> .....			91.0	62.0	82.0	119.0	105.0	100.0
Retirement <sup>9</sup> .....	370.0	850.0	1,760.0	3,370.0	3,910.0	4,410.0	5,030.0	5,860.0

<sup>1</sup> 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.

<sup>2</sup> Group and wholesale life insurance benefits based on data from Institute of Life Insurance, *Life Insurance Fact Book*, 1970, modified to exclude group plans not related to employment, and excludes \$88.6 million in benefits paid under the Servicemen's Group Life Insurance plan, which went into effect in late 1965. Self-insured death benefits based on data for various trade-union, mutual benefit association, and company-administered plans.

<sup>3</sup> Unpublished data from the Institute of Life Insurance.

<sup>4</sup> Data from "Private Health Insurance in 1969: A Review," *Social Security Bulletin*, February 1971. In estimating benefits paid to employees under plans other than group insurance and union and company plans, it was assumed that the proportion of benefits attributable to employed groups increased gradually from 75 percent in 1950-60 to 80 percent in 1969.

<sup>5</sup> Includes hospital plans written in compliance with State temporary disability insurance law in California, shown separately in next line.

<sup>6</sup> 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.

<sup>7</sup> Data from "Cash Benefits for Short-Term Sickness, 1949-69," *Social Security Bulletin*, January 1971. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

<sup>8</sup> Based on trade-union and industry reports and "Financing Supplemental Unemployment Benefit Plans," *Monthly Labor Review*, November 1969. Excludes dismissal wage and separation allowances, except when financed from supplemental unemployment benefit funds covering temporary and permanent layoffs.

<sup>9</sup> 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 private plans supplementing Federal railroad retirement program.

labor force in 1960 and about 48 percent in 1969. In recent years, however, the proportion of the labor force covered by these plans has risen only slightly. Most of the gains in retirement plan membership can therefore be attributed to expanded employment under existing plans, rather than to introduction of new plans.

For insured plans, the number of workers covered rose by 11 percent in 1969 and reached

a total of 9 million. Noninsured plans showed a more modest rate of growth and covered about 20.3 million workers at the end of 1969. The substantial growth in insured plans is the result of rapid expansion of coverage in plans of the self-employed and tax-sheltered annuities. According to published figures by the Institute of Life Insurance, such plans now account for about 5 percent of those covered under insured plans.

TABLE 7.—Private pension and deferred profit-sharing plans<sup>1</sup>: Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950, 1955, 1960–69

Year	Coverage, <sup>2</sup> 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	In-sured	Non-insured	Total	In-sured	Non-insured	Total	In-sured	Non-insured	Total	In-sured	Non-insured	Total <sup>3</sup>	In-sured	Non-insured <sup>3</sup>	Total	In-sured	Non-insured
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
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
1960.....	21,200	4,900	16,300	4,740	1,190	3,550	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	4,870	1,180	3,690	800	290	510	1,910	570	1,340	2,000	450	1,550	57.8	20.2	37.5
1962.....	23,100	5,200	17,900	5,190	1,240	3,950	850	310	540	2,100	630	1,470	2,340	510	1,830	63.5	21.6	41.9
1963.....	23,800	5,400	18,400	5,510	1,390	4,120	870	300	570	2,280	690	1,590	2,570	570	2,000	69.9	23.3	46.5
1964.....	24,600	6,000	18,600	6,170	1,520	4,650	930	320	610	2,490	740	1,750	2,890	640	2,250	77.2	25.2	51.9
1965.....	25,400	6,300	19,100	7,040	1,740	5,300	1,030	360	670	2,750	790	1,960	3,370	720	2,650	85.4	27.3	58.1
1966.....	26,400	7,000	19,400	7,730	1,830	5,900	1,070	370	700	3,110	870	2,240	3,910	810	3,100	93.9	29.4	64.5
1967.....	27,600	7,800	19,800	8,510	2,010	6,500	1,150	390	760	3,420	940	2,480	4,410	910	3,500	103.9	32.0	71.8
1968.....	28,200	8,100	20,100	9,380	2,280	7,100	1,260	420	840	3,760	1,000	2,760	5,030	1,030	4,000	115.3	35.0	80.3
1969.....	29,300	9,000	20,300	11,060	3,060	8,000	1,290	440	850	4,180	1,070	3,110	5,860	1,160	4,700	125.1	37.9	87.2

<sup>1</sup> Includes pay-as-you-go, multiemployer, 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.

