1967


Jack Cook Wimberly

Louisiana State University and Agricultural & Mechanical College

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PRIVATE INDUSTRIAL PENSION PLANS IN THE UNITED STATES: A COMPARATIVE ANALYSIS

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy in

The Department of Economics

by

Jack Cook Wimberly
B.A., Louisiana Polytechnic Institute, 1958, M.A., Louisiana State University, 1960
May, 1967
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGMENT</td>
<td>ii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>v</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>vi</td>
</tr>
<tr>
<td>I  INTRODUCTION: PURPOSE OF THE STUDY</td>
<td>1</td>
</tr>
<tr>
<td>II A BRIEF HISTORY OF PRIVATE INDUSTRIAL PENSION PLANS IN THE UNITED STATES</td>
<td>5</td>
</tr>
<tr>
<td>1. Development Prior to World War II</td>
<td></td>
</tr>
<tr>
<td>a. The Changing Status of the American Worker</td>
<td></td>
</tr>
<tr>
<td>b. Changing Employer Attitudes</td>
<td></td>
</tr>
<tr>
<td>2. The National War Labor Board and the Advance of Fringe Benefits During World War II</td>
<td></td>
</tr>
<tr>
<td>3. The United Mine Workers and a Union Sponsored Plan</td>
<td></td>
</tr>
<tr>
<td>4. The Inland Steel Case: Pensions Become a Bargainable Issue</td>
<td></td>
</tr>
<tr>
<td>5. The Extent of Pension Plan Coverage at the Present Time</td>
<td></td>
</tr>
<tr>
<td>III NORMAL PLAN PROVISIONS</td>
<td>33</td>
</tr>
<tr>
<td>1. Introduction</td>
<td></td>
</tr>
<tr>
<td>2. Administration of the Plan</td>
<td></td>
</tr>
<tr>
<td>a. Administration by Management</td>
<td></td>
</tr>
<tr>
<td>b. Joint Administration</td>
<td></td>
</tr>
<tr>
<td>c. Settlement of Disputes Under Joint Administration</td>
<td></td>
</tr>
<tr>
<td>3. Eligibility Requirements</td>
<td></td>
</tr>
<tr>
<td>a. Normal Retirement Age</td>
<td></td>
</tr>
<tr>
<td>b. Minimum Service Requirements</td>
<td></td>
</tr>
<tr>
<td>c. Early Retirement</td>
<td></td>
</tr>
<tr>
<td>d. Special and Disability Retirement</td>
<td></td>
</tr>
</tbody>
</table>
4. Benefits to be Received

a. Benefits Determined by Formula Based on Average Earnings and Years of Service
b. Benefits Determined by Fixed Monthly Benefit for Each Year of Service
c. Special Payments Under the Steel Formula
d. Survivor and Pre-Retirement Death Benefits
e. Provisions for Minimum and Maximum Benefits
f. Benefits Inclusive and Exclusive of Social Security

5. Financing Arrangements

a. Contributory versus Non-Contributory Plans
b. Funding
c. Vesting
d. Tax Exempt Qualification

IV A COMPARISON OF MAJOR PLANS ON THE BASIS OF THEIR PROVISIONS ................................................. 88

1. Pension Plan Administration
2. Eligibility Requirements for Normal Retirement
3. Early, Special, and Disability Retirement
4. Normal Retirement Benefits
5. Survivor and Pre-Retirement Death Benefits
6. Financing Arrangements

   a. Contributory and Non-Contributory Plans
   b. Funding
   c. Vesting

V SUMMARY AND CONCLUSIONS ........................................ 146
SELECTED BIBLIOGRAPHY ............................................. 165
VITA ........................................................................... 171
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE</th>
<th>Description</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>II-1</td>
<td>Distribution of Private Pension Plans by Date of Establishment (all Industries)</td>
<td>31</td>
</tr>
<tr>
<td>III-1</td>
<td>Minimum Requirements for Normal Retirement in Selected Pension Plans Under Collective Bargaining, Fall, 1959</td>
<td>45</td>
</tr>
<tr>
<td>III-2</td>
<td>Early Retirement Benefits as a Percent of Normal Retirement Benefits in the Basic Steel and Automobile Industries (1959)</td>
<td>47</td>
</tr>
<tr>
<td>III-3</td>
<td>Conditions Under Which Special Early Retirement is Available</td>
<td>50</td>
</tr>
<tr>
<td>III-4</td>
<td>Disability Retirement Provisions</td>
<td>52</td>
</tr>
<tr>
<td>IV-1</td>
<td>Specialized Retirement Benefits</td>
<td>118</td>
</tr>
<tr>
<td>IV-2</td>
<td>Specialized Retirement Benefit Formulae</td>
<td>121</td>
</tr>
<tr>
<td>IV-3</td>
<td>Normal Retirement Benefits</td>
<td>126</td>
</tr>
<tr>
<td>V-1</td>
<td>Eligibility Requirements</td>
<td>149</td>
</tr>
<tr>
<td>V-2</td>
<td>Normal Retirement Benefits</td>
<td>149</td>
</tr>
</tbody>
</table>
ABSTRACT

The purpose of this study is to develop a comparative analysis of pension plans in the automobile, steel, rubber, and petroleum refining industries. Perspective is supplied by a brief history of industrial pension plans in the United States. The evolving legal status and extent of coverage is given particular attention. Problems connected with the size and control of pension funds are explored. The foundation upon which the comparative analysis rests is provided by a detailed examination of pension plan provisions as they appear in contemporary pension agreements. Attention is given to methods of administration; eligibility requirements for normal, early, special early, and disability retirement; benefit computation, and; financing arrangements. Pension plans currently in operation in the automobile, steel, rubber, and petroleum refining industries are compared on the basis of their provisions. Pension plan benefits for the various types of retirement are computed with several hypothetical age, service, and earnings combinations. An attempt is made to point out the strengths and weaknesses of each plan. Developing trends in pension plan provisions are discussed along with an evaluation of the long-run implications of these trends. Special attention is given to the problems connected with vesting provisions and the methods by which pension plans are financed.
CHAPTER I

INTRODUCTION

Growth in privately financed pension plans in the last two decades has been phenomenal. The increasing need for pension planning is apparent to any casual observer of demographic, social, and economic changes in our society.

Demographically, the older citizenry is growing faster than the population at large. The most recent census (1960) shows that 16.6 million Americans were 65 or older.\(^1\) A year later, the United States Department of Health, Education and Welfare set the figure at 17 million, with an estimate of 19 million by 1965.\(^2\)

This problem is compounded by the fact that the labor force participation rate of the aged is declining steadily. The unavoidable conclusion is that we will have more and more elderly citizens who are not gainfully employed, and therefore in need of some form of retirement income. The purpose of this study is to make a comparison of how this growing need is being provided for by several of the nation's major industries.

An understanding of this or any other topic requires a reasonably complete grasp of its background and terminology. Chapters II and III are therefore devoted to the development of what might be called a


minimal background necessary to an understanding of private pension plans and their provisions. Little will be found that is new or novel in these chapters. Such is not their purpose.

Several methods of providing for old age security are not considered in this work. No attempt is made to deal with systems and programs such as Old Age, Survivors, and Disability Insurance (OASDI), and related governmental programs. Nor are such programs as profit sharing plans, matching savings plans, stock purchase plans, or pension systems supported solely by employees, considered. Though all of these might provide retirement income, they are not negotiated pension plans as such, and therefore fall outside the scope of this study. Such systems are treated only as they are incidentally connected with the negotiated pension plans under study.

Chapter II contains a brief historical sketch of private pension plan development in the United States. In addition to certain obvious historical facts, an attempt is made to show ways in which early practices and plans influenced present pension planning.

Chapter III is designed to provide an outline of pension plan provisions that are common to most plans. The purpose of this arrangement is twofold. First, the necessary terminology is developed. Second, a basis for comparison of pension plans is developed. Since the chief purpose of this study is to provide a comparative analysis of several pension plans, it is only logical that the comparison be on the basis of their provisions. Some indication will be given of the extent to which such provisions appear in contracts throughout the nation. Some provisions are
practically universal, while others are relatively rare. Certain variations will be discussed where the variation seems destined to become the rule in a significant portion of the nation's industry. Finally, some of the problems associated with each type of provision will be briefly discussed.

Chapter IV is the heart of this study. Pension plans in four major industries are examined and compared. The industries involved are the rubber industry, the steel industry, the automobile industry, and the petroleum refining industry. As noted above, the comparison is on the basis of the individual pension plan's provisions.

The plans analyzed were all negotiated by industrial unions. Most of them were chosen primarily on the basis of the extent of coverage, and perhaps more importantly, because they tend to be pattern setters. With the exception of the petroleum refining industry, there is a high degree of uniformity between plans within each industry studied. Four specific plans are therefore analyzed separately for the petroleum refining industry, while the automobile, steel, and rubber industries are analyzed on an industry rather than on a firm-by-firm basis.

The study will be directed toward several questions concerning negotiated pension plans. In particular:

1. How extensive is the coverage of negotiated private pension plans?

2. What developing trends in pension plan provisions can be detected?

3. What are the long-run implications of these trends?

4. Are some type plans best suited to particular employer-employee relationships than others?
5. What is the future of private pension plans?

As indicated, the analysis contained herein deals with only a selected group of major plans. The following sources are available to anyone interested in a plan not covered by this study. Information available from each source is as indicated.

1. **Collective Bargaining Negotiations and Contracts**, Bureau of National Affairs. The information contained herein is quite brief and distilled, with only the most pertinent facts of a plan noted. It is an excellent quick reference to such facts, however.

2. United States Department of Labor, Office of Labor-Management and Welfare-Pension Reports. Regional offices are scattered throughout the nation. These offices have on file rather detailed information as required by the Welfare and Pension Plans Disclosure Act of 1958. Under provisions of the Act, these files are open to the public, and contain the following kind of information on a plan:
   a. Who is covered by the plan.
   b. A detailed description of the administration of the plan.
   c. Copies of plan documents under which the plan was established and is operated.
   d. The plans assets, liabilities, contributions, and benefits paid.

3. U. S. Department of Labor, Bureau of Labor Statistics bulletins. The Department of Labor regularly publishes bulletins dealing with particular labor problems. Well over 1,500 of these releases have been published, but an index is available so that those dealing with a particular topic is easily located.

4. Commerce Clearing House, *Pensions and Profit-Sharing*. The Commerce Clearing House periodically revises this publication, which is an excellent source for anyone interested in plan craftsmanship. It consists of specimen clauses selected from several hundred plans. The plan from which each clause is drawn is not identified, however.
Before delving into the historical development of private pension plans, it might be revealing to examine the meaning and some of the connotations of the term "pension." The word itself derives from an identical Latin word meaning "payment." As currently used, a pension is understood to mean a regular or periodic payment to a beneficiary who has not directly contributed to the cost of its provision. The term "annuity" is used to designate a recurring payment, the right to which was purchased by the beneficiary. The term pension, therefore, connotes a gratuity passing from one party to another, while annuity conveys the idea of a purchased or earned right. The difference is crucial. A gift might be withdrawn at any time, at the discretion of the giver, while an annuity, being an acquired right, cannot. ¹

The early legal status of privately provided retirement systems tended to place them well within the meaning ascribed to the term pension in the above discussion. Further examination of this problem will be reserved for later treatment.

Pre-dating the inauguration of pension plans were certain employer practices which eventually led to the development of formalized pension systems. One such practice was to assign aged

employees to duties requiring little physical or mental application, e.g., gatekeeper or watchman. The number of such jobs available are obviously limited, however, and a number of firms appear to have slowly evolved highly informal systems for providing retirement income to long service employees. Where they existed, these schemes were not generally announced to employees. A superannuated employee was simply released from service and informed that he had been granted a pension "for long and faithful service." Whenever a formal statement concerning such a plan was issued, the firm often hedged by stating that it would grant pensions to the "deserving," Such a system really amounted to paternalistic charity, and was not a true pension system at all. It could be successfully argued that a pension system exists only where benefits are available to any employee who satisfies a set of stated, standardized requirements, without discrimination.²

Under such a definition, the first pension plan in manufacturing was inaugurated by Alfred Dolge, a felt manufacturer, in 1882.³ This plan was preceded by plans in the railroad⁴ and a closely related industry,⁵ but it must be counted as the first manufacturing or industrial pension plan. By present standards, it was a most ambitious undertaking.

²Ibid., p. 10.


⁴See United States Department of Labor, Fifth Annual Report of the Commission of Labor, 1889, p. 28, for description of a plan established by the Grand Trunk Railway in 1874.

After ten years service, an employee could retire with a yearly benefit equal to one-half of what his wage had been during the final year of employment. After twenty-five years service, he could claim full pay. Other benefits included a profit sharing plan, a life insurance plan, and an endowment fund plan. These plans were highly publicized by Dolge, apparently recommending their adoption by other firms. The record of appeal in the case of Dolge vs. Dolge cited two publications dealing with the plans.6

After an employee had achieved five years of service, he was given a passbook by Dolge into which was annually entered a record of benefits to which he had become entitled or amounts which had been credited to his account for payment of future benefits. What the passbook seemed to give with the one hand was quite efficiently taken away by the other, however. Witness the following statement which appeared therein:7

It is distinctly understood that all and every of the provisions of this law are voluntary on behalf of said house of Alfred Dolge, and that this law does not, nor does any of the provisions herein contained, confer any legal right or create any legal right in favor or any employee of said house mentioned herein, or of any person or persons whomsoever, nor any legal liability on behalf of said house of Alfred Dolge, or of said Alfred Dolge, either in law or in equity.


There is no record of any funds ever having been set aside by the house of Dolge to meet obligations seemingly created by the plan. The Dolge firm failed in 1898, precipitating a suit by former employees who sought to recover benefits believed to have accrued to them. The court, relying on the passbook language quoted above, ruled that the plan did not constitute a binding agreement between Dolge and his employees. "It was simply a benevolent plan proposed by him, and it was solely within his power to carry it out or not."\(^8\)

Another plan, quite similar to that of Dolge, was established by the Solvay Process Company in 1892, with similar results. Although it was established later than the Dolge plan, a case at law reached the courts under the Solvay plan first. The announced purpose of the plan was to provide "a means of support by reason of accident, sickness or advanced age labor must cease."\(^9\) The plan was noncontributory, supported wholly by the firm. The passbook method of record keeping was employed and each employee's share in the fund was entered periodically. The company declared the monies so set aside to be gifts, and the company's trustees were authorized to rule on all questions of any employee's right to collect.

An employee who was discharged in 1895 entered suit to recover the amount credited to his passbook, claiming this to be his share of the pension fund. The case reached the New York Supreme Court which ruled, in part, as follows: \(^10\)

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\(^8\)Ibid., p. 520-521.  
\(^9\)Latimer, op. cit., p. 682.  
Under the regulations established it seems to me that none of the employees has a vested right in any part of this fund, even though credited upon their passbooks, until the gift is completed by actual payment. Until that time, it is an inchoate gift. The articles provide that an employee cannot in any case demand payment of the sum credited to his account except when the defendant shall adjudge the account to be payable in whole or in part, according to the rules and regulations established, and it is also provided that the sums credited shall remain the property of the defendant until actually paid, and that the fund shall be and remain under the sole control of the defendant's trustees, who are authorized to decide all questions concerning it without appeal.

Posting of credits to an employee's passbook was quickly abandoned as a method of accounting for accrued pension "rights." The passbook seems to have been much too close to an admission of liability for the amounts credited therein. The holder of such a passbook naturally assumed that he had a vested right to the extent of his credits. While this might have been good for employee morale, it was very bad legal practice. It is not surprising therefore that the use of passbooks was quietly and quickly discontinued.

The Solvay Plan was discontinued in the same year, 1895, that the above mentioned case was adjudicated. According to one writer, the President of Solvay "believes that the class of workmen employed at Solvay are not yet ready to appreciate a scheme of this character." 11

The oldest plan of continuous operation was established by the Carnegie Steel Company in 1901. Operated at first on an informal basis, the system was formalized in 1911 when Carnegie merged with the United States Steel Company. The method of computing an individual's annual pension was surprisingly similar to present practices. The amount

payable annually was equal to 1 percent of the average annual salary during the whole period of employment times years of service. Thus, a 20-year man who had averaged $2,400 in wages per year was eligible for a $480 annual benefit. Normal retirement age was 60 years, with a minimum of 15 years service. The plan was revised in 1911, raising the service requirement to 20 years, with compulsory retirement at age 70. In addition, the benefit was computed by taking 1 percent of the average pay during the last ten years of employment. A minimum pension of $144 and a maximum of $1,200 was established.

Effective January 1, 1903, the Standard Oil Company of New Jersey established an informal plan which was to become the basis of several separate plans upon the dissolution of the firm in a 1911 antitrust suit. All retirements under the original system were solely at the discretion of the Board of Directors. Some of the rules under which the plan operated were somewhat eccentric, especially one which allowed a 20-year employee between ages 60 and 65 to retire with an annuity equal to 50 percent of his average pay, while an employee with 25 years service could retire at age 65 with a pension of only 25 percent of average pay. In any event, a man who retired before 65 got his allowance cut in half upon reaching that age. It would appear that the firm wished to encourage retirement at earlier ages, at least in those cases approved by the board.

12 Latimer, op. cit., p. 40.
13 Ibid., p. 1005
14 Ibid., p. 1010
A 1929 survey conducted by the non-profit Industrial Relations Counselors, Inc. showed that an additional 14 manufacturers had joined the rank of those with plans by 1910. Age and service requirements of most of these plans had eligibility requirements which closely resembled those of the plans discussed above. Several, such as the du Pont plan, required that the employee be incapacitated. Others allowed early retirement where incapacity was present after a minimum service requirement of from 5 to 15 years. A few provided that payments, at the discretion of the firm, could be continued to the dependents of a deceased pensioner.

It is apparent from examining these early schemes that many present pension plans use essentially the same methods of establishing eligibility and computing the amount of benefit to be received. The most outstanding changes have been connected with funding of the plans, the Achilles heel of many early plans, and with vesting provisions. Too, collective bargaining has formalized present plans, with much less discretion in the hands of management.

15These firms are listed below in order of the date of pension plan adoption.

1. Talbot Mills (textiles) 1903
2. Gerham Manufacturing Co. (silverware) 1903
3. E. I. du Pont de Nemours and Co. 1904
4. National Machinery Co. 1905
5. Western Electric Co. 1906
6. Deere and Co. (farm machinery) 1908
7. International Harvester 1908
8. Murphy Varnish Co. 1908
9. Tidewater Oil Co. 1908
10. Westinghouse Air Brake 1908
11. Simonds Saw and Steel Co. 1908
12. American Stove Company 1910
13. Parke Davis and Co. (pharmaceutical) 1910
14. Wurlitzer Manufacturing Co. 1910
From the faltering start discussed above, the pension movement gradually spread to other American firms. As was the case originally, most of the firms involved were quite large. By 1929, 139 manufacturers reported plans covering 1,227,494 employees. The iron and steel industry led the way, with 24 separate plans covering 390,854 workers. The petroleum industry reported 15 firms with plans covering 192,645 employees. Conspicuously absent was the burgeoning automobile industry, which reported not a single plan.\(^16\)

The above figures tend to grossly overstate the extent to which employees in American manufacturing were "covered," on the eve of the great depression. It should be pointed out that only a minute portion of the employees affected had a right to a pension payment even if all of a plan's prerequisites were met. Furthermore, even after pension payments commenced there was no guarantee that they would not be reduced or withdrawn altogether. Finally, labor mobility studies indicate that a surprisingly small percentage of these "covered" would actually fulfill the age and service requirements. In one recent study, a firm which employed 776 workers in 1940 had retained only 17 percent of these until 1956.\(^17\) In 1963, a Census Bureau sampling showed average job tenure for men to be only 5.7 years.\(^18\)

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\(^16\) Latimer, op. cit., p. 991.


Present practices do not alleviate the problem of becoming covered which springs from this last mentioned pitfall. The more or less contractual nature of present plans does, however, go much further in insuring that pension payments will be made to those employees who satisfy eligibility requirements. Presently, 70 percent of the covered workers in manufacturing are included in plans mentioned in collective bargaining agreements. 19

The pension plan movement continued to spread in spite of the Depression of the 1930s. A 1938 study showed 238 plans operating in manufacturing alone. The U. S. Department of Labor estimates that in 1940 some 437 manufacturers had plans covering 2,819,000 workers. 21

How was it that, even in the face of adverse economic conditions, the pension movement continued to spread? One answer might be the increasing strength of trade unions, particularly in the industrial sector of the economy. This does not, however, appear to be the case. One authority, writing in 1932, stated that little if any of the impetus came from workers. "Rarely, if ever, as the record shows, has the inauguration of a pension plan came about as the result of demands from the employees." There is, in fact, no evidence that organized labor took an interest in bargaining for pensions until after


21 B.L.S. Bulletin No. 1407, p. 52.

22 Latimer, op. cit., p. 19.
World War II. The answer must lie elsewhere. Primarily, the movement seems to have expanded because of: (a) the changing status of the American worker, and (b) increasing recognition by employers that, for one reason or another, providing pensions to aged employees is a sound business practice.

A. The Changing Status of the American Worker

(1) Passage of the frontier and free lands.

Many writers, including historians, sociologists, and economists, believe that the frontier and its abundant free acreage provided a safety valve for the urbanized, industrialized East. The frontier undoubtedly gave the worker the feeling that he had "somewhere to go" should employment become unavailable in the nation's mills and factories. In the case of the aged worker, the escape valve may have been more psychological than real, but it probably did add a feeling of security in the future which would otherwise have been missing.

(2) The rise of industrial organization and the passage of agriculture and handicraft manufacturing as the primary employments.

Generally, the farmer and the blacksmith found it possible to eke out a subsistence level of existence in spite of the ravages of old age. The employee of a large industrial firm must labor full time and efficiently or not at all.

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(3) Increasingly complex domestic arrangements stemming from the breakdown of the family as the economic unit. Whereas the family farm operated as an economic unit and provided security for its aged members, city grandparents commonly live apart from their adult offspring whose cash income is often stretched to the limit in providing for their own needs.

(4) The increasing number of employees who reach retirement age. Many factors have combined to give the modern worker a longer life expectancy. Among these are better medical treatment, better diet, safer and more healthful working conditions, and a shorter working day, week, and year.