<sup>2</sup> Excludes annuitants; employees under both insured and noninsured

plans are included only once—under the insured plans.

<sup>3</sup> 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.

## Contributions

Employer and employee contributions to private retirement plans were an estimated \$12.4 billion in 1969, almost \$2 billion more than the 1968 total. The 16-percent increase was much higher than that experienced in the past few years—reflecting in large part a sharp upsurge in the amounts for insured plans. Contributions to these plans rose almost a third during 1969; for self-insured plans the rise was 11 percent.

Table 7 shows that the annual rate of employer contributions has more than doubled since 1960, while employee contributions have grown by half as much. As a result, the proportion of employer contributions to the total has been growing gradually, and employers now pay in almost 90 percent of all contributions.

## Benefits and Beneficiaries

Total benefit payments by retirement plans were almost \$6 billion in 1969. The increase of \$830 million represented a 16-percent rise over the preceding year's outlays—growth typical of the increases in the past few years. Approximately 4,180,000 persons (beneficiaries and survivors) were receiving these benefits in 1969—about 11 percent more than in 1968.

In the period 1960–69, the number of persons receiving private pensions more than doubled—from 1.8 million persons in 1960 to 4.2 million in 1969. At the same time, however, benefit payments tripled—from \$1.8 billion in 1960 to \$5.9 billion in 1969.

The sharp increases in disbursement of pension funds are the result of a number of influences. The number of beneficiaries has been increasing at an annual rate of about 10 percent since 1960. Benefit formulas in private plans have been revised substantially in the 1960's, as many pension plans attempt to keep pensions in line with rising wage and price levels. Furthermore, many more plans now relate pensions to final year earnings. As a result, total benefit payments have regularly increased much faster than the number of beneficiaries—about 13 percent a year since 1960.

In 1969, average payments per beneficiary rose to \$1,476—\$75 more than the 1968 average; in 1960, average payments were about \$1,039. Com-

parison of average payments at different periods does not, of course, provide a measure of real gains, since price increases have been making inroads into purchasing power of the benefits. When adjustments are made in terms of constant (1957–59) dollars, the average annual benefit shows an increase of only about 15 percent, from \$1,007 in 1960 to \$1,156 in 1969.

Although the 1968 Survey of the Aged showed a wide range of benefits, two-thirds of all annual private pension payments were between \$300–\$1,499.<sup>5</sup> The median annual private payment was not much different for couples and nonmarried men (\$970 and \$865, respectively). For nonmarried women the median was considerably lower (\$665).

Private pensions for those now retiring tend to be much higher than those for the aged population as a whole. For example, the median annual private pension for men initially entitled to OASDHI retired-worker benefits (full and reduced) in July–December 1968 was \$1,830. For women, the median annual pension was \$910.<sup>6</sup> The high levels of private pension for those retiring currently reflect the gradual maturing of many private plans established in the fifties, as well as benefit liberalizations. Another key factor is the high earnings levels of recent retirees, since many private plans now base benefits on final earnings.

The 1968 Survey of the Aged also reported on the number of the aged population receiving private pension benefits. This figure differs from the aggregates presented in table 7, which estimate the number of persons of all ages, including early and disability retirees. According to that survey, in 1967 private retirement plans were paying pensions to an estimated 2.0 million persons aged 65 and over.<sup>7</sup> It is estimated that these annuitants and their spouses aged 65 and over

<sup>5</sup> See Walter W. Kolodrubetz, "Private and Public Retirement Pensions: Findings from the 1968 Survey of the Aged," *Social Security Bulletin*, September 1970.

<sup>6</sup> Patience Lauriat and William Rabin, "Men Who Claim Benefits Before Age 65: Findings From the Survey of New Beneficiaries, 1968," *Social Security Bulletin*, November 1970.

<sup>7</sup> Since the estimates are based on a sample, they may differ from figures that would be obtained from a complete census. Chances are 95 out of 100 that a complete count would not have differed from the estimate by more than 140,000 (twice the standard error). In addition, the survey results are subject to errors of nonresponse, incomplete response, and misreporting.

make up under a sixth of the entire population aged 65 and over. Furthermore, in 1967, with most private pensioners also receiving social security, about a fifth of all OASDHI beneficiaries aged 65 and over were getting private pensions.

A number of studies have indicated the growing trend toward early retirement under social security as well as private pension plans.<sup>8</sup> As a result, the proportion of early retirees in the total private pension population has been steadily growing. No specific data are available on the number of persons under age 65 who are drawing private pension benefits. However, an estimate for 1967 based on fragmentary data indicates that they probably accounted for 35–40 percent of the estimated 3.4 million private pensioners. In 1962, the proportion was roughly 30 percent.

### Reserves

The book value of the reserves of private pension funds rose to \$125 billion in 1969. The \$10 billion increase from the preceding year was smaller than the usual gain, and the relative increase of 8 percent was below the 10–11 percent typical of the sixties. Noninsured plan reserves totaled \$87.2 billion, and insured plans held \$37.9 billion in assets. This relative decline in growth of assets chiefly reflects a falling off in investment earnings and the gains from sale of assets in 1969. In the past 10 years, however, the emergence of investment earnings as a major source of pension fund receipts is quite clearly indicated.

Total receipts (including contributions and earnings) of pension funds have been increasing in the sixties—from an annual rate of \$7.2 billion in 1960 to a rate of \$15.7 billion in 1969. Throughout the period, the amount from each source has been steadily growing. Investment receipts have grown much faster than total employer-employee contributions. The proportion provided by employer contributions has been more or less stationary (60–65 percent), while the employee con-

tributions have dropped from 11 percent to 8 percent. Investment earnings, however, have steadily grown as a proportion of all receipts—from about 23 percent in 1960 to 30 percent in 1969. This growth in the role of investment earnings reflects the growth in the size of funds available and the higher rate of returns on funds in recent years (except 1969).

### TRENDS IN PENSION PLAN PROVISIONS

Private pension plans today are characterized by a wide diversity in the type of benefits provided, in the scope of protection afforded, and in provisions for financing and eligibility. This flexibility is particularly evident with respect to trends in private pensions. Although the rate of growth of private pension coverage slackened during the sixties, existing private pension plans have been significantly liberalized, with relaxed requirements for achieving benefit rights especially notable. In response to rising wage and price levels, benefit formulas have been substantially improved, with consequent improvements in benefits promised and paid.

Recent studies by the Bankers Trust Company and the Bureau of Labor Statistics (BLS) on pension plan provisions and practices provide information on current funding methods, benefit provisions, and other plan characteristics.<sup>9</sup>

Comparing the latest findings with benchmarks of earlier studies gives some impression of trends in these areas. The size and composition of the Bankers Trust Company universe, which excludes multiemployer plans, has shifted somewhat between studies. About 7.8 million workers were included in the 1970 Bankers Trust Company study, which reported on 201 plans amended or newly adopted in the 1965–1970 period. An earlier study<sup>10</sup> included 230 plans amended or newly adopted from 1956 to 1959 and covering about 6 million active workers.

The BLS studies used a sample of pension plans (including multiemployer plans) based on reports filed under the Welfare and Pension Plan

<sup>8</sup> Richard Barfield and James Morgan, *Early Retirement: The Decision and Experience*, Institute of Social Research, University of Michigan; Department of Labor, *The Pre-Retirement Years: Volume I* (Manpower Research Monograph No. 15); Lenore E. Bixby and Eleanor Rings, "Work Experience of Men Claiming Retirement Benefits, 1966," *Social Security Bulletin*, August 1969.

<sup>9</sup> See Bankers Trust Company, *1970 Study of Industrial Retirement Plans, 1970*, and Harry E. Davis and Arnold Strasser, "Private Pension Plans, 1960 to 1969—An Overview," *Monthly Labor Review*, July 1970.