B. Changing Employer Attitudes

(1) Adoption of the corporate form of organization. An individual proprietorship and a partnership's life is concurrent with that of the owner(s). Pension planning is necessarily a matter of long-run planning, and the corporation, with its unlimited life, can establish a viable plan much more readily than can an organization with an uncertain life expectancy.

(2) Discovery that the maintenance of the aged and infirm as regular employees can be costly. Retention of the superannuated worker can be an expensive operation, particularly for such pursuits as railroading and heavy industry, where a single accident might cost thousands or even millions of dollars. Additionally, for employers who pay equal wages to all - a common practice in industry - many probably found themselves paying a wage which exceeded the value of marginal product of the aged worker.
If the disparity was great enough, pensioning the aged employee increased profits.

(3) During periods of labor shortages, pension systems aid the firm in attracting and holding a competent work force.

As will be discussed later, many firms during World War II offered liberal fringe benefits, including pensions, as a means of securing badly needed workers.

(4) Pensions encourage long, uninterrupted service.

Most pensions require lengthy service as a condition of eligibility. A firm might therefore be able to retain valuable, experienced personnel if the inducement of pension rights is present. Also, while present strike settlements provide that strikes will not be considered an interruption in service, such was not the case formerly. In an earlier time, the existence of a pension plan not only discouraged union membership, which enhanced the possibility of a strike, but also counseled against striking after a union had been formed. Either way, the employer stood to benefit.

(5) Reputation of the firm.

Business firms discovered long ago that it is good policy to maintain a good public image. As present writers are fond of pointing out, the large corporation has many publics, including stockholders, customers, government, and employees. The "humane" nature of pension planning appeals to various degrees to all of these.

(6) Altruism.

No capitalist outside the covers of Karl Marx is so callous as not to feel some pangs of conscience upon releasing an aged long service
employee without providing him with some means of support.

(7) Taxes.
The Department of Internal Revenue allows an employer to deduct pension plan contributions from taxable income. With the drastic increase in tax rates during the early 1940s, providing for a given pension payment began to cost much less in terms of after tax profits.

For these reasons, it appears that pension plan coverage would have expanded without the considerable upheaval experienced by the nation during and after World War II. Nevertheless, events following 1940 drastically changed the extent and nature of pension planning.

The National War Labor Board and the Advance of Fringe Benefits During World War II

On the eve of America's entry into World War II, it was apparent that some type of public body would be necessary to insure peaceful industrial relations in the nation's defense connected industries in the event the nation became an active participant in the hostilities; an occurrence which seemed inevitable by 1941. The first such public body was the National Defense Mediation Board, created on March 19, 1941. Fortunately, America's involvement in the war came gradually, because the powers of the NDMB soon proved inadequate to its task of maintaining industrial peace. For all practical purposes, the Board was active for eight months, during which time it developed techniques and procedures which were to prove invaluable when the nation became directly engaged in the world-wide struggle.

The demise of the NDMB came as a result of a dispute between the United Mine Workers and several steel manufacturers concerning the
adoption of a union shop arrangement in the so-called "captive mines," a group of coal mines owned directly by the steel firms. The firms were afraid that acquiescence in the coal mines would result in renewed efforts on the part of the United Steelworkers, a CIO union, to secure the union shop in the steel mills themselves; a demand which they had been successful in opposing. Increasing bitterness among members of the tripartite NDMB over the issue led to the resignation of the CIO members in November of 1941, robbing the Board of its power of persuasion, the only weapon with which it could secure compliance.

With the bombing of Pearl Harbor on December 7, 1941, it was imperative that some method be found by which costly work stoppages could be prevented. When the National War Labor Board was formed on January 12, 1942, its primary function was therefore to prevent strikes in war industries by mediation and adjudication of disputes.24 The Board was concerned with wage issues only if they were the basis of a dispute which came before it. At first, no attempt was made by the Board to control wage rates generally. During the first several months of its existence, "the Board acted on the assumption that employers would be reluctant to grant wage increases, and that, therefore, they could be expected not to agree in collective bargaining negotiations to greater wage increases than the Board would grant had the matter come before it as a dispute case."25


With full-scale mobilization underway, however, pressing manpower shortages resulted, and employers throughout the nation readily granted sizeable wage increases in the hope of attracting the necessary workforce. As it was apparent that the nation would experience a chronic shortage of manpower for the duration of the conflict, the Board's original policy promised to be highly inflationary. In early 1942, in the General Cable Case, the Board formally recognized that "it would be impossible to stabilize wage rates if limitation on wage increases were applied only to the dispute cases that came to it." 26

Developing technique and precedent as it went, the Board in July, 1942, established wage guidelines in the so-called "Little Steel Formula," a standard to which it adhered more or less steadfastly for the duration. 27 Basically, the formula was intended to permit to employees an increase in wage rates equal to the rise in the cost of living between January, 1941 and May, 1942. An increase of this amount was granted to workers in "Little Steel" and it was the intention of the Board to allow employees in "laggard" plants an equal percentage increase. 28

The formula worked with a minimum of friction until early 1944. Difficulty arose as the cost of living continued to rise, while the Little Steel Formula remained unchanged. Both wage earners and union leaders felt they were suffering under an unjust formula. Employers,

26 Ibid., p. 64.
27 Ibid., p. 156.
28 Ibid., p. 157
reversing their usual role, constantly pressed the Board for wage increases in the hope that such advances would enable them to attract and hold larger and more competent work forces. "The unchanged formula became a symbol of grievance which grew in irritation."\textsuperscript{29}

Unwilling to depart from Little Steel for fear that once the guideline had been breached there would be no stopping the tides of inflation, the Board for a while stoically withstood the growing pressure being placed on it by management and labor alike. One public member of the Board admitted frankly that during this period the Board operated in a "strangely murky atmosphere."\textsuperscript{30}

Operating pragmatically as it had from the start, the Board soon found what they considered a relatively inflation-free escape valve. The idea was to allow rather liberal (for then) advances in fringe benefits, such as vacations, shift differentials, severance pay, and pensions, while holding the line on wages. By doing so, the Board felt that it "relieved somewhat the always tremendous pressure to increase basic wage rates."\textsuperscript{31}

Relying heavily as it did on voluntarism to secure compliance with its directives, it was imperative that the Board retain the support of both labor and management. Hence, "considerable flexibility" was required if the support of these groups was to be maintained in

\textsuperscript{29}Ibid., p. 256.


\textsuperscript{31}Ibid., p. 256.
"accepting and applying the Government principle of wage stabilization." The result of the Board's "considerable flexibility" was that although basic wage rates were reasonably well stabilized, labor costs advanced rather rapidly because of failure to hold the line on fringe issues. According to the Board, "this moderate weakening of the stabilization line had the more than compensating virtue of permitting a realistic adjustment of labor standards to the practical problems of peaceful and cooperative industrial relations." Of all the issues which came before it, "...fringe issues were the most flexibly treated."

The explosive spread of fringe benefits created new problems. Although they did not unduly aggravate the economy's inflationary tendency by directly increasing demand for the limited output of civilian goods, they did increase the cost of production, making the price stabilization program of the Office of Price Administration much more difficult to administer. Consequently, the Board soon found it necessary to establish standards or guidelines for fringe benefits. The announcement of such limits had an unforeseen result. As in the case of any stabilizing limit, these fringe standards came to create in the minds of labor leaders and workers the notion that they were entitled to such benefits as a matter of right. It became increasingly difficult to deny such increases to any group of employees.

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32BLS Bulletin 1009, p. 66.
33Ibid., p. 69.
34Ibid., p. 93.
35Ibid., p. 166.
By the time hostilities ceased and demobilization had begun, a very sizeable number of the nation's blue collar workers found themselves enjoying perquisites which had formerly been reserved for industry's upper echelons. The degree of effort which unions currently devote to fringe issues indicates that the nation's employees often prefer these benefits over higher basic wages. A trend started under the exigencies of war is obviously here to stay. Certainly, workers have come to consider such benefits as perfectly legitimate demands on industry.

Although industrial pension planning had a history covering more than half a century, organized labor, for the most part, remained indifferent to the experiment until the mid-1940s. Indeed, it appears that some of the nation's unions had "actually opposed employer sponsored plans, viewing them as paternalistic devices designed to wean the allegiance of the workers from the unions to management." At most, until the close of the War, unions had more or less accepted pensions as falling wholly within the discretion of management to give or withhold. Whatever the cause, pensions had not become the subject of collective bargaining except where management had occasionally invited organized labor to participate in preparing or revising a plan. It was left to the United Mine Workers under John L. Lewis to forcefully draw labor's attention to pensions.

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36 Dearing, op. cit., p. 41.
The United Mine Workers and a Union Sponsored Plan

A new philosophy began to envelope the nation's labor movement following the war. Whereas unions, particularly industrial unions, had formerly been interested in securing immediately realizable gains such as wage boosts and greater union security, attention now began to focus more strongly on long-range benefits such as pensions. The new position of labor was succinctly stated by John L. Lewis of the Mine Workers in 1948. According to Lewis, a coal company would be prohibited from using a mule to a point where it became incapacitated:

...and then turning it out on the street to die; and yet that is what the bituminous industry has been doing with its man power.

We hold that the proper care of the human element in the mining industry should properly be charged to the cost of production and not assessed against the taxpayers as a whole. The industry should do it, and the commodity should bear the cost of it - whatever that may be. This is a chance for labor and management to take care of these problems and eliminate the necessity for government to build up huge, inefficient and costly administrative bureaus to try to do the task in a less efficient way. 37

This was the philosophy which led Lewis to demand an industry sponsored retirement fund for coal miners in contract negotiations of early 1946. The original demand was for a 7 percent payroll assessment, the fund thus created to be administered by the union. 38 The Mine Operators Negotiating Committee balked at the union's demands, and the President ordered the mines seized on May 21, 1946, under provisions of


the War Labor Disputes Act. On May 29, 1946, Secretary of the Interior Julius A. Krug, acting as Coal Mines Administrator, signed an agreement with the Mine Workers which, among other things, provided for a "welfare and retirement fund financed by 5 cents a ton on coal produced for use or sale." By 1948, the contribution had risen to 20 cents a ton, and in 1950 was set at 30 cents a ton.

The Krug-Lewis agreement became the springboard from which other unions later launched their retirement system demands. For almost three years after this agreement was reached, however, neither labor nor management could say with certainty whether pensions were a legitimate subject for collective bargaining. The issue was finally resolved in a case arising out of a dispute between the United Steelworkers of America and Inland Steel Company.

**The Inland Steel Case: Pensions Become a Bargainable Issue**

Since passage of the Wagner Act (National Labor Relations Act) in 1935, it has been the policy of the federal government to encourage the use of collective bargaining as a means of settling labor-management disputes. The act states that employees shall have the right to organize and bargain collectively through representatives of their own choosing for the purpose of "negotiating the terms and conditions of their employment..." Further, the act made it an unfair labor practice for an employer to refuse to bargain collectively over these matters.

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39 Ibid., p. 172.

with a certified bargaining agent. While this general obligation had rested on management since 1935, the specific issue of pensions as a bargainable issue was not presented to the National Labor Relations Board until 1947.

In 1936, the Inland Steel Company had unilaterally installed a retirement plan, and had amended it several times thereafter. The Steelworkers Union charged that Inland, by unilaterally amending the pension program, and by refusing to discuss the matter at the bargaining table, had changed the employees "wages" and "conditions of employment" and was thus violating Section 8(a) of the Wagner Act (refusal to bargain). 41

As this was the way the issue was presented to the NLRB in late 1947, it was the duty of the Board to decide whether a retirement plan could be rightfully considered either "wages" or a "condition of employment." Inland sought to show that pension plans fell outside the acceptable interpretation of both these terms. It further argued that the case should be dismissed on the grounds that pensions lay outside the range of bargainable issues since their negotiation at the bargaining table was not a "general practice of collective bargaining." 42

The board dealt first with the issue of whether pensions could properly be considered as "wages" under the Act. Emphatically stating that they should be so considered, the Board found that an employer's

41 In the Matter of Inland Steel Co. and Local Unions No. 1010
and 65, United Steel Workers of America (CIO), 77 NLRB No. 1, p. 1.
42 Ibid., p. 5.
monetary contribution to a pension plan constituted an economic enhancement of the employee's money wages.

Realistically viewed, this type of wage enhancement or increase, no less than any other, becomes an integral part of the entire wage structure, and the character of the employee representative's interest in it, and the terms of its grant, is no different than in any other case where a change in the wage structure is effected. Indeed, the practice of offering retirement benefits in lieu of current wage increases is not uncommon in bargaining between employers and employee's representatives.43

The Board went on to note that the Treasury Department had taxed pension income as wages since 1918, and that the courts had ruled that pension benefits constituted "wages" in a bankruptcy case.44

On the question of whether pensions were bargainable on the grounds that they were a "condition of employment," Inland argued that the term should be interpreted to mean "working conditions," and therefore should only be used to refer to the physical conditions under which an employee is required to work, not to the terms or conditions upon which employment is afforded.

The Board, observing that viewing pensions as wages was sufficient to establish a bargainable issue, only briefly considered the merits of this argument, although it did strongly imply that pensions were a "condition of employment."45


44 Ibid., p. 6.

Upon appeal to the Supreme Court, that body, in upholding the Board, indicated that it thought the Board would have been on sounder ground had it ruled pensions bargainable on the basis of "other conditions of employment" rather than on the basis of their being wages. In a later (1953) case, the Court explicitly stated that pensions should be considered as a "condition of employment."

Turning to Inland's contention that pensions lay outside the "general practice of collective bargaining" and because of this was not a bargainable issue, the Board saw the matter quite differently. It stated that disputes over pensions should be subject to collective bargaining "irrespective of the fact that the specific difference to be adjusted has not previously been regularly considered in the framing of collective bargaining."

After the NLRB's ruling that pensions were a bargainable issue was upheld by the Supreme Court in 1949, the Board subsequently ruled that several other similar benefits were bargainable, such as hospitalization, sick benefits, group insurance, stock bonuses, stock purchase plans, and thrift plans.

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46 Inland Steel Co. vs. NLRB, 170 F. 2d 247, 251 (1949) certiorari denied by the Supreme Court, but accepted on another point, 336 US 960 (1949).

47 Olsen vs. Potlatch Forests, Inc., 200 F. 2d 700.

48 In the Matter of Inland Steel, 77 NLRB No. 1, p. 9.

49 77 NLRB No. 1162.

50 96 NLRB No. 1309.

51 110 NLRB No. 356.
With the legal nature of pensions as a bargainable issue firmly established, unions lost little time opening the subject in contract negotiations. The phenomenal rate of growth of such plans is a gauge of their success in securing pensions benefits and of management's willingness to grant them. 52

The Extent of Pension Plan Coverage at the Present Time

The rate of installation of new pension plans in the last two decades has been quite rapid. In the fall of 1960, the U. S. Department of Labor received reports on over 16,000 private pension plans covering 15.6 million workers. The average plan coverage was approximately 1,000 workers. Only 2 percent of these plans were established in the first four decades of this century. Approximately two-thirds were established after 1949. 53 More than 60 percent of all plans and covered workers were in manufacturing. 54 As of July, 1963, the Department of Labor reported that it had on file some 32,610 retirement plan reports. Only about 22,000 of these were pension plans; the Bureau of Labor Statistics estimates that about 30 percent of all plans reporting are profit sharing, stock bonus, and savings plans, and therefore not pension plans per se. On the basis of the previously noted average coverage, some 20 to 22 million workers are...

52 In 1949, the Steel Industry Board strongly recommended the establishment of private pension plans. See: Steel Industry Board, Report to the President of the United States on the Labor Dispute in the Basic Steel Industry, Sept. 10, 1949.


54 Ibid., p. 6.
covered by pension systems. Approximately one-half of these are in manufacturing.\textsuperscript{55} For the same month of 1963, the civilian labor force was 75.1 million, of whom 17.1 million were in manufacturing.\textsuperscript{56} From these data, it would appear that less than 30 percent of all labor force participants are covered, but that approximately two-thirds of the nation's manufacturing employees are covered. A 1959 prediction by Robert Tilove that by 1969 "approximately 45 to 55 percent of the wage and salary force - outside agriculture and government - will be covered by private pension plans..."\textsuperscript{57} appears overly optimistic in view of recent data.

Despite the rapid rate of installment of new plans in the last two decades, the overall picture of pension plan coverage is still rather spotty. As the above figures indicate, coverage is concentrated in manufacturing. Even here, there are thousands of small firms employing millions of workers who are not covered. At the other extreme is such pursuits as retailing, services, and agriculture, in which a very small minority of all employees are covered.

While there are many elements which undoubtedly influence the spread of pension plan coverage, three factors stand out. These are: (a) firm size; (b) labor force turnover rate of an industry, and; (c) the existence or absence of a trade union. These will be discussed in turn.

In a day when we are constantly being bombarded with books and articles warning of the dangers of bigness, it comes as a surprise to find that at latest count there were 3,362,835 firms operating in the United States. For the most part, they are small. Some 3,000,000 of them employ less than 20 workers; 3,240,000 of them less than 50. Fewer than 60,000 employ 100 or more. As previously noted, only about 20,000 of these firms have pension plans, and, on the average, each plan covers about 1,000 workers. Obviously, a large majority of the nation's small employers have no plan at all. While a growing number of new plans being installed are by smaller firms, many labor experts doubt that more than fifty percent coverage can ever be achieved.

Another problem which faces a large number of the nation's workers is connected with meeting pension plan service requirements. In employments where the labor turnover rate is high, this problem is especially acute. Indeed, in the construction industry pension plans are almost non-existent because of this problem. The only solution appears to be the establishment of multi-employer plans with portable credits. The thorny problems connected with such a system are manifold, however. One authority believes the solution lies either in vesting of credits or in the establishment of a central clearing house device to

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facilitate transfer of credits from one employer to another. Until some such system is developed, workers in rapid turnover industries will have to rely on Social Security benefits, however inadequate these may be.

While it is not here suggested that the remedy to the problem of inadequate coverage is to be found in expansion of trade unionism, the fact remains that approximately 70 percent of all plans now operating are contained in collective bargaining agreements. Furthermore, the rapid spread of coverage since 1949 strongly suggests that the expansion occurred as a result of pensions becoming a bargainable issue.

Table II-1 catalogues this expansion.

Table II-1. Distribution of Private Pension Plans by Date of Establishment (all Industries).

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Plans</th>
<th>Workers Covered (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>418</td>
<td>637</td>
</tr>
<tr>
<td>1947</td>
<td>532</td>
<td>366</td>
</tr>
<tr>
<td>1948</td>
<td>579</td>
<td>402</td>
</tr>
<tr>
<td>1949</td>
<td>287</td>
<td>290</td>
</tr>
<tr>
<td>1950</td>
<td>939</td>
<td>1,901</td>
</tr>
<tr>
<td>1951</td>
<td>949</td>
<td>707</td>
</tr>
<tr>
<td>1952</td>
<td>433</td>
<td>454</td>
</tr>
<tr>
<td>1953</td>
<td>1,351</td>
<td>479</td>
</tr>
<tr>
<td>1954</td>
<td>694</td>
<td>330</td>
</tr>
<tr>
<td>1955</td>
<td>1,232</td>
<td>1,090</td>
</tr>
<tr>
<td>1956</td>
<td>1,194</td>
<td>665</td>
</tr>
<tr>
<td>1957</td>
<td>642</td>
<td>559</td>
</tr>
<tr>
<td>1958</td>
<td>528</td>
<td>499</td>
</tr>
<tr>
<td>1959</td>
<td>1,572</td>
<td>347</td>
</tr>
<tr>
<td>1960</td>
<td>812</td>
<td>154</td>
</tr>
</tbody>
</table>


61 Bernstein, op. cit., p. 264.

While bargained pension plans are approaching saturation in many industries - in 1960, 90 percent of the members of the Steelworkers Union were covered\(^{63}\) - in traditionally non-union industries and regions, coverage is not nearly so extensive.

Whatever the factors which encourage or discourage the spread of pension systems, the above discussion suggests that much remains to be done if the mass of this nation's employees are to enjoy the benefits of private pensions in their final years. As indicated by Table II-1, the rate of introduction of new plans is rather high, but it also indicates that the average coverage per plan is falling rapidly. This is somewhat encouraging in itself, however, since it is among small employers that coverage is least prevalent. It will also be noted from Table II-1 that pension plan installations exhibit a cyclical sensitivity. During or immediately following the post-war recessions of 1947-48, 1957-58, and 1960, the number of plans established show a marked decline. Perhaps the sustained prosperity of the 1960s will result in a more rapid spread of pension coverage. Recent statistics strongly indicate that such a trend might be under way.

\(^{63}\text{Bernstein, op. cit., p. 183-184.}\)
CHAPTER III

NORMAL PLAN PROVISIONS

Introduction

Of necessity, every pension plan contains a series of provisions dealing with such matters as administration of the plan, eligibility requirements, benefit formulae, and financing arrangements. Obviously, therefore, pension plans differ insofar as their provisions treat these matters differently. This Chapter is devoted to an examination of the variety of plan provisions which are common to present pension systems. Such an examination serves several purposes: the terminology of pension systems is developed; a basis for comparing pension plans is provided; detection of developing trends in plan provisions is made possible, and; the types of provisions which are widely used as well as some relatively rare provisions may be pointed out.

The order in which pension plan provisions are examined in this work has no particular significance except that of lending clarity to the exposition. Treatment of these matters in actual plans may occur in quite different order, as, indeed they do.

Finally, this examination makes no pretense of being a comprehensive examination of all extant plan provisions. It is the belief of the author, however, that all of the more frequently used industrial pension plan provisions are to be found here.

Administration of the Plan

Broadly speaking, there are three administrative functions connected with the operation of a plan. These functions involve (1) record
keeping, (2) ruling on the validity of benefit claims, and (3) financial administration.