<sup>10</sup> Bankers Trust Company, *1960 Study of Industrial Retirement Plans, 1960*.

Disclosure Act, which covers plans with 26 or more workers. More than 19.5 million active workers (in 1967) were covered by the pension plans in the scope of the 1969 BLS study; 15.8 million workers were in the plans included in the 1962 report.<sup>11</sup>

Pension plans in the Bankers Trust Company study are divided into two types—"pattern" and "conventional." The "pattern" plans are those negotiated by certain international unions with individual companies or groups of companies. With some exceptions, typically the pension provided under these plans is a flat dollar benefit varying with years of service but not with the employee's compensation rate. "Conventional" plans are those that provide benefits varying with years of service and compensation.

### Normal Retirement

Normal retirement is usually defined as the time at which an employee may retire of his own volition and receive the full accrued pension to which he is entitled. The term "normal retirement age" has lost some of its meaning, however, since the advent of early retirement features that permit retirement on a full and sometimes larger-than-normal benefit. The discussion here is limited to the conventional method of defining normal retirement, typically at age 65, since it is used as the basis for setting the standards for other provisions.

The service requirements for normal retirement are about as liberal as those needed to qualify for other retirement plan benefits, and they have shown the same trend toward lower service periods. The 1970 Bankers Trust Company study, for example, reported an observable trend toward reducing the minimum service requirements for normal retirement: about 75 percent of the pattern plans had requirements of 10 years or less in 1970, compared with 60 percent in 1959. In conventional plans, the service requirements were even more liberal. Eighty-seven percent of the conventional plans required 10 years or less of service in 1970, compared with

78 percent in 1959. For both pattern and conventional plans, little trend toward reducing the normal retirement age below age 65 was evident.

The easing of service requirements for normal retirement observed in the Bankers Trust Company studies was not apparent from the recent BLS study: Changing patterns for normal retirement age were discernible, however. In 1969, 25 percent of the workers were in plans allowing normal retirement before age 65, most commonly age 62. Six percent of the workers were in plans with no age requirements. In 1962, only 10 percent of the workers were in plans allowing such retirement before age 65. In the later year, 56 percent of the workers were in plans requiring 10 years or less of service for retirement; in 1962 the proportion of workers in such plans was the same. In both years, more than a third of the workers were in plans with service requirements from 11 years to 20.

Normal retirement formulas have undergone substantial change since 1960. In the pattern plans studied by the Bankers Trust Company, several major improvements were made in benefit formulas in the interval between the two studies: A sharp increase in the flat dollar amounts for each year of service, elimination of social security offsets in plans based on earnings and service, and a trend toward relating the flat dollar amount to workers' final earnings instead of to service alone.

Conventional plans, all of which base benefits on earnings and service, have shifted toward basing benefits on compensation in the terminal years of service. In 1970, 39 percent of these plans based all benefits on final years' earnings; in 1959 the proportion was 27 percent. These plans also show a tendency to shorten from 10 years to 5 years the period over which final pay is averaged. Furthermore, in 1970 in 20 percent of the plans the basic benefit formula was based on career earnings, with the minimum benefit formula related to some final average base. The proportion with this type of formula was 12 percent in the 1959 study.

The 1970 Bankers Trust study reports some changes among conventional plans in the manner in which they take account of OASDHI benefits. Social security offset provisions are replacing, in some cases, the use of step-rate integrated formulas, largely among final-pay plans. In the

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<sup>11</sup> *Labor Mobility and Private Pension Plans* (BLS Bulletin 1407), 1964, and *Private Pension Plan Benefits* (BLS Bulletin 1485), 1966.

1959 study, 10 percent of the conventional plans reported an OASDHI offset provision; in 1970, 20 percent had such provisions. The study also reports the emergence of a new graduated provision in which the percentage of OASDHI offset varies with years of service.

Comparison of the BLS studies reveals changes in the proportion of workers in private plans under the various types of formulas. In the 1962 study, almost 60 percent of the workers were in plans basing benefits on earnings. The remaining workers were in plans basing benefits on a uniform amount for each year of service or providing uniform benefits for all those meeting minimum requirements. In 1969, workers in plans relating benefits to earnings dropped to 48 percent of the total. Presumably, this decline reflects the influence of the new multiemployer plans, most of which provide benefits related to service alone.