A routine function of plan administration is the maintenance of basic records necessary to establish eligibility and benefit rights under the plan. These records contain such information as the age, sex, earnings, and date of employment of each plan participant. Basically a clerical chore, little administrative supervision is needed once the system is established. As a practical matter, record keeping is usually delegated to the firms' personnel departments whose files already contain most of the records needed.¹

A more important function of plan administration is the processing of benefit claims as they are presented by participating employees. When such a claim is presented, the administrative agency must (1) verify that the applicant has reached retirement age, (2) determine the applicant's eligibility insofar as service requirements are concerned, and (3) compute the amount of benefit to which he is entitled.

Finally, under many plans, safe and profitable investment of accumulated pension funds is the responsibility of the plan's administrative body. In the past, this duty has been avoided by many of the smaller plans by either relinquishing control of pension funds to banks who act as trustees of the fund, or by the purchase of annuities from insurance companies. At present, almost all of the larger plans and many of the smaller ones retain control of financial management of funds accumulated

under the plan. In such a case, it is the duty of the administrative agency to manage what may be a rather large investment portfolio.

A. Administration by Management

Industrial pension plan administration has gone through two phases and appears to be entering a third. In the first phase, administration of plans tended to be exclusively exercised by management. This was before the development of negotiated pension plans, which generally date from 1949. With few exceptions, plan administration was under the control of the sponsoring firm before this time. Most larger firms appointed a "pension board" or "pension committee" to supervise plan operations. The members of these supervisory bodies were answerable directly to the firm and served at the firm's discretion. Unions generally assumed that they had no right to participate in these matters.²

B. Joint Administration

As a consequence of pensions becoming a bargainable issue in the late 1940s, many unions have obtained contractual rights to participate in plan management. As pension administration moved into this phase, union members gained the right to sit on joint administrative boards composed of equal numbers of company and union representatives. The power of such administrative bodies was limited however to determination of an applicant's eligibility and pension amount. Management of

funds created under the plan remained under the exclusive control of management. 3

By and large, this is the way in which most industrial pension plans are now administered. The chief function of the union in such a restricted administrative capacity is to insure that a pension will be forthcoming to a worker who has established eligibility, and to make certain that the amount of the benefit is correct.

The third phase into which industrial pension plan administration appears to be entering concerns union participation in the handling of trust funds created under pension plans. The advance of union control in this area can be expected to be slow as opposition is quite strong. Traditional management attitudes and currently prevailing conditions can be illustrated by practices of the U. S. Steel Corporation.

The original pension plan negotiated by the United Steel Workers and U. S. Steel established a contractual obligation on the part of the firm to pay benefits in accordance with a formula contained in the plan. The company did not have to set up a pension fund under the agreement. It could have adopted a pay-as-you-go policy had it wished, but financial prudence led to the establishment of a fund as a more convenient way of providing for foreseeable pension costs. Having been thus established, an official of the firm testified before a Senate Subcommittee in 1955 that, "Under these circumstances, since the determination of whether or not to create a trust is a matter of

3Ibid., p. 82.
internal policy, we believe that the operations of the trust are of a like nature."

It bears mentioning that U. S. Steel has established something of an anomaly - a trust without a beneficiary or owner. The following exchange took place between Mr. Enders M. Voorhees, General Counsel for the firm, and Paul J. Cotter, Chief Counsel to the Senate Sub-Committee on Welfare and Pension Funds:

"Mr. Cotter: Is that an irrevocable trust?

Mr. Voorhees: As far as the United States Steel Corporation is concerned, it is irrevocable. We can't put a finger on that money.

Mr. Cotter: What... is the purpose of the fund?

Mr. Voorhees: It is for the use of employees.

* * * *

Mr. Cotter: But while it is for the use of the employees, they don't have a vested interest in it?

Mr. Voorhees: That is right."

One might easily wonder about the legal status of such a "trust." This problem will be more fully discussed in connection with funding of pension plans.

Some of the nation's labor leaders are beginning to challenge the "internal policy" method of pension fund management. While it was estimated in 1956 that 86% of all pension funds were administered solely by

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5 Ibid., p. 1171-1172.
employers,\textsuperscript{6} it seems inevitable that unions will gain more control in this area in the future.

There are two concepts of pensions and pension funds which bear upon the validity of the trade unionist's claim to a right to share in pension fund management.

One concept, which might be called the "human depreciation" view, has been espoused for many years. In 1912, one author wrote that:

It might be added that from the standpoint of the whole system of social economy no employer has a right to engage men in any occupation that exhausts the individual's industrial life in ten, twenty, or forty years; and then leave the remnant floating on society at large as a derelict at sea.\textsuperscript{7}

A similar philosophy was later advanced by John L. Lewis of the United Mine Workers (see Chapter II, p. 23), and the President's Steel Industry Board echoed this view in 1949.\textsuperscript{8}

If the concept that a pension represents a depreciation cost is accepted, then it appears that it should be the prerogative of the firm to decide how to meet that cost. It would logically follow, therefore, that management should have exclusive control over any fund that they might choose to create.

A second concept of pensions, however, gives unions a strong


\textsuperscript{8} The Steel Industry Board, Report to the President of the United States on the Labor Dispute in the Basic Steel Industry, Sept. 10, 1949, p. 10.
argument that they have a right to participate in pension fund management. According to this concept, pensions are "deferred wages." The present practice of "package" bargaining, under which the firm agrees to pay advances of so many cents per hour and then allows the union considerable leeway in determining the form in which the increase will be taken, lends credence to this concept.

United States Steel, while strongly opposing union participation in fund management, appears to hold this view of contributions to pension funds. In a formal statement submitted to the Senate Subcommittee on Welfare and Pension Funds, the firm stated:

The funding of current service costs starts out by recognizing that the cost of an employee's service is greater than the amount currently paid to him as wages because, as he works, he concurrently establishes a possible claim to a pension. In a sense this is a claim to more pay for the same work; it is therefore deemed to be a part of the cost of that work and hence a part of the cost of the product resulting from that work.9

Of course, what U. S. Steel thinks of as the cost of labor is the wage of labor to an employee, and therefore, rightfully his. Consequently, through his representatives, he has a valid claim to the right to participate in the management of his "deferred wages."

Whichever concept is accepted, unions are currently pressing for the right to become joint administrators of pension funds. They reason that the pension money really belongs to the workers and that the worker's representatives should therefore share in making decisions which affect their funds.

9 Senate Subcommittee on Welfare and Pension Funds, op. cit., p. 1171.
The AFL, before the 1955 reunion with the CIO, stated that "union representatives have as much right to a voice in the management of the funds as if the workers had set up the fund entirely through their own resources."\(^{10}\)

Walter Reuther has long advocated joint control of pension funds. Testifying in support of the Welfare and Pension Plan Disclosure Act of 1958, Reuther commented that "It is incredible that we should know as little as we do about the billions of dollars in investments represented by these plans."\(^{11}\) He argues that the money in the pension fund belongs to the workers and is being held in trust for them. Consequently, he believes that employees should have more control over the use of the funds. He has advocated that automobile industry pension funds be invested in housing and other community facilities in areas where automobile workers live.\(^{12}\)

Growing union pressure will probably bring about a greater degree of union participation in pension fund management. Changes, if they come, can be expected to be slow and evolutionary in nature; no overnight revolution appears in the offing.

C. Settlement of Disputes Under Joint Administration

Although, as previously noted, the employer has final authority with regard to pension benefits under some plans, an increasing number


\(^{11}\) Senate Subcommittee, op. cit., p. 1175.

\(^{12}\) Harbrecht, op. cit., p. 98.
of plans provide for some degree of employee participation in making decisions which deal with eligibility and benefits to be received. At present, in fact, about two-thirds of collectively bargained plans provide for some type of pension committee composed of an equal number of members appointed by the employer and by the union.  

The following is typical of pension plan clauses establishing such a board:

There shall be established a central Board of Administration hereinafter referred to as the Board, composed of six members, three appointed by the Corporation and three by the Union... Either the Corporation or the Union at any time may remove a member or alternate appointed by it and may appoint a member of alternate to fill any vacancy among members or alternates appointed by it.  

Plans commonly provide that deadlocks between corporation members and union members of the board will be broken by an impartial chairman:

The Corporation and the Union shall mutually agree upon and select an Impartial Chairman, who shall serve until requested in writing to resign by three Board Members...

The Impartial Chairman will not be counted for the purpose of a quorum, and will vote only in case of a failure of the Corporation and Union by vote through their representatives on the Board to agree upon a matter which is properly before it.  

The decision of the Board is generally final and binding on both parties. Typically:

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13 Ibid., p. 47.


15 Ibid., p. 72.
There shall be no appeal from any ruling by the Board which is within its authority. Each such ruling shall be final and binding on the union and its members, the employee or employees involved, and on the Corporation.\(^{16}\)

Elsewhere, this same plan states that no matter respecting the pension plan "shall be subject to the grievance procedure established in the collective bargaining agreement between the Corporation and the Union."\(^{17}\)

This plan also spells out the authority of the Board which, typical of such Boards, includes: (1) review of applications for pensions; (2) the handling of complaints regarding an employee's age, service, or computed benefit; (3) providing employees with information regarding service credits, and; (4) settlement of disputes over permanent disability claims.

Although the above plan clauses are cited as typical of dispute settlement machinery and of the scope of authority of such joint boards, other methods are occasionally utilized. Some plans provide for the selection of permanent or ad hoc outside umpires, some resort to the services of the American Arbitration Association, while a few provide that the regular grievance procedure machinery shall be used.\(^{18}\)

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\(^{16}\) Ibid., p. 72.

\(^{17}\) Ibid.

\(^{18}\) Ibid.

\(^{19}\) Dearing, \textit{op. cit.}, p. 97, and Harbrecht, \textit{op. cit.}, p. 47
Eligibility Requirements

All pension plans establish conditions which must be met in order for an employee to become eligible for a benefit under the plan. Principal among these requirements are provisions that require some minimum period of continuous service and some minimum age of the employee, and, often, special provisions which apply to those who become disabled or retire early. Additionally, many plans provide that an employee may continue work after normal retirement age at the employer's option. Where this is allowed, the plan usually has a compulsory retirement age, commonly 70 years.

A. Normal Retirement Age

Normal retirement age may be defined as the earliest age at which an employee may retire with full benefits under the normal benefit formula of the plan. Under most plans, the normal retirement age is 65, assuming that the employee has otherwise qualified for a benefit. In a recent study by the Department of Labor, only 20 out of a sample of 300 plans had a normal retirement age either higher or lower than 65. Of this 20, two set age 70 as the normal retirement age, fifteen age 60, one age 62, one age 55, and one allowed normal retirement benefits whenever an employee's age plus service added to 80. The prevalence of age 65 as the normal retirement age no doubt

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21 Ibid.
reflects the fact that this is the age at which benefits become available to a covered male under the Social Security Act.

The normal retirement age takes on added importance when it influences a worker's rights under other plan provisions. Many plans which have vesting provisions, for instance, provide that full vesting occurs only when normal retirement age is reached. Plans with early retirement provisions commonly pay benefits which decrease in some proportion as retirement occurs before normal retirement age. Also, there appears to be a current trend toward making the normal retirement age and the compulsory retirement age the same. The Bankers Trust Company found that this was the case in 79% of the plans surveyed in a 1959 study and in 91% of the plans included in a 1965 study. These matters will be more fully discussed later in this chapter.

B. Minimum Service Requirements

In addition to the age requirement, most plans also require some minimum period of "unbroken" or "continuous" service. As Table III-1 indicates, over three-fourths of the plans included in a 1959 Department of Labor study had some minimum service requirement. Some 72 of the 300 plans specified age only as a condition of eligibility. This figure is somewhat misleading, however, as most of the firms involved follow a policy of not hiring workers over 45 or 50 years of age. The result is that by the time they have reached the usual retirement age of 65, 15 or 20 years of service with the firm has been

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23 BLS Bul. 1284, p. 4
accumulated. About 25% of the plans called for ten or less years of service; slightly more than one-half specified 10-15 years, reflecting the patterns set by the automobile (10 years) and steel (15 years) industries. The remaining plans either require more than 15 years service - up to 30 in one plan - or provide some alternative method of computing eligibility.


<table>
<thead>
<tr>
<th>Minimum Requirements</th>
<th>Number of Plans</th>
<th>Workers (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Plans</td>
<td>300</td>
<td>4,672.7</td>
</tr>
<tr>
<td>Age Only</td>
<td>72</td>
<td>644.7</td>
</tr>
<tr>
<td>Age and Service</td>
<td>216</td>
<td>3,903.6</td>
</tr>
<tr>
<td>Age 55 and 10 years</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>Age 60 and 12 years</td>
<td>1</td>
<td>4.0</td>
</tr>
<tr>
<td>Age 60 and 15 years</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td>Age 60 and 20 years</td>
<td>8</td>
<td>471.8</td>
</tr>
<tr>
<td>Age 65 and 2 years</td>
<td>1</td>
<td>180.0</td>
</tr>
<tr>
<td>Age 65 and 5 years</td>
<td>2</td>
<td>43.0</td>
</tr>
<tr>
<td>Age 65 and 6 years</td>
<td>4</td>
<td>29.0</td>
</tr>
<tr>
<td>Age 65 and 10 years</td>
<td>64</td>
<td>1,249.0</td>
</tr>
<tr>
<td>Age 65 and 12 years</td>
<td>1</td>
<td>16.2</td>
</tr>
<tr>
<td>Age 65 and 15 years</td>
<td>98</td>
<td>1,051.2</td>
</tr>
<tr>
<td>Age 65 and 18 years</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td>Age 65 and 20 years</td>
<td>21</td>
<td>678.9</td>
</tr>
<tr>
<td>Age 65 and 25 years</td>
<td>9</td>
<td>137.8</td>
</tr>
<tr>
<td>Age 65 and 30 years</td>
<td>1</td>
<td>7.5</td>
</tr>
<tr>
<td>Age 70 and 20 years</td>
<td>2</td>
<td>8.4</td>
</tr>
<tr>
<td>Age and Participation</td>
<td>6</td>
<td>29.0</td>
</tr>
<tr>
<td>Age 65 and 5 years</td>
<td>2</td>
<td>11.2</td>
</tr>
<tr>
<td>Age 65 and 10 years</td>
<td>2</td>
<td>6.6</td>
</tr>
<tr>
<td>Age 65 and 15 years</td>
<td>2</td>
<td>11.2</td>
</tr>
<tr>
<td>Alternative Requirements</td>
<td>6</td>
<td>95.4</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Labor, BLS Bul. 1284, Table 6, p. 18
In determining what constitutes a year's service for the purpose of establishing pension eligibility, various methods are utilized. In plans negotiated by the United Automobile Workers, 1700 compensated hours or more during a calendar year is sufficient to earn credit as one year of service. \((52 \times 40 = 2,080,\) so a worker must be compensated for slightly more than 80% of a normal work year). Plans in the steel industry require only that some compensated service occur during the course of a year. Some plans use a specified amount of pay during a year as the yardstick.\(^{24}\)

C. Early Retirement

An increasingly large number of plans allow an employee to retire before reaching the normal retirement age. A 1952 Department of Labor study found that 166 of 300 plans had early retirement provisions;\(^ {25}\) a comparable 1959 study showed that 224 of 300 plans provided for early retirement.\(^ {26}\) It is quite common to require some additional condition of eligibility for those who wish to retire early. The employers consent, rarely required for normal retirement, is often required. Some plans specify impaired capacity as a condition; others require that the employee face layoff or job loss.\(^ {27}\)


\(^{26}\) BLS Bul. 1284, p. 30.

\(^{27}\) Ibid.
The Department of Labor estimates that about 2 out of 3 workers under plans are covered by early retirement provisions. Such provisions were found to be practically universal in the lumber, rubber, primary metal, fabricated metal, paper, tobacco, petroleum, transport equipment, communications, and utility industries. They are almost non-existent in the apparel, hotel, and restaurant industries, however.

Early retirement benefits are always less than benefits which are available at normal retirement age. Formulas used to compute early retirement benefits vary, but in every case the employee receives a monthly benefit which decreases as his age at retirement falls short of the normal retirement age. Table III-2 shows the method used to compute early retirement benefits in the steel and automobile industries. While other methods are used, all achieve similar results.

Table III-2. Early Retirement Benefits as a Percent of Normal Retirement Benefits in the Basic Steel and Automobile Industries (1959)

<table>
<thead>
<tr>
<th>Retirement Age</th>
<th>Basic Steel (actuarial reduction)</th>
<th>Automobile (0.60 percent per month reduction)</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 (Normal)</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>64</td>
<td>91.84</td>
<td>92.80</td>
</tr>
<tr>
<td>63</td>
<td>84.60</td>
<td>85.60</td>
</tr>
<tr>
<td>62</td>
<td>79.14</td>
<td>78.40</td>
</tr>
<tr>
<td>61</td>
<td>72.36</td>
<td>71.20</td>
</tr>
<tr>
<td>60</td>
<td>67.18</td>
<td>64.00</td>
</tr>
</tbody>
</table>


Ibid.
Of the 224 plans in the 1959 sample which had early retirement provisions, about three-fifths allowed an early retiree to delay receipt of his benefit until age 65. In such a case, the benefit is increased by approximately 50%, but remains less than the benefit which would have been available had employment continued until normal retirement age. Hypothetically then, a worker who might get $100 per month at normal retirement age could currently receive perhaps $60 by accepting retirement at age 60, but would be entitled to a $90 benefit if receipt was deferred until age 65.

D. Special and Disability Retirement

A small number of plans provide that an employee may become eligible for a pension prior to the achievement of normal retirement age if some special condition is satisfied or if the worker becomes disabled. Benefits available under these circumstances usually exceed by a significant amount the early retirement benefit to which an effected employee might be concurrently entitled.

The objective of the "special" early retirement programs is to provide larger benefits to early retirees whose separation from employment is involuntary. Employees are generally placed in this category in a limited number of situations such as may arise when an employer initiates the retirement of a worker, where the employee is partially disabled, or where recall from layoff is unlikely.

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29 Ibid., p. 33.
30 Ibid., p. 33.
31 Ibid., p. 34.
The 1959 Department of Labor study of 300 plans contained 25 with such provisions. Age and service requirements were usually the same as for early retirement, but, as mentioned above, the pension amount was substantially greater. In most of these plans, the regular retirement benefit formula became operative when the employee reached normal retirement age.

A 1964 study of 15,818 plans found that 1,051 of the plans (covering 2.7 million workers) provided for special early retirement. Plans with this type provision were most common in agreements negotiated by the Steel Workers, Automobile Workers, Rubber Workers, and United Packinghouse Workers unions. The conditions under which special early retirement was available under these plans are reflected in Table III-3.

Insofar as the benefit amount is concerned, about half of these plans provided a special retiree with a pension equal to the normal retirement benefit, while the other half gave benefits either double or somewhat larger than the normal retirement benefit. In any of these cases the benefit available would exceed the benefit under the regular early retirement provision. Also, normal retirement benefits were payable when the worker reached the normal retirement age.

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32 Ibid., p. 35.


34 BLS Bul. 1407, p. 33.
Table III-3. Conditions Under Which Special Early Retirement is Available.

<table>
<thead>
<tr>
<th>Special Early Retirement Conditions</th>
<th>Plans</th>
<th>Workers (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plans with Special Early Retirement</td>
<td>1,051</td>
<td>2,674</td>
</tr>
<tr>
<td>At Employers' Request</td>
<td>818</td>
<td>1,429</td>
</tr>
<tr>
<td>By Mutual Consent</td>
<td>498</td>
<td>1,886</td>
</tr>
<tr>
<td>Terminated (shut-down)</td>
<td>128</td>
<td>1,013</td>
</tr>
<tr>
<td>Disability (not sufficient to qualify for</td>
<td>227</td>
<td>1,095</td>
</tr>
<tr>
<td>disability benefit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Layoff</td>
<td>121</td>
<td>943</td>
</tr>
<tr>
<td>Other</td>
<td>37</td>
<td>170</td>
</tr>
</tbody>
</table>


1Sums of individual items do not equal totals because of plans which allow alternative conditions.
One respected authority in the field expects special early retirement provisions to become much more common. In the past, the steel and automobile industries have been pattern setters and, as previously noted, this type provision is already quite prevalent in these industries.

Disability retirement is similar to special early retirement in that both are contingent upon some special condition and that both provide a pension benefit which may differ from the benefit to which an employee might otherwise be entitled.

In a 1959 study, the Bureau of Labor Statistics reported that approximately 90% of all workers covered by negotiated single employer plans were protected by a disability retirement provision. Another study covering plans negotiated in the period from 1960 to 1965 showed that 94% of these plans provided disability pensions.

Under most of these plans, the worker must be disabled for a certain length of time, usually six months, by a physical infirmity which renders him, to some degree, incapable of performing his usual duties. In addition, the employee is usually required to meet either an age or service requirement, or both, to qualify.

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36 *BLS Bul. 1284*, p. 35.


38 *BLS Bul. 1284*, p. 35.
When compared with early retirement requirement, the age requirement tends to be lower while the service requirement tends to be longer. Three-fourths of all plans have no age requirement at all. For those that do, age 50 and 55 are most common. Service requirements are almost universal, however. Table III-4 shows age and service requirements for 70 plans included in a recent study by the Bankers Trust Company of New York. Several pronounced trends are revealed by comparing the results of a similar study covering plans negotiated in the period from 1956 to 1959 with plans negotiated in the period from 1960 to 1965.

Table III-4. Disability Retirement Provisions.

<table>
<thead>
<tr>
<th>Retirement Provision</th>
<th>1960-65 Plans</th>
<th>1956-59 Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 50 After 15 Years Service</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>15 Years Service Only</td>
<td>38%</td>
<td>54%</td>
</tr>
<tr>
<td>10 Years Service Only</td>
<td>33%</td>
<td>1%</td>
</tr>
<tr>
<td>Other Age and Service Requirement</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>No Disability Retirement Provided</td>
<td>6%</td>
<td>16%</td>
</tr>
</tbody>
</table>


Particularly evident is the increase in the proportion of plans having disability retirement provisions. It increased from 80% in 1953-55 to 84% in 1956-59, and to 94% in 1960-65. Another trend is

39 Bankers Trust Co., op. cit., p. 17.
40 BLS Bul. 1284, p. 37.
41 Bankers Trust Co., op. cit., p. 17.
toward liberalization of service requirements. In 1956-59, plans requiring 15 years service predominated; in 1960-65, one-third required 10 years service.

Insofar as the benefit amount is concerned, the disability pension is equal to the normal retirement benefit in most plans. In the few that differ, most provide benefits that are higher. In more than half of the plans, the disability benefit is reduced by the amount of other disability benefits received, such as Workmen's Compensation. There is a trend toward elimination of such offsets, however.

Benefits To Be Received

To a retiring employee probably the most important element of a pension plan is the method of computing the benefit and the amount thereof. Most authorities believe that the benefit should equal approximately 50% of the employee's money wage during the last few years of employment. There has so far been little effort to adjust benefits to reflect price level changes. However, the periodic renegotiation of most plans probably results in some adjustments made on the basis of the changing purchasing power of the dollar. If such is the case, the need for built-in adjustment machinery is minimized.

One writer estimates that a retirement plan which, when combined with OASDI benefits, provides a gross benefit equal to 50% of gross

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42 BLS Bul. 1284, p. 38.
43 Bankers Trust Company, op. cit., p. 17.
Pre-retirement income will give an employee a spendable retirement income equal to 65% of disposable income prior to retirement. This apparent incongruity results from the fact that disposable income more nearly approximates gross income after retirement than it does before retirement. For the retiree, gross and spendable income are brought closer together because: (1) numerous payroll deductions cease; (2) no income tax is collected on OASDI benefits, and; (3) the retiree falls into a lower income tax bracket.

For the most part, pension plans now in effect do provide retirement income which meets the 50 percent test. Also, the great majority of industrial plans provide a retirement income equal to or greater than the "modest but adequate" income for a retired couple as computed by the Department of Labor. For most areas the Department found that $3,000 a year would be sufficient to maintain an aged couple.\(^46\) A review of the statistics used in arriving at this figure indicates that the $3,000 may be more "modest" than "adequate" however. The life of a washing machine is projected at 15 years; the couple is allocated 64¢ per year for pots and pans; the television set must be kept operational on $1.22 per year.\(^47\) Expenditure levels such as these could hardly be expected to allow most couples to maintain anything near their accustomed standard of living.

\(^{45}\)Strong, op. cit., p. 41.


\(^{47}\)Ibid., p. 1155.
It is true, however, that the need for cash income is generally less for an aged couple than for the young. Many will have their home paid for by age 65. It is a common practice to write life insurance programs so that policies are paid up by retirement age. Children are likely to have become financially independent and possibly capable of contributing to the support of the parents. Many will have sources of income other than that provided by retirement plans. Finally, it is generally accepted that needs diminish with advancing age. The newly inaugurated Medicare program provides protection in the one area in which needs are most likely to increase.

As will be discussed later, some plans are designed to provide a retirement income which is at least partially determined by earnings before retirement. Under such a system, retirement income is to a certain degree tied to a retiree's attained standard of living. Other plans provide benefits independent of past earnings but which are strongly influenced by years of service. This latter type plan obviously gives less consideration to maintaining a worker's pre-retirement standard of living than does those influenced by earnings. Of course, where seniority is the basis of advancement, which is often the case where there are negotiated plans, years of service and earnings tend to advance together. Roughly, the same result may be achieved by the different approaches.

Before delving into the methods of computing benefits, it is necessary to distinguish between two manners in which a plan's undertaking may be expressed. Only one of these will be germane to this study.
The obligation assumed by the employer may take two forms. One approach is referred to as a defined contribution plan under which the firm assumes the responsibility of making fixed periodic contributions to a pension fund. The benefit to be received is treated as a variable factor and depends primarily on the number of retirements under the plan and the earning experience of the fund. This type plan is very rarely found among industrial retirement systems. It is most prevalent among public retirement plans and plans established by public utilities and non-profit institutions to whom it is attractive because the outlay is known in advance.

The second type plan may be referred to as a defined benefit plan. Under this arrangement, the benefit is established by formula and the contribution is treated as the variable factor. The following discussion is concerned only with defined benefit type plans as this is the arrangement found in industrial pension systems.

There are three methods of computing benefits currently in vogue. One method actually requires no computation as it provides for a flat monthly benefit once eligibility has been established. This method is commonly used by craft unions of the AFL-CIO and by the Teamsters Union. This method of arriving at benefits payable will be of little

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48McGill, op. cit., p. 61.

importance to the present study as the plans to be examined herein all cover industrial workers.

Another method of computing benefits is by formula based on earnings and service. Finally, benefits may be computed by giving a fixed monthly benefit for each year of service without regard to past earnings. These two latter methods are discussed in some detail below.

A. Benefits Determined by Formula Based on Average Earnings and Years of Service

Computation of benefits on the basis of earnings during past employment is based upon the philosophy that an employee should receive a benefit which is in some way correlated with both earnings and service. Such a benefit formula typically provides that the monthly pension shall be a given percent (usually 1 to 1½%) of average monthly earnings during the last ten years of employment times years of service. This type formula has come to be known as the "steel pattern" as it is commonly used in plans negotiated by the United Steel Workers and the nation's major steel firms. A limit is often set on the years of service which may be used in computing the benefit. In the 1961 USW - U. S. Steel agreement, no more than 35 years service may be used in the computation. An $80 offset against Social Security benefits was also provided. Under these conditions, a worker would be eligible for a gross pension (OASDI plus private plan benefit) of $197, assuming:

50 U. S. Department of Labor, BLS Bul. No. 1307, p. 34.
a. 1% of average earnings is taken
b. $500 per month was the workers' average earnings during the last 10 years
c. The employee had 30 years of credited service
d. The worker is eligible for $127 OASDI benefit (minus $80 offset).

A variant of this type benefit formula is used by the Aluminum Workers. The 1961 Aluminum Workers - Alcoa contract provided that the annual pension would be 1.25 percent of total past earnings. Total earnings were limited, however, to wages received during the last 40 years. A man with 30 years service who had averaged $5,000 per year would thus have total earnings of $150,000, 1.25% of which is $1,875.00. The monthly private pension would therefore be $156.25. This plan also allowed an $80 OASDI offset. As will be discussed later, there is a trend toward elimination of the offset against OASDI benefits.

B. Benefits Determined by Fixed Monthly Benefit for Each Year of Service Without Regard to Earnings

A large number of industrial pension plans provide that the monthly benefit shall be determined by multiplying a fixed sum by years of service. The emphasis here is of course on service. All workers who have equal service receive the same benefit under this type plan, irrespective of what differences may have existed between their wage rates before retirement. This type benefit formula is commonly used by the United Automobile Workers and is therefore known as the "automobile pattern."

Where this formula is used, the flat amount may vary by time periods. For instance, the plan negotiated by Ford Motor Company and

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51BLS Bul. No. 1307, p. 36.
the Automobile Workers in 1961 provided that the monthly benefit would be service times $2.50 for years of service after December 31, 1958, $2.43 for service during 1958, and $2.40 for each year of service prior to January 1, 1958.

It is common for the fixed amount to be raised somewhat in each succeeding three-year contract. The raises accrue primarily to future retirees however, since they are seldom retroactive. It is obvious in the Ford plan mentioned above, that a man who retired after 1958 would get a larger pension than a man of equal service who retired prior to that year.

To make benefit increases retroactive would undoubtedly place an onerous burden on an employer whose past funding practice was based on lower benefit levels. Too, unions are necessarily more responsive to the desires of present membership than to past members.

Some plans differentiate between "past service" and "future service" in computing benefits. As used in the plans, "past service" indicates service prior to plan adoption, while "future service" refers to service after plan adoption. Thus, under a plan adopted in 1950, all service after that time would be regarded as future service. The distinction is important in plans that make the differentiation since past service yields a smaller benefit for the same amount of service and earnings than does future service. As the plans get older, the distinction will become less and less significant as fewer and fewer employees will have "past service." The distinction is often

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52 Ibid.
necessary to avoid having a firm assume a full blown pension obligation without the benefit of past funding. It will undoubtedly continue to appear in new plans.

C. Special Payments Under the Steel Formula

Steel industry plans since 1960 have contained provisions for special one-time payments to retirees. The steel plans call for a lump-sum payment equal to thirteen weeks pay at the time of retirement. It has been estimated that the special payments would run from $1,300 to $1,500. The 1962 U. S. Steel - United Steelworkers' agreement provided extended vacations for employees on the upper half of the seniority list. An employee may forego the long vacations and defer receipt of the vacation pay until retirement if he chooses. The lump-sum payment may therefore exceed the figure quoted above by a substantial amount.

A few plans outside the steel industry have been amended to include this type special payment. Nothing describable as a trend has developed, however. The most recent automobile industry plans contain no such provision.

D. Survivor Benefits

Regardless of how the benefit is computed, its amount at normal retirement age may be affected by survivor benefits which are being made available to an increasing number of retirees. Under a plan

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53 Statement by USW President David McDonald in the New York Times, Jan. 6, 1960, p. 43.

54 Bernstein, op. cit., p. 31.

55 Ibid., p. 36.
without such provisions or for an employee who does not elect certain options, all private pension benefits cease at the death of the pensioner. The result is that the widow is left solely dependent on the survivor's benefit under the Social Security system (currently 82½% of the husband's primary benefit, or a maximum of $138.60). Even this benefit is payable only if the widow is "aged" (over 62) or has dependent children. A "young" widow without dependents receives no benefit until age 62. The result is that there is a considerable gap in pension coverage for millions of workers and their dependents, most of whom no doubt assume that they are fully protected against income loss during old age. Although one writer professed in 1952 to be "really astonished" that this gap has been allowed to remain, efforts to close it have only just recently been made.

Pension plans may provide protection for survivors in two ways: (1) under provisions by which death benefit payments automatically are made to survivors upon the death of the pensioner, and; (2) by joint and survivor options which allows the worker the option of surrendering part of his regular pension to provide protection for survivors. 57

The first mentioned type of death benefit may take a variety of forms, none of them dependent on the prior choice of the worker. They are integral parts of the plan and so automatically commence upon the death of a retiree. Some plans provide for lump-sum payments to


the worker's beneficiary immediately following his death. Some plans provide that the widow will receive some portion of the worker's pension until she dies, or, in some cases, re-maries. Finally, a plan may contain a device known as "payment certain" under which a pensioner is guaranteed a minimum number of pension payments - often 60. Should he die before receiving the full number of guaranteed payments, those remaining are made to his beneficiary. Should he live to collect the "payment certain" in full, further benefits are coincident with his lifetime. 58

In 1962, it was estimated that about 1 out of 6 industrial workers were under plans which provided some form of death benefit. Eligibility for such a benefit was commonly dependent on the fulfillment of some age and/or service requirement. 59

Possibly more important in providing protection for survivors is the joint and survivor's option under which the worker is allowed to choose to receive a reduced benefit until his death, following which a previously determined benefit is payable for life to his designated joint annuitant. The following is the type of pension plan provision which allows such an option:

An employee may, before the due date of the first payment of his normal disability, or early pension, elect to convert such pension into an optional form of benefit of equivalent actuarial value. 60

58 Ibid., p. 2
59 Ibid., p. 4
60 Ibid.
A number of plans make the option available only in case of normal retirement, so that employees who retire early or because of disability lose the right of election. 61

As indicated above, the worker who opts for the survivor benefit must accept a lower regular pension because of the additional obligation which is assumed by the plan. The amount by which the normal benefit is reduced depends on the age and sex of both the pensioner and his joint annuitant at the time of the worker's retirement. Standard actuarial tables are used to make these computations, so that a pensioner with a young female joint annuitant would receive a benefit considerably reduced as a result of exercising such an option. To leave his wife a benefit equal to one-half his own, a man retiring at age 65 would receive a benefit reduced by about 20%. (This assumes the wife to be 5 years younger than her husband). 62

Under the 1961 automobile industry agreements, the regular pension is reduced by only 121/2%. The cost of providing the larger benefit is absorbed by the companies. Too, only a spouse may be named as beneficiary, whereas, under most plans the worker can name anyone with an insurable interest as beneficiary. 63

To avoid adverse selection, all plans require that the option be exercised before the attainment of some age or some specified point in

61 Ibid.


63 Ibid., p. 16.
time before retirement. There is considerable variation among plans, but a common provision requires that the option be exercised three years before retirement or before reaching age 62. Some plans allow a worker to exercise the option after the specified age or point in time upon presentation of evidence of good health, usually a physical examination.

As desirable as joint and survivor options appear to be, they do not seem to have been fully accepted by workers. Under one plan covering several thousand workers, a union official reported that, "Not a single retiring worker elected the option in our tool and die plan." 65

In explaining this lack of worker interest, two possibilities suggest themselves. First, lack of understanding of what the survivors option is designed to accomplish is probably widespread among workers. Indeed, many probably do not know the option exists. Since it must be exercised years in advance of retirement, for some the knowledge that it does exist probably comes too late. If ignorance is the problem, it should not be too difficult to resolve. A second possible explanation for the workers' disinterest is that exercise of the option leads to benefit reductions so great as to be unacceptable to the majority of retirees. There appears to be a tendency to take the undiminished benefit and gamble that it will be more favorable. The worker is

64 Ibid., p. 10.
generally in a poor position to assess the odds of whether the undiminished benefit will yield a larger aggregate return than the joint benefit. Man's proclivity to accept present value in preference to future value has been well established since the publication of Eugene von Bohm-Bawerk's work in the latter part of the 19th century. If the diminution of present benefits is the difficulty, perhaps something on the order of the automobile industry plan mentioned earlier is the answer.

E. Pre-Retirement Death Benefits

The survivor benefits discussed above apply only if the pensioner dies after retirement. They therefore provide no protection for the survivors of an employee who dies shortly before retirement. Some authorities believe that a pension plan that does not provide pre-retirement death benefits is "deficient" and "inequitable." An attempt to correct this apparent short-coming has been made in a few industrial pension plans. The automobile industry appears to be the leader in this development. Six recently amended plans in that industry provide protection for survivors of employees who have attained age 60 with credited service of ten years, or, alternatively age 55, if the decedent's age plus service totals 85. These plans pay a monthly benefit to the surviving spouse that is about 40% of the benefit which would have been available had the deceased retired early.


68 Ibid.
The provision of such benefits is an attempt to supplement group insurance which is seldom adequate to provide lasting economic security to survivors. Thirteen percent of the negotiated industrial plans included in a recent study (70 plans in all) had some type of pre-retirement death benefit. It is too early to judge whether these benefits will be made generally available to the nation's industrial workers.

F. Provisions for Minimum and Maximum Benefits

Many industrial plans contain provisions designed to insure that each employee will receive at least a subsistence level pension upon retirement. In some plans, the minimum is established by specific provisions while in some it is inherent in provisions dealing with eligibility and benefit computation. Possibly in no other area of pension planning is greater diversity to be found. Some of the more prevalent practices are outlined below, however, for illustrative purposes.

In those plans which have provisions specifically establishing a minimum, the following clauses are cited as typical:

A pension granted to an employee who shall have had at least twenty-five years of continuous service at the time of his retirement shall not be at a rate of less than twelve hundred dollars per year and a pension granted to an employee who shall have had fifteen or more, but less than twenty-five years of continuous service at the time of his retirement, shall not be at a rate per year of less than that part of twelve hundred dollars which the number of years of his continuous service bears to twenty-five. 70

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69 Ibid.

70 Commerce Clearing House, op. cit., p. 313.
This same contract provides that if the minimum monthly pension is less than $65 the firm may make an actuarially equivalent lump-sum payment.

Another contract states:

The minimum normal retirement allowance payable after May 1, 1950, shall be determined as follows:

(i) Except as otherwise provided in subsection (ii) below, the minimum normal retirement allowance shall be an amount equal to $12 for each year of creditable service not exceeding twenty years.

(ii) If a member has fifteen years or more of creditable service at retirement, his normal retirement allowance shall in no event be less than an amount which, together with his social security benefits, shall equal $720 plus $48 for each year of creditable service in excess of fifteen years but not exceeding twenty-five years.

This clause actually provides two methods of computing the minimum for an employee with between 15 and 20 years service. The amount of his social security benefit would determine which was more favorable.

For plans which follow the automobile pattern discussed earlier, there is no necessity for a clause specifically establishing a minimum. Once a man has satisfied the 10-year eligibility requirement, some benefit is payable, however small. Thus, if the flat amount payable for each year of service was $2.50, the minimum pension automatically would be $25.00 per month.

A minimum is established in the steel pattern plans by a clause practically identical to that under which the normal benefit is determined in the automobile industry. In the 1961 USW - U. S. Steel

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71 ibid., p. 314.
contract for instance, the plan provided that the minimum would be $2.60 times years of service after December 31, 1959, and $2.50 times years of service prior to January 1, 1960. Maximum creditable service under the clause is 35 years. For low-wage, long-service employees, the minimum formula yields a greater benefit than the regular percent-of-earnings times years of service formula. 72

A great number of plans contain no minimum benefit clause. Of the plans contained in a recent survey, 47% either contained no minimum or provided for Social Security offsets which rendered the minimum meaningless. 73

Plans covering industrial workers impose no maximum, per se, on the pension benefit. In the automobile pattern plans, there is an automatic limitation since the benefit is determined by multiplying a flat dollar amount times years of service. The years of service which an employee can accumulate is obviously finite. In those plans which relate benefits to both compensation and years of service, there has been no attempt to establish a maximum. Where they exist, always in plans covering high income salaried personnel, they tend to be quite liberal - ranging up to $50,000 per year. 74 The purpose of such a provision is to provide a hedge against having contributions to the plan declared taxable by the Treasury on the basis of discrimination.

72BLS Bul. No. 1307, p. 35.
73Bankers Trust Company, op. cit., p. 28
74Ibid., p. 30.
in favor of highly paid employees. Tax-exempt qualification of a plan will be discussed later in this chapter.

G. Benefits Inclusive and Exclusive of Social Security Benefits

Benefits under private plans may be integrated with OASDI benefits in two ways, the "excess" method and the "offset" method.

At present, both OASDI taxes and benefits are dependent upon income up to $6,600 per year. Once a worker passes this level, no additional taxes are paid on his behalf by either himself or his employer, nor are benefits affected by annual earnings in excess of this amount. The primary OASDI benefit is therefore higher as a percent of pre-retirement income for an employee making less than $6,600 annually than it is for a worker making more. In order to allow for benefits on roughly equal terms, the "excess" method of integration has been developed. In establishing rules to determine whether a plan is discriminatory in favor of high income personnel, the Treasury specified that a plan would not lose its tax exempt status if the employer made contributions into a special pension plan for earnings in excess of $6,600. Following this lead, a number of firms have established secondary plans into which contributions are made on earnings in excess of $6,600. These "excess" plans are commonly contributory and optional with employees.

The excess method of integration is rare among plans covering industrial workers. Obviously designed for high income employees, it

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75 Commerce Clearing House, op. cit., p. 314.
76 Internal Revenue Code of 1954, Sec. 401(a)(5).
has been adopted almost exclusively for the benefit of salaried personnel. 77

The offset method of OASDI and private plan integration provides that all or some portion of the primary public benefit is to be deducted from benefits otherwise payable by the private plan. So, for example, a plan which provided a $300 monthly pension would entail a private benefit of only $132 if total offset was provided and if the worker was eligible for the maximum OASDI primary benefit of $168.

Many objections have been raised to the offset method. To many it seems poor psychology. The worker may feel that both the public and the private benefits are earned, and to have the one partially cancel the other generates ill will. The worker might very well argue that half of the OASDI benefit comes from his own contributions. This fact is sometimes recognized by providing that only half of the primary OASDI benefit will be deducted. Finally, under the offset scheme of things, the workers do not benefit by an increase in the OASDI benefit. 78

Possibly because of these objections, offset provisions have been recently eliminated from a large number of plans. More often the rule than the exception in the early 1950s, one recent Department of Labor study showed that only 20% of the employees included in the survey were under plans with offset provisions. 79 The trend toward making private

77 Bernstein, op. cit., p. 30.
78 McGill, op. cit., p. 76.
benefits independent of benefits under OASDI is expected to continue.

**Financing Arrangements**

**A. Contributory versus Non-Contributory Plans**

A contributory pension plan requires contributions from both the employer and the employee. Under a non-contributory plan, all funds are provided by the firm.

Insofar as negotiated plans are concerned, contributory plans have been gradually diminishing in importance. In 1950, it was estimated that 75% of all workers covered by pensions received these benefits on a non-contributory basis. By 1963, this figure had increased to 80%. Many writers believe that this movement toward non-contributory plans results directly from the fact that employer contributions to plans are tax deductible while employee contributions are not. The 1949 Steel Industry Fact Finding Board based its recommendation for non-contributory plans on this basis. As the tax laws currently stand, a dollar contributed by the employer results in a larger benefit than an equal-cost contribution by an employee because the latter must contribute out of after-tax income. It was soon discovered that an employee could be given a "raise" equal to his

80McGill, op. cit., p. 76.


82BLS Bul. No. 1407, p. 63.

pension contribution by having the employer assume the pension contribution. An employer could therefore increase the take-home pay of an employee by a given amount with less cost than if the regular wage was increased. The trend toward non-contributory plans therefore rests on an economic basis as well as the fact that AFL-CIO leadership has been unanimous in advocating employer financed plans. 84

There are, however, some rather compelling arguments in favor of jointly financed plans. 85 For one thing, the worker generally has rights under a contributory plan that are not ceded him where the employer alone contributes. Upon separation (before retirement and for whatever reason) the employee can claim his own contributions plus interest (however nominal - 2 to 3% in most cases). If the deferred wage concept of pensions is accepted it might appear to be in the interest of justice to give him all contributions made in his behalf, regardless of who made them. In practice, only his own contributions are returned unless he has gained a vested right. Further, vesting, which is the right to a benefit financed by employer contributions even after separation, is much more common in contributory plans. 86 This is doubly important in view of the fact that employee contributions under a contributory plan are generally small in relation to contributions by the employer. It is a rare plan that calls for employee contributions in excess of $100 annually.

84 Bernstein, op. cit., p. 221.
85 These arguments are developed in some detail by Bernstein, op. cit., pp. 217-223.
86 Bernstein, op. cit., 217.
87 BLS Bul. No. 1232, passim.
The tax savings previously discussed has perhaps been given too much weight. The taxpayer with a wife and two children and a gross income of $4,000 to $5,000 simply does not pay that much in taxes.