The BLS studies indicate a decided shift, however, toward using terminal earnings to calculate pension benefits in plans with earnings and service formulas. In 1962, 48 percent of the workers that were in plans related to both earnings and service used earnings of the last 5 or 10 years, generally the last 10 years. In 1969, 56 percent of the workers had such terminal earnings used in calculating pension benefits, usually the last or the "high-5" years.

### **Early Retirement**

Early retirement provisions, which are now almost universal in private plans, allow workers who meet stipulated age or service requirements, or both, to retire before the normal or conventional retirement age with an immediate though usually reduced benefit. Some plans require employer's consent, but most plans allow early retirement at the employee's option. Many plans allow the departing worker to defer receipt of benefits (in unreduced amount) until normal retirement age. One of the more recent innovations has been development of special early retirement provisions that grant substantially higher benefits than those under regular early retirement provisions if a worker meets certain minimum age and service requirements, in addition to other specified conditions.

There is increasing evidence that early retirement provisions are becoming more widespread and flexible. In the BLS study of plans in effect in 1962, about 75 percent of the plans, with about the same proportion of workers, had early retirement provisions. By 1969, early retirement provisions were much more common, and 87 percent of the workers were in plans that had regular early retirement provisions.

The Bankers Trust Company studies (which treat regular early retirement and special early retirement provisions together) show similar trends. All the plans in the 1970 study had early retirement provisions, but a small number of plans in the 1959 study did not.

The BLS studies indicate some easing of age requirements for regular early retirement benefits but not of the service requirements. Three-fourths of the workers covered by early retirement provisions in 1969 were in plans that allowed such retirement under age 60, usually age 55; in 1962, the proportion was three-fifths. Minimum service requirements, however, have shown little change between the studies, and 10 and 15 years of service have remained the predominant requirements for regular early retirement. In 1969, about two-thirds of the workers covered by early retirement provisions were in plans requiring 15 years or less; the proportion had been three-fourths in 1962.

The actuarial equivalent of the normal benefit was payable upon retirement for about half the workers covered by early retirement provisions in both the periods studied by the BLS. Most of the other workers were in plans with specified reduction factors, often less than the actuarial reduction.

According to the Bankers Trust studies, the number of plans permitting early retirement solely at the employee's option has grown significantly. By 1970, this option was provided by 91 percent of the pattern plans and 76 percent of the conventional plans. The earlier study had reported proportions of 75 percent and 53 percent for pattern and conventional plans, respectively.

Under both pattern and conventional plans in 1970, early retirement usually required attainment of age 55 with a specified period of service. For pattern plans, some trend toward dropping age requirements for long-service employees was

noted. In 1959, age 60 was a more common requirement.

The Bankers Trust Company studies (which included "special" early retirement provisions) revealed a measurable move away from actuarially reduced benefits. A benefit greater than the actuarial equivalent was provided by 81 percent of the pattern plans and 55 percent of the conventional plans in 1970. In contrast, the 1959 study reported that about 80 percent of the plans (pattern and conventional) employed either the actuarial equivalent or reduction factors approximating the actuarial equivalent.

Special early retirement provisions have shown little growth since the early 1960's when provisions of this type were negotiated by the Automobile Workers, Steelworkers, Meat Cutters, and Rubber Workers unions in mass-production manufacturing industries. Both of the BLS surveys show that about 6 percent of the plans, including 17 percent of the workers, had such provisions. These workers were also covered by regular early retirement provisions. The minimum requirement for special early retirement benefits and their levels have, however, been liberalized.

With the development of special early retirement provisions, interest has focused on their impact on early retirement decisions. A study of retirement plans of the automobile workers found that a large number of workers retired early in 1967 in response to the liberalized provisions.<sup>12</sup> Two-thirds of the workers either retired or planned to retire early. Only a third planned to continue work, usually until at least the conventional retirement age of 65. As expected, the major influences on the retirement decision were financial factors, mainly retirement income.