Finally, benefits under contributory plans tend to be higher. Obviously, a given contribution by the employer will provide a larger benefit if matched to some extent by the employee.

A counter-argument against contributory plans is that they cannot be made compulsory and are therefore likely to result in adverse selection, with older workers joining and younger workers staying out. Several states, however, have employee retirement plans which are both contributory and compulsory. Requiring a worker to join such a plan is hardly more coercive than requiring him to join a union and pay dues, and in some cases, no more costly.

Whatever the relative merits of contributory versus non-contributory plans, there is little logic in making employer contributions tax deductible while requiring employees to contribute in after tax dollars. The self-employed have been allowed to establish pension funds for themselves on a tax deductible basis since 1962. In the same year, it was estimated that employee contributions to pension funds was $440 million. Even if a 20% average tax rate is assumed, the revenue loss from exemption of these contributions would be only $88 million. In the long-run, the loss would be much less than this, as pension benefits resulting from the employee's contribution would be taxable.

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It nevertheless appears that the tendency toward making pension plans non-contributory will continue. Employers in large segments of American industry have accepted the arrangement. Trade unions can be expected to continue their opposition to contributory plans, the fact that they are committed to the contributory principle of the OASDI program notwithstanding. Finally, if the practice of "package" bargaining continues to gain favor, the question will become less and less important.

B. Funding

As indicated earlier, one of the most controversial issues in pension planning involves funding. Some conflict arises over the funding method, i.e., just how much will be set aside and by whom, but more heat is generated over the issue of the funding agency and who shall control it.

Insofar as the funding method is concerned, the source of the disagreement is easily pinpointed. By its very nature, a pension plan creates obligations which often run into millions of dollars. The precise amount of the obligation is always unknown, however, since many of the costs will not be met for decades and can be estimated only within a wide range of possibilities. Actuarial experience lags behind practice, and the periodic revision of plans aggravates the uncertainty. In recent years, wide fluctuations in fund earnings has confounded an already muddled situation.

This uncertainty as to the future costs and therefore the need for current funding has led many industrial firms to adopt plans under which the amount of funding is periodically computed, but never known in advance. So long as the obligation assumed is highly uncertain, there seems to be no alternative. And, so long as the benefit is fixed, the contribution must be variable. The General Motors - UAW plans contain the following provision:

The Corporation agrees to pay over irrevocably to the trustee or insurance company as of each anniversary of the effective date of the plan during the period of this agreement, contributions or payments for the pension plan in the amount... as determined and certified as of each anniversary date by one or more actuaries chosen by, but independent of, the Corporation, and qualified through Fellowship in the Society of Actuaries.90

Other plans achieve essentially the same result as the General Motor's plan by providing that the employer will put into the fund so many cents per hour or any portion thereof as may be needed to maintain the plan in a "sound actuarial condition." In these plans, the fixed cents-per-hour-worked serves as a maximum on the amount which the firm can be called upon to contribute in any given year.

As previously noted, the steel pattern plans obligate a firm only to pay pensions when due. Any fund established is at the discretion of the firm and can therefore be increased or diminished as management of the firm sees fit. Fiscal prudence has led to funding roughly equivalent to that in industries in which the contribution is

90 Supplemental Agreement Between General Motors Corporation and the UAW-AFL-CIO, 1958, Section 2(b).
contractual, however. In cases such as this, practice is more important than formal plan provisions.

The controversy over the funding agency cannot be solved by leaving the decision to the future, however. Nor can the matter of pension fund management be so easily disposed of. These decisions have to be made prior to the creation of a fund.

The financial institution which is selected to receive contributions is known as the funding agency. The contractual obligation under which the funding agency operates is known as the funding instrument. 91

The Department of Internal Revenue makes it mandatory that the funding agency be distinct from the contributing firm if contributions are to be tax deductible. Whatever control that may be exercised over the fund must therefore be explicit in the funding instrument.

In industrial pension plans, the funding agency is almost universally a pension trust. 92 Such devices as purchases of individual annuity contracts, group annuity contracts, and deferred annuity contracts are rapidly losing favor except among some public utilities and insurance firms. These devices are devised by life insurance companies to provide retirement income to those wishing to purchase a paid up annuity. Under the group annuity contract, contributions are not used to purchase individual annuity contracts, but are held in an undivided account. As each participant reaches retirement age or dies,

91McGill, op. cit., p. 111.

an amount is withdrawn from the fund and used to provide individual benefits. Under the group deferred annuity arrangement, no refund or benefit is available should a participant die before annuity payments commence. The purchase price of such an annuity is reduced by the assumption of a given mortality rate among participants.\footnote{McGill, op. cit., p. 157.} Insurance companies favor such devices for obvious reasons, while the definitely determinable cost probably appeals to the regulated utility firms. The pension trust as a funding agency will be the chief concern of this study since, as noted above, it is the device commonly used by industrial firms.

Under the pension trust arrangement contributions are made to a group of trustees which, as noted above, must constitute a legal entity separate and distinct from the contributing firm. The Internal Revenue Code requires that contributions be irrevocable so that monies once placed in the trust are forever beyond the reach of the firm. The trust administers the fund and pays benefits according to provisions in the funding instrument. This does not mean, however, that the firm exercises no control over the fund. Control over such matters as investment of the fund may rest with the contributing firm either through provisions in the funding instrument or the right to change trustees at will.

The explosive growth of pension trust funds has created a number of perplexing problems. The growing size of the pension funds promises to materially alter some of our basic economic relationships. At the
present time, estimates of pension fund assets vary from $70 to $80 billion. Further, they are increasing by about 10 percent annually, so that by the end of this decade the figure will be in the $120 to $130 billion range.

In the period from 1953 to 1957, corporate pension funds purchased the equivalent of one-fifth of all the new corporate securities offered for sale. If the comparison is limited to common stock, net purchases by the pension trusts equaled 30 percent of the value of all such newly issued securities. While the growth of such institutional purchasing promises to add stability to the stock market, it also creates serious problems of concentrated economic power.

The problem of concentration is aggravated by another difficulty previously alluded to, i.e., just what is the legal nature of a pension trust. Economists have long mulled such problems as the concentration of power inherent in the nation's corporate structure and the increasing separation of ownership and control. The advance of pension trusts add a new dimension to these difficulties. The trusts hold title to billions of dollars worth of property, but who owns the trusts? This is the problem. Insofar as the corporation or even the corporate holding company is concerned, there is, after all, an ultimate owner who in the final analysis can be identified and can control, however infrequently that power may be exercised. One writer refers to the pension trusts as "vast aggregations of wealth upon which

Harbrecht, op. cit., p. 245-46.

Harbrecht, op. cit., p. 229.
many have claims but of which no one can call himself owner." Just as control has ceased to be an operating reality for many owners of stock, ownership itself is diminishing as a reality insofar as one thinks of ownership as ultimately residing in persons. A legal title ultimately held by a disembodied legal entity boggles the senses. Some new form of property law and rights will have to be developed. Previously established doctrines of trust law simply do not fit the situation.

To an ever increasing extent these funds are leaving the realm of usually understood trust principles and are posing an entirely new concept for dealing with property that has no parallel elsewhere in law.97

Possibly more important than establishing ownership is the problem of control over billions of dollars worth of property. The dangers of misuse are clear and present. Misuse of funds by the Teamster Union is well documented. In testimony before a Senate committee, it was revealed that Teamster pension funds had been used to support the incumbent Montgomery Ward management in a proxy fight. One witness testified that the Teamsters were rewarded by a contract containing provisions to which the firm had formerly been "unalterably opposed."98 The Laundry Workers Union allegedly engaged in similar improper practices in collusion with insurance and employer representatives.99

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96 Ibid., p. 4.
99 Ibid.
While the Welfare and Pension Plan Disclosure Act of 1958 (which grew out of the above hearings) will probably prevent the more flagrant offenses, control over billions of dollars can be improperly used in many subtle and nefarious ways. And, even assuming competent and honest administration, the problem of concentration will remain.

The desire of unions to participate in pension fund administration has been previously discussed. Joint administration would provide an additional check on the management of trust funds, providing that one party does not resign its powers to the other. Joint administration might also fail on another score. Collusion between parties of supposedly divergent interests is not unknown.

C. Vesting

Vesting may be defined as the right of an employee to leave the service of an employer prior to his normal retirement date without forfeiture of his accrued pension.

Vesting provisions of one type or another are almost universal in industrial pension plans. In a 1965 survey, 94% of all plans examined contained a vesting provision. Previous studies showed that in 1955 only 41% of plans provided some form of vesting, but by 1959 the figure had grown to 82%. A plan without some type of vesting provision is rapidly becoming a rarity.

Vesting may be accomplished by any one of three methods: deferred full vesting; deferred graded vesting; and immediate full vesting.

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100 Bankers Trust Company, op. cit., p. 19.
Under deferred full vesting, a worker who has satisfied certain age and/or service requirements retains a claim on all accrued benefits, payable, in most cases, at normal retirement age. Thus a long service employee who terminates at, say, age 50 becomes eligible for a pension from the firm upon retirement even though fifteen years may well have elapsed between his termination and his date of retirement. The 1958 General Motors - UAW agreement states that any worker who terminates "shall, if such employee has attained age 40 but not age 60, be eligible for pension commencing at age 65 provided the credited service of such employee at separation is at least 10 years." Under this plan, a worker may elect early retirement at age 60, which accounts for the "but not age 60" restriction. As with the normal retirement benefit in the automobile pattern plans, the benefit is computed by multiplying years of service times a flat benefit. Service prior to age 30 is not counted under the vesting provision, however.

Under deferred graded vesting, the worker acquires a claim to a certain percentage of accrued benefits, with the percentage increasing as additional requirements are met. For instance, a plan may grant a vested right to 50 percent of accrued benefits after 10 year's service with an additional 10 percent vesting for each additional year of service. Under such a provision, deferred full vesting results after 15 years of service. The following is offered as typical of such a provision.

101 Commerce Clearing House, op. cit., p. 323.
In the event a member ceases to be an eligible employee or in case of voluntary or involuntary termination of service for reasons other than early retirement, death, or disability, a member shall have a vested interest in the amount of contributions paid or payable to the fund by the Company for the purpose of funding the member's benefits, plus interest, as computed by the actuary, in accordance with the following table:

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Percent of Equity Vested</th>
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<tbody>
<tr>
<td>Less than 10 Years</td>
<td>0%</td>
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<tr>
<td>10 Years</td>
<td>50%</td>
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<td>11 Years</td>
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<td>15 Years</td>
<td>100%</td>
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Under immediate full vesting, a worker begins to accumulate vested rights to the full extent of contributions on his behalf as soon as he becomes a plan participant. No minimum age or years of service is required. The apparent liberality of this type clause is often restricted by denying the right to participate in the plan to employees under 30 years of age.

Of these vesting methods, deferred full vesting is by far the most common. A 1958 Department of Labor study of 174 plans showed that 154 had deferred full vesting, 19 had deferred graded vesting, and one had immediate full vesting.

There is considerable evidence that vesting provisions provide less actual protection than is commonly believed. In the view of one expert, a vesting clause may be so constructed as to be almost costless to the firm.

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102 BLS Bul. No. 1259, p. 4.
I don't think there is any feature in a plan that gives you more good for the money it costs than vesting, providing you set the vesting point where it doesn't cost you anything. And that is what you can do... With a typical type of vesting after 15 years to 20 years of service and the payment (sic) at age 40 or 45, the turnover is so negligible thereafter that the cost is merely the absence of refunds you would otherwise get. 103

According to this philosophy, the age and service requirements should be set so high as to effectively nullify the vesting provision.

What are the age and service requirements in industrial pension plans? Is there any discernible trend to change these requirements? These questions will be dealt with in turn as they obviously have a direct bearing on the efficacy of vesting provisions.

Of the 174 plans studied by the Department of Labor in 1958, 13% had a service requirement only. Roughly half of these required 10 years service, close to one-fourth required 15 years service, and the rest required 20 or more years service. 104 In a recent survey covering 652,638 automobile workers, 60% had less than 10 years service and 75% had less than 15. 105 Obviously, a substantial portion of these employees could not qualify for a vested benefit under the above requirements.

In the same Department of Labor study, 65% of the 174 plans contained both an age and service requirement. Of these, about half


105 Bernstein, op. cit., p. 246.
required age 40 and 10 years of service. More than one-fourth required age 40 and 15 years of service. The remaining plans had requirements ranging up to age 55 and 25 years of service.

The remaining 22% of the 174 plans in this study provided some alternative minimum requirement, such as age 45 and 10 years service or 15 years service regardless of age. 106

The adding of age requirements to the service requirement obviously restricts eligibility further. In a 1955 survey covering 1.8 million employees, only 11.4% of the workers under age 45 had 10 years of service with one employer, and but 4.4% had service of 15 or more years. 107 This survey covered seven metropolitan areas and is probably representative of industrial experience elsewhere. It thus appears that the majority of the nation's industrial workers fail to qualify for vesting because they cannot satisfy the age and service requirements.

On the question of whether the requirements for vesting are being relaxed, the answer is a qualified yes. Of 100 plans studied in 1961, eleven had liberalized the conditions for vesting in one way or another since 1958. While some of the changes were slight, a few were significant. One plan reduced the minimum service requirement by only one year. Four of the plans reduced the service requirement by 5 years, however. Still, in none of them was it reduced to less than 10

years. The other changes served to bring the plans involved more into line with general practice, i.e., inordinately high age or service requirements were reduced. There was no indication of a tendency to depart from the more or less standardized age requirements of 40 or 45 or the usual service requirements of 10 or 15 years. The 1965 study by the Bankers Trust Company supports the conclusion that there is a tendency to reduce requirements to these levels, but not to go below them. 108 If this turns out to be the case, vesting may well be as costless as indicated by the comment quoted earlier. And, it might be added, as devoid of benefits.

D. Tax Exempt Qualification

Employer contributions to pension plans are tax deductible if the plan meets certain requirements laid down by the Internal Revenue Service. The funds are later taxed as personal income to the pensioner, however. Employee contributions to pension plans must be made out of after-tax income. Pension payments resulting from the employee's own contributions are not taxed when received, except to the extent that there are accumulated interim earnings. The tax exempt status of employer contributions has nevertheless encouraged the establishment of non-contributory plans as discussed earlier.

To qualify for tax exempt status under the Internal Revenue Code 109 a pension plan must meet four broad requirements: (1) the

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109 Internal Revenue Code of 1954, Sections 401-404 and 501(a), as amended by 76 Stat. 809 (1962), establishes the criteria by which tax exempt status may be achieved.
plan and contributions thereto must be for the exclusive benefit of the firm's employees; (2) coverage under the plan must not be discriminatory in favor of officers, stockholders, supervisory, or highly compensated employees; (3) it must be impossible for the firm to divert use of the funds to itself until all liabilities to employees and their beneficiaries have been satisfied, and; (4) the pension fund and earnings thereon must be distributed to employees or their beneficiaries. Whether or not a plan satisfies these requirements is largely a matter of Internal Revenue Service judgment. It is a common practice to submit new plans to the IRS for an advance ruling.

The Treasury Department has also developed administrative regulations which must be adhered to by the contributing firm. Specifically, a plan will qualify for tax exempt status only if it is "a definite, written program and arrangement which is communicated to the employees." Further, the plan must be "permanent" and "provide systematically for the payment of definitely determinable benefits...".

110The IRS has been quite liberal in allowing firms to invest pension funds in their own stock and bonds, however. The limits within which funds can be so used are rather ill defined thus far - the principal concern of the IRS appears to be prevention of practices inimical to the interest of covered employees. See "Investment of Pension and Profit Sharing Trust Funds in the Employer's Business Under the Internal Revenue Code of 1954," 45 Minn. Law Review 575 (1961).

111Benefits accrued under a plan must vest when the plan is discontinued. Termination of a plan may, however, result in recovery of employer overpayments resulting from actuarial error. To the extent that contributions are clearly excessive they are not deductible when made. See Carroll W. Boyce, How to Plan Pensions, (McGraw-Hill Book Co., Inc., 1950), p. 181.

112Treasury Regulation Sections 1.401-1(a)(2), 1.401-1(b)(1)(i) and 1.401-1(b)(2), 1956.
The "permanence" requirement has proven difficult to enforce. The Tax Court has been especially lenient in those cases in which an adequate business reason for plan termination can be proven. The IRS has stressed the time factor in determining permanence, i.e., a plan terminated within a few years of its inception is suspect, while the Court has been prone to give more weight to the circumstances under which termination occurs. 113

Insofar as the "definitely determinable benefits" are concerned, the employer must either submit a definite schedule of benefits or a statement of contributions to be made. In the latter case, the IRS requires the submission of an actuarial analysis of benefits which will result from the contributions. 114

Obviously, tax exempt status is not achieved by the insertion of any particular provision in the plan. It derives from the nature of a plan's provisions when taken as a whole. If the overall plan meets the prerequisites outlined above, employer contributions are deductible from gross revenue in arriving at taxable income.

Pension plan provisions as discussed in this chapter will serve as the basis for comparing the several plans treated in Chapter IV.

113Lincoln Electric Co. vs. Commissioner, 190 F. 2d 326 (6th Cir. 1951) and McClintock-Trunkey Co. vs. Commissioner, 217 F. 2d 586 (7th Cir. 1953). Cited in Bernstein, op. cit., p. 199.

CHAPTER IV

A COMPARISON OF SEVERAL MAJOR PLANS ON THE BASIS OF THEIR PROVISIONS

As indicated in Chapter I, this Chapter is devoted to analyzing and comparing pension plans in four major industries. Included are the automobile, steel, rubber, and petroleum refining industries.

The emphasis is primarily on the type of plan which is characteristic of each of these industries, i.e., no particular firm within an industry is singled out for comparison with other firms in the same industry. This approach is taken because each of these industries has a more or less distinct pattern. Intra-industry comparison would therefore result in tiresome repetition of identical or near-identical plan provisions. The references made to individual firm plans are therefore primarily illustrative in nature and are not intended to convey the notion that the particular provision mentioned is in any way exclusive with that firm. In those cases in which the firm departs from the industry's pattern, the departure is identified as such.

The analysis which follows coincides with the format established in Chapter III. Plan administration is considered first, with administration in each of the four industries considered in turn. This method is designed to highlight inter-industry differences, with some attention given to intra-industry differences where they are significant.

Following the examination of plan administration, the discussion moves on to: eligibility required; benefit formulae, and; financing arrangements. Each of these major topics are subdivided in accordance with the outline developed in Chapter III.
The pension plans cited in this Chapter were all secured from the U. S. Department of Labor, Office of Labor-Management and Welfare-Pension Reports. In each instance, the plan cited is the latest which has been placed on file with that Office and is therefore assumed to be currently in effect. All of the automobile industry plans became effective in late 1964. All of the steel industry plans date from 1962; the rubber industry plans from 1964. The petroleum refining industry plans bear various dates ranging from 1960 to 1966. Each plan is cited in full when it is initially referred to. Thereafter, plans are simply identified by the name of the firm.

Pension Plan Administration

The discussion which follows will be principally concerned with determining who administers the plan insofar as determining eligibility and pension amount is concerned and how disputes arising over these matters are settled. The problem of control over pension funds is included in the section dealing with financing arrangements.

A. Administration in the Automobile Industry

Insofar as individual firms are concerned, provisions dealing with plan administration are practically indistinguishable in the automobile industry. Although each of the references and quotations given below was taken from the plan of a particular firm, others from the industry could have easily been substituted.

With slight changes in wording, Chrysler, Ford, and General Motors all provide that: "There shall be established a Central Board of Administration hereinafter referred to as the Board, three
appointed by the Corporation and three by the Union."  

"The Corporation Members and Union Members shall serve without compensation as such."  

Disputes which arise between the company appointed members and the union appointed members are resolved by an impartial chairman who may vote only in the case of a tie. "The Company and Union Members of the Board shall appoint an Impartial Chairman who shall serve until such time as he may be requested to resign by three members of the Board." Under each plan, the fees and expenses of the impartial chairman are shared equally by the firm and the union.

The Board of Administration under each of these plans has the following powers and responsibilities:

1. To establish the age and credited service of employees applying for benefits.

2. To grant hearings to those employees who contest decisions of the Board.

3. To determine the pension amount of an applicant and to authorize the trustee to pay such an amount from the pension fund.

4. To receive an annual report from the trustees of pension fund receipts, disbursements, and assets, and a report from the actuary assessing the plan's actuarial condition.

5. To provide appropriate information explaining the plan to the company and to the union.

1Supplemental Agreement Between General Motors Corporation and the UAW-AFL-CIO (Pension Plan), October 5, 1964, Section 3(a)(1).


In all of the automobile industry plans, decisions of the Board are final and binding on all parties. The General Motors plan explicitly states that no matter respecting the pension plan shall be subject to the regular grievance procedure.\(^4\)

In summary, pension plans in the automobile industry are jointly administered with disputes settled by a mutually selected impartial chairman.

B. Administration in the Steel Industry

Like the automobile industry, pension plans in the steel industry follow a definite pattern. Unlike the automobile industry, however, plans in this industry are administered exclusively by the firm. Specifically, the firm has the right to initiate action concerning a pension applicant while the union has the right to challenge. The plan of Inland Steel Company is quoted because of its succinctness on this point. Quoted in its entirety, Section IV of that document reads: "This Plan shall be administered by the Company."\(^5\) Jones and Laughlin's plan is a little more explicit, providing for a Pension Board. Bethlehem has the same arrangement, but, in each case, the Board is appointed by the firm.

Unlike the automobile manufacturers, the steel firms make no attempt to set forth the duties of the administrative boards except in the broadest of terms. The Jones and Laughlin plan gives the

\(^4\)General Motors Plan, Sect. 3(f).

\(^5\)Pension Agreement Between Inland Steel Company and United Steelworkers of America, July 1, 1962, Section IV.
Board the power: "to make and enforce such regulations as shall be necessary or proper for the efficient administration of this plan."  

Whenever a dispute arises with respect to eligibility and the pension amount, a special two-step grievance procedure is established. If any difference shall arise between the Company and any employee who shall be an applicant for a pension as to such employee's right to a pension or the amount of his pension and agreement cannot be reached between the Company and a representative of the International Union, such question shall be referred to an impartial umpire to be selected by the Company and by the Union.  

The decision of the impartial umpire is final and binding under all of these plans.

C. Administration in the Rubber Industry

Plan administration in the rubber industry coincides closely with practices in the steel industry. The Firestone plan contains a provision which is representative of the industry. "The plan shall be administered by a Pension Board to be appointed by the Employer. The Board shall have such authority and perform such duties, consistent with this Pension Plan, as may be determined from time to time by the Employer."  

Unlike the steel industry, disputes are settled by resort to the regular "grievance provisions of the Collective Bargaining Agreement

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7 Pension Agreement Between Bethlehem Steel Company and United Steelworkers of America, April 6, 1962, Section V (1).  
8 Firestone Tire and Rubber Company, Pension and Insurance Plan for Hourly-Rated Employees, as amended August 1, 1964, Article III.
then in effect between the Company and the Union...." As is customary, the final step in the grievance procedure is arbitration, and the decision of the arbitrator is final and binding.

D. Administration in the Petroleum Refining Industry

In each of the industries thus far considered, a marked similarity has been noted among firms in the same industry. The petroleum refining industry departs somewhat from this practice. In fact, considerable intra-industry disparity is to be found.

Some of this intra-industry variety is probably attributable to the fact that most pension plans in this industry are quite old and were therefore developed before the age of "pattern" plans. The "youngest" plan included in this study is the Gulf plan which dates from 1944. The Humble plan was initiated in 1932. Although all of the plans have been substantially revised since their inception, certain of their characteristics are traceable to the original plans.

Another factor which has no doubt contributed to the variety is the fact that the petroleum refining industry has not been organized by a strong and centralized national union. The automobile, steel, and rubber industries, by contrast, have been organized since the 1930s and early 1940s by strong national unions which have tended to impose near-identical conditions on all firms. Indeed, Walter Reuther or I. W. Abel would find it difficult to explain significant intra-firm differences to their constituents. The result has been a considerable

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9 United States Rubber Company and United Rubber, Cork, Linoleum and Plastic Workers of America, Pension, Insurance and Severance Pay Agreement, August 1, 1964, Section D(1).
amount of homogeneity among firms and the emergence of "automobile pattern" and "steel pattern" pension plans.

The very lack of strong union pressure has led to a certain degree of similarity between plans insofar as administration is concerned, however. The Gulf Oil Corporation's plan is fairly representative. That plan states:

Administration of the Plan, the exclusive power to interpret it, and the responsibility for carrying out its provisions are vested in an Annuity Committee of five members appointed by the Board of Directors.\(^{10}\)

Rulings of the Company appointed Board are not subject to grievance or appeal procedures. "The decisions of the Committee as to interpretation and application of the Plan shall be final."\(^{11}\) The Sinclair plan simply states that, "The Company's determination..., in connection with the interpretation or application of the Plan shall be conclusive."\(^{12}\) The Humble plan allows a participant to present a contrary claim to the Company appointed Benefit Plan Committee (the same Committee that made the initial ruling), but: "Upon receiving such a claim the Committee shall decide whether it is true or not, and its

\(^{10}\)Gulf Oil Corporation, *Annuities and Benefits Plan*, August, 1964, Sect. 7(1). Gulf also has a contributory pension plan which is optional with the employee. A review of this plan indicates that benefits are almost wholly financed by employee contributions, which makes it a sort of modified savings plan. It was not, accordingly, included in this study.

\(^{11}\)Gulf, Section 7(2).

decision shall be conclusive for all persons relying on this Benefit Plan.\textsuperscript{13}

The Shell Oil Company departs somewhat from the administrative procedures outlined above, but achieves substantially the same result. The text of this plan states that, "The general administration of the Plan shall be vested in the Trustees."\textsuperscript{14} Further, "... the Trustees shall have full power and authority to determine all matters arising in the administration, interpretation and application of the plan, and the determination of any such matter by the Trustees shall be conclusive on all persons."\textsuperscript{15} The trustees named in the Trust Agreement are all Shell officials.\textsuperscript{16}

The following conclusions were reached concerning pension plan administration in the four industries. In the automobile industry, administration is by a joint board and disputes are settled by a mutually acceptable impartial umpire. In the steel industry, administrative decisions are made by the firm subject to challenge by the union. Disputes are ultimately settled by an \textit{ad hoc} impartial umpire. In the rubber industry, plans are administered by the firm, but, like the steel industry, subject to challenge by the union. Disputes are ultimately settled by resort to the final two steps of the regular

\textsuperscript{13}Humble Oil and Refining Company, \textit{Text of Humble Benefit Plan}, January 1, 1965, Section 12.2.

\textsuperscript{14}Shell Oil Company, \textit{Shell Pension Plan}, November 30, 1960, Section 11.

\textsuperscript{15}\textit{Ibid.}, Article XIII.

grievance procedure as established by the collective bargaining agreement. Arbitration is the final step in settling a grievance. In the petroleum refining industry, administration is by the firm or firm appointed trustees, whose decisions are ultimately final. The "appeal" provision in the Humble plan allows no more than a request to review.

Eligibility Requirements for Normal Retirement

All pension plans establish conditions under which an employee may become eligible for a retirement benefit. Specifically, for normal retirement benefits, a worker is generally required to have achieved a certain minimum age and to have accumulated some minimum number of years of credited service. Additionally, many plans currently allow for retirement under conditions other than "normal." These departures may be classified as early retirement, special retirement, and disability retirement. These forms of retirement have their own special eligibility requirements and will be treated separately. The purpose of this section is to outline normal retirement eligibility requirements as they currently appear in pension plans in the automobile, steel, rubber, and petroleum refining industries.

A. Normal Retirement Requirements in the Automobile Industry

The normal retirement age for employees in the automobile industry is 65. General Motors, Ford, and Chrysler all have identical eligibility requirements which provide that an employee who "Shall have attained the age of 65, shall have completed 10 or more years of credited service... and shall cease active service, shall be entitled to receive a pension,"17

17General Motors, Article II, Section 1(a)(1).
Firms in the automobile industry have somewhat elaborate formulae for computing years of credited service. Ford, for instance, provides that credited service shall be computed as follows: 18

1. For service prior to Feb. 28, 1950: One year for each year seniority credited as of Feb. 28, 1950.

2. For service subsequent to Feb. 28, 1950 and prior to Jan. 1, 1958:
   a. 1800 or more compensated hours - 1 year
   b. 1300 - 1299 compensated hours - 3/4 year
   c. 750 - 1299 compensated hours - 1/2 year
   d. Less than 750 compensated hours - 0 year

3. For service since Jan. 1, 1958:
   a. 1700 or more compensated hours - 1 year
   b. A proportionate credit to the nearest one-tenth of a year in which the employee received pay for less than 1700 hours.

With slight changes in effective dates, both Chrysler and General Motors provide that for service prior to 1950, the employee shall be credited with one year of service for each year of seniority accumulated prior to 1950, provided that no service which occurred prior to being off the payroll for more than 2 years shall be counted. For service subsequent to 1950, these firms credit service on the same basis as Ford does for service since 1958, i.e., one year for 1700 or more compensated hours and proportional fractions of one year for each year in which less than 1700 compensated hours were worked.

The following special provisions with respect to creditable service appears in one or more of the plans:

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18 Ford, Article III, Sections 1, 2, and 3.
1. Hours of premium pay shall be computed as straight time hours (Chrysler, Ford, GM).

2. Time absent due to an injury which is compensable under Workmen's Compensation shall be credited at a rate of 40 hours per week (Chrysler, Ford, GM).

3. Time spent on approved leave of absence while engaged in local or international union business shall be credited at a rate of 40 hours per week (Chrysler, Ford).

4. Time spent in active military service during the Korean War period (until June 1, 1955) shall be credited (Ford, GM).

5. Time spent on active military service, but not exceeding four years, shall be credited (Chrysler, Ford, GM).

6. Credited service shall be reinstated in full for an employee who breaks service should he be re-employed within 36 months (Chrysler, Ford, GM).

7. An employee who retired for reasons other than disability shall not accumulate additional service upon being re-employed (Ford, GM).

Briefly, then, normal retirement in the automobile industry is predicated upon the achievement of age 65 and the accumulation of 10 years credited service, with some variation between firms insofar as the computation of credited service is concerned.

B. Normal Retirement Requirements in the Steel Industry

Typical of firms within the steel industry, the Republic Steel Corporation plan states that: "An employee age 65 or over with 15 years of continuous service may retire and receive a pension." The amount of creditable service within the steel industry uniformly means

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19 Republic Steel Corporation, Pension Plan of Republic Steel Corporation, January 1, 1960, Eligibility.
"continuous service prior to retirement calculated from the employee's last hiring date."\(^{20}\)

Continuous service is not deemed to have been broken by the following occurrences:

1. Discharge, provided the employee is re-hired within six months.
2. Layoff for a period not exceeding 2 years.
3. Absence from service due to a compensable disability.
4. Military service for a period not exceeding 4 years.
5. Re-employed retirees may accumulate additional credited service.

According to these requirements, an employee in the steel industry receives credited service for any year in which he is employed, regardless of how many hours or days are actually worked. Effectively, credited service accumulates from a worker's date of hire provided continuity of service is not broken.

In computing credited service, it appears that the steel industry is more liberal than the automobile industry. The automobile industry, however, requires only 10 years service for normal retirement as compared with the steel industry's 15-year requirement.

C. Normal Retirement Requirements in the Rubber Industry

Normal retirement requirements in the rubber industry coincide closely with requirements in the steel industry. Typical of this industry, B. F. Goodrich provides that: "An employee retiring on or after August 1, 1964, who shall have attained age sixty-five (65) and

\(^{20}\)Jones and Laughlin, Section 3(1).
who has not less than ten (10) years of Continuous Service Credit at
his normal retirement date, shall be entitled to receive a pension
upon retirement."  

Credited service in the rubber industry means accumulated seni­
ority with the firm, which is computed in accordance with the regular
collective bargaining agreement. In general, then, years of credited
service is equal to the number of years employed, regardless of the
number of hours which might have been worked in any of these years. An
exception to this is that for the purpose of computing the pension
amount (but not for satisfying the 10-year requirement), service after
the attainment of age 65 may not be included. Also, up to two years
of service may be credited for time spent on layoff or approved leave
of absence.

D. Normal Retirement Requirements in the Petroleum Refining
Industry

As previously indicated, there is no industry pattern in the
petroleum refining industry. The considerable diversity is most ap­
parent in provisions dealing with normal retirement. Suffice it here,
then, to set down some of the more salient features of several plans in
the industry.

22 Firestone, Article VIII (3).
23 Ibid.
24 United States Rubber Co., Section C(1).
Gulf Oil Corporation sets the normal retirement age at 65, with no minimum service requirement. Credited service does, however, play an important role in determining the pension amount.\(^{25}\)

The Sinclair plan has a normal retirement age of 62 with no minimum service requirement *per se*. A minimum of sorts is required, however, by an eligibility clause which provides that participation in the plan is available only to an employee with one or more years of service.\(^{26}\)

The Shell plan coincides with plans in the steel industry, with a normal retirement age of 65 and a minimum service requirement of 15 years.\(^{27}\) The same requirement is found in the Humble plan.\(^{28}\)

Insofar as computation of credited service is concerned, the petroleum refining industry has the usual continuous service requirements, with allowances for such contingencies as leaves of absence, military service, sickness, and disability. The Humble plan, though it requires 15 years service for normal retirement, fails to specify how this service is to be computed other than ambiguous statements to the effect that benefit plan service "means service credited by the employer for the purpose of this Benefit Plan," and credited service "means service credited by the employer."\(^{29}\) In general, creditable service and seniority are synonymous within the industry.

\(^{25}\) Gulf, Section 1(12).
\(^{26}\) Sinclair, Section 2.1.
\(^{27}\) Shell, Sections 1(m) and 3(a).
\(^{28}\) Humble, Sections 4.1 and 4.3.
\(^{29}\) Humble, "Glossary of Terms."
Early, Special, and Disability Retirement

As previously indicated, most pension plans allow retirement under conditions other than "normal." Generally, these departures are designed to provide a pension benefit to a qualifying employee who either: (a) voluntarily retires before reaching the normal retirement age; (b) involuntarily breaks service or breaks service under mutually satisfactory conditions before reaching retirement age, or; (c) becomes permanently disabled. For the purpose of this exposition, retirement under these conditions will be referred to respectively as early retirement, special early retirement, and disability retirement. Collectively, they shall hereinafter be referred to as specialized retirement.

In order to avoid confusion with benefit computation under normal retirement provisions, the methods by which benefits are computed for specialized retirement are included along with the following discussion of eligibility requirements. The benefits mentioned are payable to employees who retire after September, 1964. An employee who retired before this date would get a somewhat smaller benefit under some of the plans. (A revision of the Social Security program became effective on September 1, 1964).

A. Specialized Retirement in the Automobile Industry

Within the automobile industry, provisions dealing with specialized forms of retirement are identical among the several firms. As a matter of convenience and to eliminate needless repetition, the plan of Ford Motor Company was chosen to illustrate the nature of specialized retirement provisions within the industry.
Early retirement is available to an automobile worker upon the satisfaction of either of two requirements: (a) the attainment of 60 years of age and 10 or more years of credited service, or; (b) the attainment of 55 years of age or over but less than 60, if age and credited service total at least 85. Fulfillment of either of these requirements entitles an employee to a regular early retirement benefit each month, "in an amount equal to $4.25 for each year of his credited service at retirement multiplied by the percentage applicable with respect to his attained age when benefits commence as follows:

<table>
<thead>
<tr>
<th>Age When Benefits Commence</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>55</td>
<td>57.9</td>
</tr>
<tr>
<td>56</td>
<td>63.5</td>
</tr>
<tr>
<td>57</td>
<td>69.4</td>
</tr>
<tr>
<td>58</td>
<td>75.2</td>
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<tr>
<td>59</td>
<td>80.8</td>
</tr>
<tr>
<td>60</td>
<td>86.7</td>
</tr>
<tr>
<td>61</td>
<td>93.3</td>
</tr>
<tr>
<td>62 or over</td>
<td>100.0</td>
</tr>
</tbody>
</table>

An employee who is discharged for cause and who has fulfilled either of the above age and service requirements is considered to have retired under this provision. As will be discussed later, a voluntary early retiree is eligible for a "supplemented" pension considerably larger than the amount available under this formula. As a practical matter, this formula would be used only by an employee who was discharged for cause.

30 Ford, Article IV (2)(a).

31 Ford, Article V (2)(b).
Special early retirement is available to an employee who is retired at the option of the company or under mutually satisfactory conditions. In view of the liberal benefits provided a retiree, this type retirement appears to be designed to enable the firm to terminate the employment of an individual whose continued employment has for some reason become undesirable.

A worker may be placed in special early retirement if he is over 55 but less than 65 years of age and has 10 or more years of credited service. The monthly benefit payable to such a retiree is:

...in an amount equal to $4.25 for each year of his credited service at retirement and, a temporary benefit commencing at early retirement in an amount equal to $5.20 for each year of his credited service at retirement (not to exceed a total of $130.00); provided, however, that for any month after the retired employee attains age 65 or becomes eligible for an unreduced Social Security benefit the temporary benefit shall not be payable.  

Disability retirement is available to an automobile worker if he is adjudged by the pension board to be permanently and totally disabled and is at least 50 years of age and has credited service of at least 10 years. The benefit to which such a retiree is eligible is exactly the same as that payable to a special early retiree of equal age and service.  

32 Ford, Article V (2)(d).  
33 Disability benefits are generally denied to an individual in the automobile and other industries if the disability is the result of: (a) injury incurred while engaged in a criminal enterprise; (b) habitual drunkenness or narcotic addiction; (c) an intentionally self-inflicted injury; (d) injury or disease resulting from service in the armed forces. The retiree may also be required to submit to a medical examination from time to time.
The latest automobile industry plans provide a special supplemental allowance to employees who retire under the specialized forms of retirement subsequent to September 1, 1965. (An employee who is retired through discharge for cause is not eligible for this supplemental allowance). The Ford plan provides a supplemental allowance that shall be:

If the employee shall have reached his 60th birthday on the date of his retirement, an amount which when added to his monthly retirement benefit... shall equal: $400 reduced by an amount equal to 66 2/3 cents multiplied by the number of twentieths of a year that his credited service at retirement is less than 30 years.\(^3^4\)

The drafters of this provision must be accorded recognition as masters of the art of abstruse expression! Translated, it means that the monthly pension of an early retiree who is at least 60 years old will be $400 reduced by $1.11 for each month that his service at retirement is less than 30 years. A man with 29 years service would thus have his supplemented pension reduced by $13.33 (12 x $1.11), or, from $400 to $386.67.

If a retiree is less than 60, the method by which his benefit is computed is even more involved. First of all, the basic $400 must be reduced in accordance with the above formula if the worker's service is less than 30 years. The resulting sum is then multiplied by:

a fraction the numerator of which is 60 and the denominator of which is the number of months from his retirement date to and including the month in which he would attain age 65.\(^3^5\)

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\(^3^4\) Ford, Article VI (2)(a).

\(^3^5\) Ford, Article VI (2)(b).
For a worker who is 55 years of age, this final adjustment reduces the pension by one-half. (Sum x 60/120).

Using the formulae outlined above, the supplemented pension of a worker age 55 who elected to retire after 25 years of service would be $166.67. 36 ($400. - 60 ($1.11) = $333.34, which is further reduced by the age factor, $333.34 (60/120) = $166.67). Without the supplement, the same retiree's pension would have been $61.52. ($4.25 x 25 x .579). The supplement therefore amounts to $105.15 in this case.

Payment of the supplemental allowance is subject to a number of conditions:

1. It ceases when the retiree becomes eligible for an unreduced Social Security benefit.

2. A retiree cannot earn in excess of $1,200 in any calendar year.

3. A retiree's supplemented pension cannot exceed 70% of his final monthly base pay (173 1/3 x base hourly rate at retirement).

4. An employee discharged for cause is not eligible for the supplemental allowance.

The supplemental allowance is designed primarily for workers who accept regular early retirement. A special early retiree or a disability retiree who was 55 years of age and had 25 years of service would get a pension of $236.25 ($4.25 (25) plus $5.20 (25) = $236.25), and since his pension would therefore exceed the minimum established by the supplement, no supplement would be payable. It could, however, result in a substantial benefit to a retiree, whether regular early,

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36 These figures are chosen for purposes of illustration only. In actual fact, a worker age 55 with only 25 years of service would not be eligible for regular early retirement.
special early, or disability, who was between the age of 60 and 65 and who had service of 30 or more years. In such a case, the supplemental allowance would guarantee a $400 monthly benefit, assuming that $400 was less than 70% of his final base pay. A disability or special early retiree would otherwise receive an unsupplemented benefit of $257.50.

B. Specialized Retirement in the Steel Industry

Provisions dealing with specialized forms of retirement in the steel industry are, as in the automobile industry, highly standardized. The plan of Inland Steel Company was chosen as typical of the industry. Terminology in the plans differ, but the results under all of them are the same.

A steel worker may elect early retirement after 15 years of service and the attainment of 60 years of age. Fulfillment of these requirements qualify a worker to receive a special payment equal to 13 weeks vacation pay37 and a lifetime monthly pension. An early retiree is entitled to a benefit equal to one percent of his average monthly earnings during the last 10 years of service multiplied by the number of years of credited service, or, a monthly benefit equal to $2.60 for each year of service after January 1, 1960 plus $2.50 for each year of service prior to January 1, 1960, whichever is greater. As indicated in Chapter III, this latter method of computation is designed to protect the long-service low-wage employee.

37Collective bargaining agreements in the steel industry provide that workers in the upper half of the seniority roster are entitled to a 13-week vacation every fifth year. A retiree is entitled to a lump sum payment equal to 13 weeks vacation pay irrespective of his seniority ranking. See U. S. Steel Corporation, Saving and Vacation Plan, 1962, Section 3.0.
Whichever method is used, the resulting sum is reduced on an actuarial basis to compensate for retirement before age 65. The amount of reduction is based on tables "adopted from time to time by the Company." The Bethlehem plan contains the following table:

<table>
<thead>
<tr>
<th>Age at Retirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>67.18</td>
</tr>
<tr>
<td>61</td>
<td>72.36</td>
</tr>
<tr>
<td>62</td>
<td>78.14</td>
</tr>
<tr>
<td>63</td>
<td>84.60</td>
</tr>
<tr>
<td>64</td>
<td>91.84</td>
</tr>
<tr>
<td>65</td>
<td>100.00</td>
</tr>
</tbody>
</table>

This actuarial reduction may be avoided by deferring receipt of the monthly benefit until the age of 65.

The steel industry plans do not contain the temporary benefits (payable until age 65) provided by the automobile industry. The 13-week vacation payment might be regarded as a partial offset to this, however.

A worker may be placed on special early retirement in the steel industry for any of the following reasons: (a) the shutdown of a plant or department; (b) layoff, when return to employment is deemed unlikely; (c) disability (the disability not being sufficient to qualify as total and permanent); (d) under mutually satisfactory conditions. The benefit of a special early retiree is computed by the same method used for regular early retirement. Eligibility requirements, however, differ. In order to qualify for special early retirement, a

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38 Inland, Section II (4)(b).
39 Inland, Section I (4).
worker must either: (a) have attained a minimum age of 55 and have minimum service of 15 years and whose age and service total 75 or more, or (b) have combined age and service which totals at least 80.

A disability pension is available to steel workers provided they have a minimum of 15 years service, regardless of age. The disability retirement benefit is the greater of $100 or an amount computed by use of the same service-times-earnings formula mentioned in connection with regular early retirement. A worker placed on disability retirement is also entitled to the special 13-week vacation payment.

C. Specialized Retirement in the Rubber Industry

A worker in the rubber industry is eligible for regular early retirement upon the attainment of 55 years of age and the accumulation of 15 years of credited service. An employee who retires under this provision may choose either: (a) an immediate monthly benefit equal to $3.25 multiplied by years of service, reduced by 4/10 of one percent for each month by which he is less than 62 at retirement, or (b) an unreduced amount, deferred until age 62, equal to $3.25 multiplied by years of service. Under this scheme, a worker who retired at age 55 and opted for an immediate monthly benefit would get a pension reduced by roughly one-third.