A follow-up study in 1969,<sup>13</sup> based on a sample of the same group of workers, confirms the findings of the previous survey. The auto workers showed a marked tendency to carry out the early retirement plans expressed in 1967. One-fourth of those still at work in 1969 had plans for early retirement. For the two-thirds of the auto workers who retired by 1969, the study concluded that on the whole the retirees were satisfied with their retirement experience.

<sup>12</sup> See Richard Barfield and James Morgan, *op. cit.*

<sup>13</sup> Richard E. Barfield, *The Automobile Worker and Retirement: A Second Look*, Institute of Social Research, University of Michigan, 1969.

## Vesting

Vesting refers to the employee's right or equity in a pension plan based on all or part of his accrued retirement benefit, if his employment should terminate before retirement. If his rights are vested, the worker is entitled to a future retirement benefit when he reaches retirement age, wherever he may be. Vesting is usually conditioned on meeting specified age or service requirements or both. Under these arrangements, for a worker with vested rights whose employment is terminated, the pension is deferred to normal retirement age, or in many cases, can be received in reduced amount at early retirement age.

Under full vesting, eligible workers retain a right to all accrued benefits upon meeting specified requirements—age 40 and 10 years of service, for example. Under deferred graded vesting, workers acquire a right to a percentage of accrued benefits on meeting stipulated requirements—50 percent at age 40 with 10 years of service, for example—and the proportion increases as additional requirements are fulfilled until full vesting is achieved. Deferred full vesting is much more common than graded vesting; immediate full vesting is rare.

A trend toward more complete vesting in private pension plans, especially in collectively bargained single-employer plans, is revealed by the Bankers Trust Company studies. Ninety-nine percent of the pattern plans in the 1970 study had some vesting; the ratio had been 82 percent in the 1959 study. Among conventional plans, these ratios were 98 percent in 1970 and 90 percent in 1959.

A trend toward less restrictive requirements to qualify for vesting is also evident from the Bankers Trust Company studies. The studies show that 75 percent of the pattern plans in 1970 permit vesting for a worker reaching age 40 after 15 years of service and only 42 percent in 1959. Among conventional plans the proportion of plans with vesting for workers meeting requirements of age 40 and 15 years of service went from 21 percent to 48 percent between the two periods studied.

The BLS studies, which include multiemployer plans, disclosed similar trends. In 1962, 2 out of 3 plans (covering 3 out of 5 workers) had vesting provisions; half the workers in plans without

vesting provisions were in multiemployer plans. By 1969, 3 out of 4 of all workers were in plans with vesting provisions. Much of the improvement may be traced to adoption of vesting provisions in multiemployer plans. Most plans without vesting had an early retirement provision available to workers at older ages.

As vesting provisions were being adopted by more plans, the requirements for vesting were being liberalized in existing plans with vesting. In 1962, the most common requirements for deferred full vesting were age 40 and 10 or 15 years of service. These conditions applied to 43 percent of the workers under plans that had full vesting. Thirty percent of the workers were in plans with no age requirement, and three-fifths of these workers had to meet a 10- or 15-year service requirement. By 1969, under revised requirements, 50 percent of the workers had vesting with no age requirement but typical service requirements of 10 or 15 years. Twenty-five percent of the workers were in plans requiring age 40 and a minimum service period, usually calling for 10 or 15 years' service.

A study of the extent of funding by the Pension Research Council found that 47 percent of the members in more than 1,000 large plans had vesting with 10 or fewer years of service.<sup>14</sup> Twenty-seven percent of the plans had these requirements.

### Disability Retirement

Another form of protection in pension plans is the disability retirement benefit payable for life for workers forced to retire prematurely because of total and permanent disability. The attainment of a certain amount of service or age, or both, may be required. In general, these provisions are more common in collectively bargained plans, though they are growing in importance in all types of plans. The Bankers Trust Company found that 93 percent of their pattern plans had disability retirement provisions in 1970, compared with 84 percent in 1959. Fifty-nine per-

<sup>14</sup> Frank L. Griffin, Jr., and Charles L. Trowbridge, *Status of Funding Under Private Pension Plans*, Richard D. Irwin, Inc., Homewood, Illinois, 1969.

cent of the conventional plans had disability provisions in 1959, and the proportion was 71 percent in 1970.