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40 Ibid.
41 Inland, Section II (2).
42 Firestone, Article IV, Section 2(a).
43 U. S. Rubber, Section B(2)(a).
The rubber industry has secondary early retirement provisions (referred to in industry plans as "special early retirement," but these provisions do not provide for special early retirement in the sense that the term has been used in this study) which allow an employee to retire at age 62 with a minimum of 10 years service. The monthly benefit payable to an employee under this arrangement is determined by multiplying years of service by $3.25. 44

A rubber worker may be placed on special early retirement (in the sense that the term has been previously used) at the option of the employer or under mutually satisfactory conditions upon the completion of 15 years service and the attainment of age 55. The monthly benefit of such a retiree is computed by multiplying years of service by $6.50. No reduction is made for age. A special early retiree would thus receive a benefit more than twice that of a regular early retiree of equal age and service. Upon becoming eligible for an unreduced Social Security benefit, the retired employee is entitled to a benefit equal to $3.25 multiplied by years of service. 45

Disability retirement in the rubber industry is conditioned upon the completion of at least 10 years of service. The employee's age at the onset of such disability is immaterial. The benefit amount is computed by the same formula used for special early retirement, and is also reduced when the employee becomes eligible for an unreduced Social Security benefit. 45

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44 B. F. Goodrich, Article 3.2.

45 Firestone, Article V (2)(c).
Security benefit. Unlike the special early retiree, however, a minimum monthly benefit of $100 is guaranteed to the disability retiree.  

D. Specialized Retirement in the Petroleum Refining Industry

As with other plan provisions, there is considerable diversity among petroleum refining firms insofar as specialized retirement provisions are concerned. None of the firms which were chosen for study provide for special early retirement. Specialized retirement within the industry is therefore confined to early retirement and disability retirement.

The Gulf Oil Corporation provides that an employee may retire early if he has reached a minimum age of 50 and his age plus service equals 75 or more. The wording of the early retirement provision of this Company is interesting. An employee who has established eligibility "...shall be retired early...after he or any of the Gulf Companies files a written application with the Committee." Evidently, a worker could be placed on early retirement at the request of the firm whether or not the employee desired such retirement.

The early retirement benefit of a Gulf employee who defers receipt of monthly payments until age 65 is equal to 3/4 of 1% of each year's compensation not over the Social Security ceiling, plus 1½% of each year's compensation over such ceiling. If the retiree chooses an immediate early annuity, it is equal to the deferred annuity, computed as above, multiplied by the following percentages:

46 Firestone, Article V (3).
47 Gulf, Section 4(B). (Italics furnished).
48 Gulf, Section V (b).
<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage</th>
<th>Age</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>33</td>
<td>58</td>
<td>65</td>
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<td>51</td>
<td>36</td>
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<td>70</td>
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<td>52</td>
<td>39</td>
<td>60</td>
<td>75</td>
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<td>53</td>
<td>42</td>
<td>61</td>
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<td>45</td>
<td>62</td>
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<td>56</td>
<td>55</td>
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<td>95</td>
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<tr>
<td>57</td>
<td>60</td>
<td></td>
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</tbody>
</table>

Disability retirement is available to a Gulf employee after a minimum of 15 years of service, without regard to age. The amount of such a benefit is computed in the same way as the early retirement benefit, but without reduction for age. ⁴⁹

The pension plan of Shell Oil Company provides for two types of early retirement. If a worker is 50 years of age or above and the sum of his age and service is 80 or more, he may retire at his own option. Alternatively, if the employee is at least 50 years of age and has at least 20 years of service, he may be involuntarily retired at the option of the company. In either case, the employee may choose either an immediate annuity or defer receipt of the benefit until age 65.

The amount of the benefit in either case is computed by using the normal retirement benefit formula of 0.8% of final compensation up to the Social Security tax base times years of service, plus 1.2% of final compensation over the Social Security base times years of service. Should the early retiree chose to receive an immediate

⁴⁹Gulf, Section V (c).

⁵⁰Final compensation means the average monthly compensation of an employee during his five consecutive years of highest earnings during his last ten years of service. Shell, Section 1(L).
pension, the monthly benefit is reduced in amount by the same percentages mentioned in connection with the Gulf plan, above. 51

A Shell employee may be placed on disability retirement after 15 or more years of service, regardless of age. The benefit of such a retiree would be the greater of: (a) 25% of final compensation, or; (b) in the case of an employee who is eligible for an early pension, the unreduced amount of such early pension. 52

The retirement plan of Sinclair Oil Corporation is contributory and somewhat more liberal in benefits and eligibility requirements than either the Gulf or Shell plans.

A Sinclair employee is eligible for early retirement upon the attainment of age 55, without regard to years of service. (Normal retirement age is 62). The pension of an early retiree is found by taking 1.5% of monthly compensation up to the Social Security tax base plus 2% of monthly compensation above that base and multiplying the result by years of service. 53 The benefit under this plan is not based on the usual "highest five years' earnings." Data on earnings from the date of hire are required to compute the benefit.

The benefit thus computed is then reduced by multiplying by the following percentages: 54

51 Shell, Section 3(b)(1).
52 Shell, Section 3(c).
53 Sinclair, Section 7.1.
54 Sinclair, Appendix B, Table I.
<table>
<thead>
<tr>
<th>Age at Retirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>100%</td>
</tr>
<tr>
<td>61</td>
<td>92%</td>
</tr>
<tr>
<td>60</td>
<td>84%</td>
</tr>
<tr>
<td>59</td>
<td>76%</td>
</tr>
<tr>
<td>58</td>
<td>68%</td>
</tr>
<tr>
<td>57</td>
<td>60%</td>
</tr>
<tr>
<td>56</td>
<td>55%</td>
</tr>
<tr>
<td>55</td>
<td>50%</td>
</tr>
</tbody>
</table>

An employee with at least 15 years of service and who has attained age 50 or more is entitled to an unreduced normal annuity in case of disability. A disabled worker under age 50 receives a normal annuity reduced by 5% for each year that he is less than 50.

An Humble Oil and Refining Company employee with 15 years of service may retire as early as age 55. In discussing this Company's specialized retirement system, it will be necessary to restate some of the plan language to facilitate meaningful comparisons between it and other plans. The difficulty arises from the fact that Humble includes part of a worker's Social Security benefit in what it refers to as "annuity from company sources." It is thus clear that "annuity from company sources" is greater than and not comparable to retirement income payable from the private pension fund. In effect, in order to arrive at the private pension benefit, an offset equal to as much as ½ of Social Security benefits must be deducted from "annuity from company sources."

55 Humble, Section 8.2 (2)(b).

56 Some of the terminology and information concerning early and disability retirement was taken from a collection of examples of "How to Estimate Your Monthly Retirement Income" which Humble distributed to employees in 1966.
sources." This applies to normal retirement as well as to early and disability retirement.

Computation of early retirement benefits under the Humble plan is somewhat involved. First of all, it is necessary to compute what is referred to as the "discounted annuity from company sources." This is arrived at by the following method: (a) multiply 1.6% by years of service; (b) multiply the resulting percentage figure by final monthly pay (average of highest five of last ten years); (c) multiply the resulting dollar amount by the following percentage figures:

<table>
<thead>
<tr>
<th>Age</th>
<th>Percent</th>
<th>Age</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
<td>97</td>
<td>59</td>
<td>78</td>
</tr>
<tr>
<td>63</td>
<td>94</td>
<td>58</td>
<td>71</td>
</tr>
<tr>
<td>62</td>
<td>91</td>
<td>57</td>
<td>64</td>
</tr>
<tr>
<td>61</td>
<td>88</td>
<td>56</td>
<td>57</td>
</tr>
<tr>
<td>60</td>
<td>85</td>
<td>55</td>
<td>50</td>
</tr>
</tbody>
</table>

If the worker is at least 62, but not yet 65, one-half of the Social Security benefit to which he is then entitled must be deducted from this "discounted annuity from company sources" to arrive at the amount payable from the private plan.

Further computation is necessary if the retiree is less than age 62. This computation involves: (a) multiplying years of service (up to a maximum of 33 1/3 years) by 3%; (b) multiplying the resulting percentage by 1/2 the Social Security benefit to which the employee will be entitled at age 62. The resulting dollar amount is then deducted from the "discounted annuity from company sources" mentioned above. To this sub-total is then added a flat $100 Pre-Social Security Annuity.

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57Humble, Section 8.2 (2)(b).
Some appropriate remarks concerning the general nature of benefit computation under the Humble plan seem to be in order. First of all, the company has gone to considerable pain to include, indirectly, part of the OASDI benefit in its "annuity from company sources." Since these benefits obviously are not payable from the private plan but from a completely independent public plan, there is little reason for interweaving the two. Yet, the basic Humble formula \((1.6\% \times \text{Service} \times \text{Final Pay})\) yields an amount which includes part of the OASDI benefit. The result is that, for long service employees, the plan includes a full 50% OASDI offset, concealed though it may be. Proof of this fact is that an increase in OASDI benefits would result in a reduction in payment from the private fund equal to 50% of such an increase.

Beyond this, the benefit formula for a pre-62 early retiree seems unduly complicated, and in one respect at least, more than a little baffling. For such a retiree with 15 years of service, for instance, 45% \((3\% \times \text{Service})\) of one-half of the OASDI benefit must be deducted from the amount of his discounted annuity and $100 added to the resulting amount in order to arrive at his monthly benefit. The writer hereby confesses ignorance of the logic behind this arrangement. Of course, 3% times 33 1/3 equals 100%, but then so does an infinite number of other possible combinations. The fact that this arrangement provides a reduced OASDI offset for the short-service employee is plain enough, but the method by which the magical 3% was arrived at cannot be fathomed. The difficulty springs from the intermingling of public and private benefits. The firm might do well to divorce its plan from OASDI and then, if it wishes, stress the fact that OASDI benefits are partially financed by the company through OASDI taxes.
Disability retirement is provided to an employee with at least 15 years of service, regardless of age. Such an employee is entitled to the greater of an amount equal to his undiscounted annuity (1.6% x Service x final pay) or a percent of his normal compensation. The percent of normal compensation is based on the following table:

<table>
<thead>
<tr>
<th>Service</th>
<th>Percent of Normal Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 years, and increasing by 1 through a maximum of 40 years</td>
<td>37½% and increasing by ½ percent for each additional year of service up to a maximum of 50%</td>
</tr>
</tbody>
</table>

The criticism voiced earlier notwithstanding, the specialized pension amounts provided by Humble, even after allowing for the OASDI offset, are quite liberal when compared with other firms in and outside its industry. Within the petroleum refining industry, its nearest competitor is Sinclair, which has, as indicated earlier, a contributory plan. The firm prides itself in being a "pioneer" and "leader" in providing retirement benefits. The plan has been frequently amended, sometimes at intervals as short as six months, in order to maintain this position.

Perhaps the best method of comparing specialized retirement benefits would be to assume various age, service, and compensation levels and see what benefits would be payable under each of the plans discussed. The results of such a computation appears in Table IV-1. This table clearly reflects those factors which enter into computation of benefits; i.e., age, service, earnings, social security base and

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Table IV-1. Specialized Retirement Benefits.

<table>
<thead>
<tr>
<th>INDUSTRY OR FIRM:</th>
<th>Final Monthly Pay - $400</th>
<th>Final Monthly Pay - $550</th>
<th>Final Monthly Pay - $700</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age 55</td>
<td>Age 60</td>
<td>Age 62</td>
</tr>
<tr>
<td></td>
<td>Svc. 30</td>
<td>Svc. 20</td>
<td>Svc. 35</td>
</tr>
<tr>
<td><strong>Automobile (all)</strong></td>
<td>Early (Supplemental)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>200.00</td>
<td>266.80</td>
<td>280.00</td>
</tr>
<tr>
<td></td>
<td>Special or Disability</td>
<td>257.50</td>
<td>189.00</td>
</tr>
<tr>
<td><strong>Steel (all)</strong></td>
<td>Early</td>
<td>1</td>
<td>53.74</td>
</tr>
<tr>
<td></td>
<td>Special or Disability</td>
<td>100.00</td>
<td>53.74</td>
</tr>
<tr>
<td><strong>Rubber (all)</strong></td>
<td>Early</td>
<td>64.74</td>
<td>58.56</td>
</tr>
<tr>
<td></td>
<td>Special or Disability</td>
<td>195.00</td>
<td>130.00</td>
</tr>
<tr>
<td><strong>Petroleum Refining</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gulf</strong></td>
<td>Early</td>
<td>45.00</td>
<td>45.00</td>
</tr>
<tr>
<td></td>
<td>Disability</td>
<td>90.00</td>
<td>60.00</td>
</tr>
<tr>
<td><strong>Shell</strong></td>
<td>Early</td>
<td>48.00</td>
<td>48.00</td>
</tr>
<tr>
<td></td>
<td>Disability</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Sinclair</strong></td>
<td>Early</td>
<td>90.00</td>
<td>100.80</td>
</tr>
<tr>
<td></td>
<td>Disability</td>
<td>180.00</td>
<td>120.00</td>
</tr>
</tbody>
</table>
Table IV-1. Continued.

<table>
<thead>
<tr>
<th>INDUSTRY OR FIRM:</th>
<th>Final Monthly Pay - $400</th>
<th>Final Monthly Pay - $550</th>
<th>Final Monthly Pay - $700</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>Age 55 Age 60 Age 62</td>
<td>Age 55 Age 60 Age 62</td>
<td>Age 55 Age 60 Age 62</td>
</tr>
<tr>
<td>Refining</td>
<td>Svc. 30 Svc. 20 Svc. 35</td>
<td>Svc. 30 Svc. 20 Svc. 35</td>
<td>Svc. 30 Svc. 20 Svc. 35</td>
</tr>
<tr>
<td>Humble</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disablity</td>
<td>180.00 160.00 190.00</td>
<td>247.50 220.00 250.25</td>
<td>315.00 280.00 332.50</td>
</tr>
</tbody>
</table>

1. None of the steel industry plans contain tables by which the pension of a retiree less than age 60 can be computed. A minimum disability benefit of $100 is guaranteed.
2. Minimum disability benefit is $100.
3. Social Security base is assumed to be $6,600.
4. The amount of Social Security benefits payable at age 62 is assumed to be the maximum payable for each income range.
benefits, and eligibility requirements. Some of the plans omit one or more of these factors altogether. In some, one factor, such as age, is given considerable weight, while in others, service may be the most important consideration.

In the automobile industry, earnings do not enter into the benefit formula except that the pension amount cannot exceed 70% of pre-retirement earnings. For an automobile worker, age at retirement is the most important consideration, with service a distant second.

In the steel industry, earnings and service are strategic, with substantial reduction for the age factor if retirement occurs several years short of age 65.

For a rubber worker, earnings and service are paramount, with relatively minor consideration given to age.

Gulf Oil Corporation's plan emphasizes age, service, and earnings, with earnings achieving increased weight once the OASDI tax base is exceeded. The same is true of the Shell plan, although earnings in excess of the OASDI base are somewhat less important. The Sinclair plan is quite similar, although earnings means average lifetime earnings instead of the usual "final pay" earnings. The Humble plan gives weight to each age, service, earnings, and social security benefits. Of these, service and final pay appear to be of primary importance.

The factors which enter into benefit computation in each of these industries and firms are summarized in Table IV-2.
### Table IV-2. Specialized Retirement Benefit Formulae.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Eligibility or Requirements for Early Retirement</th>
<th>Eligibility for Disability or Special Early Retirement Benefit Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile Industry</td>
<td>Regular Early: (a) Age 60 and 10 years' service, or; (b) Age 55 but less than 60, if age plus service totals 85</td>
<td>Special Early: Age 55 and 10 years' service with consent of the firm or at the option of the firm</td>
</tr>
<tr>
<td></td>
<td>Regular Early: $4.25 x Service x Percentage reduction based on age, plus a supplement which when added to this benefit shall equal $400, reduced: (a) by $1.11 for each month that service is less than 30 years, and, if age is less than 60, further reduced by; (b) multiplying the resulting sum by a fraction, the numerator of which is 60 and the denominator of which is the number of months that age is less than 65. The resulting benefit to be further reduced if it is more than 70% of final pay,</td>
<td>50 years of age and 10 years' service</td>
</tr>
<tr>
<td>Steel Industry</td>
<td>Regular Early: Age 60 and 15 years' service</td>
<td>Special Early: (a) Age 55 and 15 years' service, providing that age plus service totals 75, or; (b) age plus service totals 80</td>
</tr>
<tr>
<td></td>
<td>The greater of: (a) $2.60 for each years' service after Jan. 1, 1960 plus $2.50 for each years' service before Jan. 1, 1960, Actuarially reduced by a percentage based on age at retirement.</td>
<td>15 years' service</td>
</tr>
<tr>
<td></td>
<td>Regular Early benefit formula, with minimum of $100 monthly benefit for disability</td>
<td></td>
</tr>
</tbody>
</table>

121
<table>
<thead>
<tr>
<th>Industry or Firm</th>
<th>Eligibility Requirements for Early Retirement</th>
<th>Eligibility for Disability Benefit</th>
<th>Disability and Special Early Retirement Benefit Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber Industry</td>
<td>Regular Early: (a) Age 55 and 15 years' service, or; (b) Age 62 and 10 years' service</td>
<td>$3.25 x Service, reduced by 4/10 of 1% for each month that age at retirement is less than 62 years</td>
<td>10 years' service $6.50 x Service unreduced for age, with $100 minimum for disability</td>
</tr>
<tr>
<td>Gulf</td>
<td>Age 50, providing age plus service totals 75 or more</td>
<td>3/4 of 1% of annual compensation not over the Social Security tax base, plus 1.5% of annual compensation in excess of such base, with the resulting amount actuarially reduced by a percentage based on age at retirement</td>
<td>15 years' service Disability: Computed with Regular Early benefit formula, but unreduced for age.</td>
</tr>
<tr>
<td>Shell</td>
<td>At employee's Option: 50 years of age, providing age plus service totals 80 or more</td>
<td>0.8% of compensation not over Social Security base x service, plus 1.2% of compensation in excess of Social Security base x service, reduced by a percentage based on age at retirement</td>
<td>15 years' service Disability: The greater of: (a) 25% of final compensation, or; (b) the unreduced amount of such pension if eligible for an early pension</td>
</tr>
<tr>
<td>Industry or Firm</td>
<td>Eligibility Requirements for Early Retirement</td>
<td>Regular Early Retirement Benefit Formula</td>
<td>Eligibility for Disability Benefits</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Humble Age 55 and 15 years' service</td>
<td>If age 62 or over: 1.6% x service x compensation x percentage reduction for age, minus 1/2 of Social Security benefit to which entitled. If less than age 62: 1.6% x service x compensation x percentage reduction for age, from which amount is DEDUCTED a sum equal to Service x 3% x 1/2 of Social Security benefit to which the employee will be entitled at age 62, to which amount is ADDED $100.</td>
<td>15 years' service</td>
<td>Disability: The greater of: (a) Early retirement benefit to which entitled, unreduced for age, or; (b) a percentage of normal compensation based on the following: % of Service normal pay 15 years......37½% to a maximum by ½% for of 40 each additional year to a maximum of 50%</td>
</tr>
</tbody>
</table>
### Table IV-2. Continued (4)

<table>
<thead>
<tr>
<th>Industry or Firm</th>
<th>Eligibility Requirements for Early Retirement</th>
<th>Regular Early Retirement Benefit Formula</th>
<th>Eligibility for Disability Benefit</th>
<th>Disability and Special Early Retirement Benefit Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinclair</td>
<td>Age 55 without regard to service</td>
<td>$1.5%$ of monthly compensation up to Social Security base x service, plus $2.0%$ of monthly compensation in excess of Social Security base times service, reduced by a percentage based on age at retirement</td>
<td>15 years' service</td>
<td>Disability: Unreduced early retirement benefit if more than 50 years of age, reduced by $5%$ for each year that age at retirement is less than 50.</td>
</tr>
</tbody>
</table>

---

1 All of these plans provide that the pension amount shall be computed in accordance with the normal retirement formula upon becoming eligible for unreduced Social Security benefits.

2 A steel industry employee is also eligible for a one-time payment equal to 13 weeks vacation pay upon retirement.

3 The resulting sum must be divided by 12 to arrive at the monthly benefit.

4 To a maximum of 33 1/3 years' service.
Normal Retirement Benefits

Normal retirement benefits are ordinarily computed with the same formula that is used for specialized retirement, except, of course, that no adjustment is made for the age factor.

In the automobile industry, the monthly benefit of an employee who retires after January 1, 1965 is $4.25 multiplied by years of service. The supplemental allowance mentioned in connection with specialized retirement is not available to an employee who retires under the normal retirement provision. 59

In the steel industry, an employee who is placed on normal retirement is entitled to the greater of: (a) a monthly amount equal to 1% of final compensation multiplied by years of service, or; (b) a monthly amount calculated by multiplying years of service before January 1, 1960 by $2.50 and years of service after January 1, 1960 by $2.60. If the benefit is computed by use of the first formula, it is subject to an $80 OASDI offset. If the second formula is used, no offset is made. 60 The first four benefit amounts shown for the steel industry in Table IV-3 were computed with the flat dollar amount formula, which yields the greatest benefit for the short service and/or low wage employee.

In the rubber industry, the normal pension amount is computed by multiplying $3.25 by years of service. 61

59 General Motors, Article 2, Section 1(b)(4)(ii).
60 Jones and Laughlin, Section II, 3(a) or 3(b).
61 U. S. Rubber Company, Section B (1).
Table IV-3. Normal Retirement Benefits.