The age and service requirements for disability benefits have been substantially liberalized in the past decade. In earlier years, attainment of age 50 and 15 years of service was a common requirement, but the present trend is toward a 10-year service requirement without regard to age. According to the Bankers Trust Company studies, half the pattern plans with disability provisions in 1970 had only a requirement of 10 years of service; in 1959 two-thirds of the plans had 15-year service requirements. Only 10 percent of the pattern plans had some type of age requirement in 1970, but 36 percent had age requirements in 1956. Under conventional plans, age and service requirements are more restrictive, but they showed the same general pattern of liberalization since 1959.

### Death Benefit Provisions

One of the more important benefits added to pension plans in recent years, particularly through collective bargaining, is the preretirement death benefit. In most cases, this kind of provision is designed to provide benefits to the spouse that are based on the accrued benefits of an employee who dies within 10-15 years of retirement. In the Bankers Trust Company studies, 54 percent of the pattern plans had such provisions in 1970; in 1959 only a few plans provided them. Most of these provisions are found in pension plans in the automotive, steel, aluminum, and meatpacking industries. Conventional plans have a longer history of providing preretirement death benefits, so growth in this area has not been as striking as it has for pattern plans. In 1970, 57 percent of these plans had provisions for preretirement death benefits.

According to a Bureau of Labor Statistics study of 100 large negotiated plans, preretirement death benefit provisions were added by 15 plans between 1964 and 1968.<sup>15</sup> By 1968, 44 of the 100 plans had such provisions.

<sup>15</sup> Harry E. Davis, "Negotiated Retirement Plans: A Decade of Benefit Improvements," *Monthly Labor Review*, May 1969.

## Technical Note

The estimates of coverage, contributions, and benefits in this series 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 employed as wage and salary workers because of retirement, temporary lay-off, sickness, or shifts in jobs. No attempt has been made to adjust the data for any overstatement that might result from their inclusion, except that the coverage estimates for pension plans have been adjusted to exclude 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 receiving periodic payments at the end of the year and thus excludes those who received lump sums during the year. The amounts shown for retirement benefits under noninsured plans does include (1) refunds of employee contributions to individuals who withdraw from the plans before retirement and before accumulating vested deferred rights, (2) payment of the unpaid amount 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 permit distinction 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.

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## Notes and Brief Reports

### State and Local Government Employment Covered Under OASDHI\*

More than two-thirds of the 9.2 million employees of State and local governments in the United States, as of March 1968, were covered under the Federal social security program—old-age, survivors, disability, and health insurance (OASDHI).<sup>1</sup> Approximately 8.5 million workers—or roughly 9 out of 10 of all in this type of employment—had retirement protection either through OASDHI or a State-operated staff re-

tirement system or under both. (For a summary of the main provisions of the Social Security Act with respect to coverage of State and local government employment, see page 35.)

About 4.4 million workers were in the group with “dual” coverage, almost 2 million were covered under staff retirement systems, and 1.8 million had OASDHI coverage only. Most of the nearly 700,000 persons not covered by either system are believed to be part-time workers, the newly hired, or those not eligible for coverage under the staff retirement systems.

The majority of all State and local government employees work for local (other than county) governments, and they constitute the largest group with OASDHI coverage. Those working for States account for one-fourth of all State and local government employees and about the same proportion of the total with OASDHI coverage. County workers make up only about one-eighth of all those in State and local government employment but represent nearly one-sixth of those having OASDHI coverage.

Table 1 shows that OASDHI coverage is relatively highest among county government workers

\* Prepared by Herbert R. Tacker, Division of Statistics, Earnings and Employment Statistics Branch. For fuller details on social security coverage of State and local government employees, see *Social Security State and Local Government Statistics, 1964-1968*, Office of Research and Statistics, 1970.

<sup>1</sup> Data discussed here are limited to the 50 States. In March 1968, 138,000 employees of the governments of Puerto Rico and the Virgin Islands were also covered by OASDHI.