<table>
<thead>
<tr>
<th>INDUSTRY OR FIRM:</th>
<th>Final Monthly Pay - $400</th>
<th>Final Monthly Pay - $550</th>
<th>Final Monthly Pay - $700</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20 Yrs. Service</td>
<td>30 Yrs. Service</td>
<td>40 Yrs. Service</td>
</tr>
<tr>
<td>Automobile (all firms)</td>
<td>85.00</td>
<td>127.50</td>
<td>170.00</td>
</tr>
<tr>
<td>Steel (all firms)</td>
<td>50.50</td>
<td>75.50</td>
<td>100.50</td>
</tr>
<tr>
<td>Rubber (all firms)</td>
<td>65.00</td>
<td>97.50</td>
<td>130.00</td>
</tr>
<tr>
<td>Gulf Oil Corp. 1</td>
<td>60.00</td>
<td>90.00</td>
<td>120.00</td>
</tr>
<tr>
<td>Shell Oil Co.</td>
<td>64.00</td>
<td>96.00</td>
<td>128.00</td>
</tr>
<tr>
<td>Sinclair Oil Co. 2, 3</td>
<td>120.00</td>
<td>180.00</td>
<td>240.00</td>
</tr>
<tr>
<td>Humble Oil Co. 4</td>
<td>50.05</td>
<td>124.05</td>
<td>188.05</td>
</tr>
</tbody>
</table>

1. The OASDI tax base is assumed to be $6,600 per year or $550 per month.
2. The pension amounts shown are based on the assumption that the monthly pay used in the compensation is average lifetime earnings. For other industries and firms, the monthly pay means the average monthly compensation during the five years of highest earnings during the last ten years of service.
3. Normal retirement age is 62 years for this firm.
4. The pension amounts shown are the amounts payable from the private pension fund. OASDI benefits included in this firm's "income from company sources" have been deducted.
As previously noted, there is considerable variation among firms within the petroleum refining industry. Normal retirement benefit formulae for the four firms included in this study may be summarized as follows, however:

Gulf - - - - - 3/4 of 1% of each year's compensation not over the Social Security tax base, plus 1.5% of each year's compensation over such base.

Shell - - - - - 0.8% of final compensation not over the Social Security base times years of service, plus 1.2% of final compensation in excess of such base times years of service.

Sinclair - - - - 1.5% of monthly compensation up to the Social Security base times years of service, plus 2% of monthly compensation in excess of the Social Security base times years of service.

Humble - - - - - 1.6% times service times final compensation minus 1/2 of the Social Security benefit to which entitled.

Table IV-3 reflects normal retirement benefits which would be payable under these plans for various service and compensation combinations. It will be noted that in the case of the automobile and rubber industries, the pension amount is independent of earnings and advances only with service. In all other cases, the pension amount advances with both earnings and service. In the case of the Gulf, Shell, and Sinclair oil companies, earnings are particularly important once the Social Security tax base ($550 per month) is exceeded. Sinclair provides the highest benefits for all earnings - service combinations. This is no doubt attributable to the fact that the plan is contributory and therefore financed by both the firm and the employee. The employee contributes 2.4% of his earnings on earnings up to the Social Security tax base and 3.2% of his earnings on earnings which
An employee earning $700 per month would therefore contribute $18.00 per month.

**Survivor and Pre-Retirement Death Benefits**

It is common practice to allow a retiring employee to accept a reduced monthly benefit during his lifetime so that his surviving dependent(s) might continue to receive a pension after his death. The amount by which the employee's lifetime benefit is reduced generally depends upon his age at retirement and the age of his designated beneficiary. Survivor benefits are always optional with the employee and the option must ordinarily be exercised before benefit payments commence. A few plans allow a retiree to exercise the option after benefits have begun upon presentation of acceptable evidence of good health. Some plans require that the designated beneficiary be the employee's spouse, while other require only that the beneficiary have an insurable interest in the employee.

In addition to survivor benefits, which provide income to the survivor of an employee who had already retired, some plans provide benefits to survivors of long-service employees who die before retirement. It was estimated in 1965 that 28% of all pension plans provide some form of benefits to survivors of active employees. 63

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62 Sinclair, Section 5.1.

A. **Survivor and Pre-Retirement Death Benefits in the Automobile Industry**

An automobile worker may opt for a survivor's benefit at any time before commencement of pension payments. This option is available to an employee regardless of the nature of his retirement, i.e., normal, early, special early, deferred, or disability. The designated beneficiary must be the employee's spouse and the couple must have been married for at least one year at the time the option is exercised.

The pension amount of a retired employee who exercises the survivor's option shall be the monthly benefit to which he is otherwise entitled (excluding any supplemental allowance) multiplied by 90% if the employee's age and his spouse's age are the same. This basic 90% is increased by \( \frac{3}{2} \)% for each year that the spouse's age exceeds the employee's age (to a maximum of 100%) and decreased by \( \frac{3}{2} \)% for each year that the spouse's age is less than the employee's age. For an employee whose spouse is 10 years his junior, the pension payable during his lifetime would thus be 85% of the amount to which he would be entitled had the option not been exercised. At the death of the pensioner, the surviving spouse is entitled to a lifetime benefit equal to 55% of the pensioner's reduced benefit.

The surviving spouse of an employee who dies before retirement and who either: (a) has attained age 60 or more, or; (b) has attained at least age 55 and whose age plus service totals 85 or more, is entitled

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64 General Motors, Article II, Section 6(a)(2).

65 General Motors, Article II, Section 6(a)(2)(c).
to a benefit equal to the amount she would have received had the employee retired on the date of his death and had he exercised the survivors benefit option. 66 A pre-retirement death benefit is thus automatically provided to an automobile worker.

B. Survivor Benefits in the Steel Industry

A steel worker may elect either of two survivor benefit options. In either case, the option must be exercised at age 60 or five years before the pension is payable. This rule may be waived and the option exercised at a later date (but before actual retirement) upon submission of satisfactory evidence of good health. 67

Under one of the options, an employee may chose to receive a reduced regular pension payable in an unchanging amount for so long as either the pensioner or his designated beneficiary shall live.

The second option allows the employee to chose a reduced regular pension payable during his lifetime, with the provision that after his death one-half of such amount shall be payable during the life of his designated beneficiary. 68

The amount by which the pension otherwise payable is reduced as a result of exercising either of these options is based on actuarial tables which are adopted "from time to time" by the Pension Board. 69

66Ford, Section 7(a).
67Inland, Section II, Paragraph 11(a).
68Jones and Laughlin, Section II, Paragraph 11(a).
69Bethlehem, Section II, Paragraph 11(j).
None of the steel industry plans provide pre-retirement death benefits to survivors. Even if a steel worker elects one of the above options and dies prior to retirement, the "election shall cease to be of any effect, and the co-pensioner shall not be entitled to any payments by reason of the election of such option."  

C. Survivor Benefits in the Rubber Industry

A rubber worker is entitled to two types of survivor benefits. One, a five-year term certain benefit, is automatic and requires no election by the employee. The other, similar to steel industry survivor benefits, must be elected in writing before retirement.

The five-year term certain clause provides that the monthly benefit payable to a retiree (whether regular, early, or disability) shall be payable for a minimum of five years. Should the retired employee die during the five-year period, the remaining monthly pension payments are made to his designated beneficiary or to his estate should his beneficiary be dead. The pension payable under this five-year term certain provision is in an unreduced amount.

The rubber worker may also elect either of two survivor benefit options. These options must be elected at least three years before retirement, except that a later election is possible upon submission of evidence of good health to the Pension Board.

One of the options allows an employee to elect an actuarially reduced pension which shall continue payable for so long as either he

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70 Jones and Laughlin, Section II, Paragraph 11(f).
or his designated beneficiary shall live. The second option provides that at the death of the pensioner, his beneficiary shall continue to receive a benefit equal to one-half of his actuarially reduced pension. 72

Rubber industry pension plans make no provision for pre-retirement death benefits.

D. Survivor and Pre-Retirement Death Benefits in the Petroleum Refining Industry

Gulf Oil Corporation allows an employee to select either of three survivor benefit options. The first allows an employee to choose a reduced pension payable during his lifetime and continuing in the same amount to his surviving joint annuitant. The second option provides for a reduced amount for the life of the pensioner, one-half of which amount is payable after his death to the designated beneficiary. The third option amounts to a five-year term certain pension. If this option is elected, the retiree receives a reduced benefit during his lifetime, but is assured a total payment equal to five times his annual unreduced retirement allowance. Should he die before receiving payments which equal this amount, the difference is paid in a lump sum to his beneficiary.

Should a Gulf employee die after electing any of these options but before retiring, he is deemed to have retired on the day before his death, with survivor benefits payable accordingly. 73

72 Firestone, Section II, Paragraph 7.
73 Gulf, Section 6(a).
Any employee who dies before retirement and who is eligible for either an early or normal retirement benefit shall be regarded as having had elected the five-year term certain option even though no option was in fact exercised. This amounts to an automatic pre-retirement death benefit.

Shell Oil Company allows a regular or early retiree to provide a selected beneficiary with either a lifetime monthly benefit or a lump sum payment. Selection of either results in an actuarially reduced benefit to the retiree. Under the joint survivorship option, the pensioner may elect for his beneficiary to receive a monthly benefit equal to his own pension or any smaller monthly benefit which is a multiple of $10. The lump sum option allows a retiring employee to elect a lump sum payment to his survivor in any amount up to $1,000. Lump sum amounts in excess of this may be elected with approval of the Trustees. The lump sum option may be elected singly or in combination with the joint survivorship option. No pre-retirement death benefit is available under the Shell plan.

A plethora of options is available to an employee covered by the Sinclair plan. Except for the Social Security Adjustment Option, election must occur 3 years prior to retirement and not later than age 62. This time limit may be waived, however, upon presentation of satisfactory evidence of good health.

74 Gulf, Section 6(b).
75 Shell, Section 3(3).
The first option allows an employee to elect the usual joint and survivorship option. The survivors benefit may be in any amount equal to or less than the employee's actuarially reduced monthly benefit. Only the spouse or a child of the employee can be designated as a beneficiary, and death of the employee before benefit payments commence renders the election null and void.  

The second option is a ten-year term certain benefit, election of which guarantees that 120 monthly benefit payments will be made. Should a retiree die within ten years of his retirement date, the remaining payments are payable to his beneficiary. This option is also rendered null and void should the employee die before benefit payments commence.  

The third option available to a Sinclair employee is a Social Security adjustment option. Exercise of this option results in larger private plan benefits until the retiree becomes eligible for an unreduced Social Security benefit, at which time the private benefit is reduced. This in itself is not a survivors benefit, as election of this option alone would create no rights for survivors. The employee may, however, make a dual election in the sense that the Social Security adjustment option may be elected in conjunction with either the joint and survivor option or the ten-year term certain option. Dual election results in the retiree's pension being first adjusted in accordance with Sinclair, Section 8.2.  

Sinclair, Section 8.3.  

Sinclair, Section 8.4.
with the Social Security adjustment option and then reduced with the applicable actuarial discount factor pertaining to the other option elected.\textsuperscript{79} Tables for making these adjustments are provided in an appendix.

As the Sinclair plan is contributory and guarantees the return of at least the participant's contributions plus interest, it has a sort of built-in pre-retirement death benefit. The plan provides that contributions plus interest may be returned to the survivor of a dead participant either in a lump sum or in monthly installments over a period of five years.\textsuperscript{80}

The Humble Oil and Refining Company's plan contains two types of survivor benefits. One of these benefits is a joint and survivor option, the other an automatic five-year certain payment.

Under the joint annuity option, an employee may elect to receive a reduced benefit for life on the condition that following his death a previously determined monthly amount will be payable to his designated joint annuitant. The amount payable to the joint annuitant can be any amount equal to or less than the retiree's actuarially reduced benefit.\textsuperscript{81}

Failing the election of this option, should a pensioner die before receiving 60 monthly pension payments, monthly benefits shall

\textsuperscript{79}Sinclair, Section 8.5.  
\textsuperscript{80}Sinclair, Section 9.4.  
\textsuperscript{81}Humble, Section 9.1.
automatically continue to his survivor until a minimum of 60 payments have been made.

Should an Humble employee die before the commencement of retirement benefits, no pension is payable, i.e., the plan provided no pre-retirement death benefit. (To the extent that an employee had contributed under an earlier contributory plan, these contributions plus interest are of course payable to survivors).

Financing Arrangements

Several matters pertaining to financing must be dealt with upon the establishment of a pension plan. Specifically, decisions must be made concerning: (a) who is to pay for the program; (b) whether obligations created by the plan shall be fully funded, met out of current revenue, or some combination of the two, and; (c) whether a covered employee shall gain a vested right to a benefit. The following is an examination of how these matters are treated in the several pension plans included in this study.

A. Contributory and Non-Contributory Plans

Insofar as industrial pension plans are concerned, the trend in the last several years has been toward the provision of pension benefits without direct cost to the employee. Of the plans contained in this study, only one, the Sinclair Oil Corporation's plan, requires that the employee contribute toward meeting the cost of his pension. Following the trend, the Humble plan has just recently been placed on a

82Humble, Section 10.1.
non-contributory basis. The reasons for this movement to company financed plans have been discussed in Chapter III. The relative desirability of non-contributory plans will be discussed in Chapter V. Suffice it to say here that a simple comparison of pension plans in the automobile, steel, rubber, and petroleum refining industries reveals a near unanimous preference for the non-contributory type of plan, with the Sinclair plan as the only noted exception.

B. Funding

A pension plan may be "funded" to various degrees. At one extreme is the fully funded plan under which all accrued obligations could be met from the existing fund. A fully funded plan thus requires a fund which, with interim earnings, would be sufficient to pay lifetime benefits to those who have already retired as well as to cover any matured vested rights should the plan and payments into it be immediately discontinued. At the other extreme is the pay-as-you-go plan under which pensions are paid out of current revenue. This arrangement requires only that sufficient money be placed in the "fund" to pay currently due benefits. Discontinuance of the plan and payments into it would therefore result in an absolute deficiency of funds with which to meet accrued obligations.

Plans included in this study approach both of these extremes. Some of them contain funding provisions which require that the plan be almost fully funded, while others merely require that pension payments be made when due. Practice is often more important than plan provisions, however, as in those cases in which a substantial fund is established even though no such fund is formally required by the plan.
A mere reading of funding provisions may therefore be somewhat misleading insofar as financial security is concerned.

1. Funding in the Automobile Industry

Pension plans in the automobile industry operate on what might be called a "modified fully funded" basis. These plans distinguish between past service costs, which is the cost of the obligations immediately assumed when the plans went into effect in 1950, and normal cost, which is the cost of obligations which accrue with the passage of time.

When the plans were adopted, each firm assumed a full blown obligation to pay pensions to qualifying retirees. The motor companies could not possibly have been expected to fully fund all past service costs immediately. Accordingly, these plans allow a firm 30 years in which to fund the cost attributable to service before 1950. Any revision in the benefit structure which substantially affects past service cost is also subject to this provision. Normal cost obligations are fully funded as they accrue. Thus, had the plans remained unchanged until 1980, the cost of all normal retirement benefits would have been fully funded.

Finally, the cost of the supplemental allowances which are payable in specialized retirement cases need not be funded at all. The firms are required only to meet these costs in such a way that "as of each anniversary the balance in the fund attributable to the supplemental allowances shall not be less than zero."  

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83 Ford, Section 5(a).

84 General Motors, Section 2(d).
2. Funding in the Steel Industry

Funding in the steel industry may be roughly described as "fund-as-you-go." When a steel worker retires, an amount is placed in the pension fund which, on an actuarial basis, is sufficient to fully fund his benefit. No attempt is made to accumulate funds as workers accumulate pension rights. A worker's pension is funded only when he actually retires. Thus, should payments into the fund cease, there would be sufficient funds to provide pensions to those who had already retired, but nothing to finance benefits to those who subsequently reached retirement age. Accordingly, at any given time, steel industry pension funds must contain an amount which "shall not be less than an amount which on a sound actuarial basis shall be estimated to be sufficient to pay the pensions which shall have been granted under the pension plan...."

It would thus appear that funding in the steel industry, at least insofar as formal plan language is concerned, is on a somewhat less secure financial basis than the automobile industry, which accumulates pension funds on an accrual basis. The steel industry might be compared to a firm which replaces worn out capital equipment out of current revenue, while the automobile industry is analogous to a firm which accumulates depreciation reserves. There is evidence that some of the steel firms go beyond formal plan requirements in funding practices, however. If such is the case, practice is obviously more important than formal plan provisions.

^Bethlehem, Section VI.
3. Funding in the Rubber Industry

Funding practices in the rubber industry are practically identical to those of the steel industry, i.e., pensions are funded as they are granted with no accrual for accumulated service. Rubber firms are bound to place into a trust fund "an amount estimated on a sound actuarial basis to be sufficient to pay all pensions awarded at retirement under the pension plan."86

4. Funding in the Petroleum Refining Industry

Gulf Oil Corporation's retirement plan affords the widest possible leeway to the firm's Board of Directors insofar as funding is concerned. Once each year an actuary chosen by the Pension Committee submits an "actuarial valuation" to the Committee which in turn recommends to the firm's Board of Directors the contribution needed for the year. The Board may, however, "for any reason defer or reduce contributions...."87 The report of the actuary is therefore only a guideline and is in no way binding on the Board. The Board is obligated only to make sufficient annual contributions so as not to "reduce any annuitant's accrued benefits or affect the benefits to be paid under the plan."88 It would be entirely possible for Gulf to finance its pension plan on a pure pay-as-you-go basis.

The Shell plan is on the same footing, forthrightly stating that contributions "shall be made at such times, in such manner, and in such

86 B. F. Goodrich, Article 7.2.
87 Gulf, Section 8(b).
88 Ibid.
amounts as its Board of Directors, giving due consideration to accepted
actuarial principles, shall deem advisable to provide the benefits of
this plan."\textsuperscript{89}

Even though the Sinclair plan is contributory, the clause which
deals with company payments into the plan differs little from similar
clauses in the Gulf and Shell plans. Sinclair states that it "intends"
to pay into the trust fund amounts "needed in addition to contributions
of participants to provide the benefits payable under the Plan." The
payment of such amounts may be made "at such times and in such amounts
as the Company shall decide."\textsuperscript{90}

Sinclair estimates that a man retiring at age 62 would receive
$10.62 for each dollar that he contributed. How much of this repre-
sents accrued earnings on employee contributions and how much is Company
contribution, is not revealed.

Humble Oil Company's plan follows the general petroleum refining
industry's pattern. It agrees to pay the full cost of the pension
program, but leaves the timing and amount of company contributions up
to the firm.

\textbf{C. Vesting Provisions}

Most pension plans provide that an employee who has met certain
age and service requirements will be entitled to a deferred pension
benefit even though he breaks service with the firm before becoming
eligible for either normal or early retirement. The employee therefore

\textsuperscript{89}Shell, Section 5.

\textsuperscript{90}Sinclair, Section 6.1.
gains a vested right to a benefit payable, generally, upon the attain-
ment of age 65.

The questions that need to be asked about vesting provisions
concern eligibility requirements, i.e., what age and service combina-
tion is qualifying, and how the deferred vested benefit is computed.
The industries and firms under study will be examined with these
questions in mind.

1. Vesting in the Automobile Industry

Recent amendments to vesting provisions in the automobile industry
have rendered these plans possibly the most liberal to be found.
Since September 1, 1964, any employee who is less than age 60 but who
has accumulated 10 years of credited service is eligible for a deferred
benefit if separated. The reason for the separation is irrelevant.
The pension is payable upon the attainment of age 65 in a monthly
amount equal to $4.25 for each year of service. Further, the former
employee may choose to commence receipt of pension payments at age 60,
in which case the monthly benefit is reduced by 6/10 of 1 percent for
each month that his age at commencement is less than 65. This
amounts to a 7.2% reduction for each year that the former employee's
age is less than 65, or, a 36% reduction if payments commence at age 60.

The liberality of these provisions in relation to other industries
rests in the fact that a deferred pension is payable: (a) after only 10
years of service; (b) regardless of age at separation; (c) irrespective
of the reason for separation, and; (d) as early as age 60.

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91 General Motors, Article VII, Section 2(c).
2. **Vesting in the Steel Industry**

Vesting is available to a steel worker under rather restricted circumstances. To be eligible an employee must have reached age 40 and must have 15 or more years of service when separation occurs. Even then, coverage is confined to those employees who are separated as a result of permanent shutdown or who have been laid off and not recalled within two years. A man who voluntarily separated or who was discharged for cause would consequently be ineligible.

An employee who meets the eligibility requirements is entitled to a pension benefit upon the attainment of age 65. Except for the 13-week vacation payment, which is not payable, the deferred vested pension is computed by use of the normal retirement benefit formula of service multiplied by 1% of final compensation.  

3. **Vesting in the Rubber Industry**

A rubber worker who terminates employment after ten years of service is eligible for a deferred vested pension providing he is at least 40 years of age at separation. The reason for the separation is irrelevant. The benefit payment commences at age 65 and is equal to $3.25 times years of service. (This is the normal retirement formula).

In lieu of such deferred pension, a Firestone employee may accept a lump sum severance award equal to 1% week's pay for each year of service up to 15 years. If the employee has 15 or more years of

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92 Inland, Section 1 (6)(a).

93 B. F. Goodrich, Article 2.3.
service, the severance award is equal to \(1\frac{1}{2}\) week's pay for each year of service.\(^94\) This particular option does not appear in other rubber industry plans.

4. **Vesting in the Petroleum Refining Industry**

In spite of differences on other pension plan matters, the Gulf and Shell Oil Companies are in agreement on one thing; that rights to pension plan benefits do not vest. Thus, if a Gulf or Shell employee is not otherwise entitled to a benefit, termination results in loss of all pension claims, regardless of attained age and service. This is not a matter of actual plan provisions, but simply the absence of provisions which provide benefits under conditions other than early, disability, or normal retirement.

A Sinclair employee who breaks service for any reason except retirement gains a vested right to a pension benefit, provided he does not withdraw his own contributions from the plan. If he has less than ten year's service, the pension amount is an actuarially determined annuity based on his own contributions. If he has exactly ten years of service he is entitled, at age 65, to an additional annuity (over and above his own contributions) equal to 50% of normal annuity benefits, with the percentage increasing by 5% for each additional year of service up to a maximum of 20 years. This additional annuity is, of course, paid out of company contributions.\(^95\)

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\(^94\) Firestone, Article VII, Paragraph 11.

\(^95\) Sinclair, Section 10.1 (a)(ii).
It thus appears that ten years of service entitles a Sinclair employee to a 50% vested right, which percentage increased by 5% until a fully vested right is gained after 20 years of service. The age of the employee at termination is irrelevant.

Whatever percent of a normal annuity is vested, the former employee may choose to begin receipt of his benefit as early as age 55. His benefit is reduced by 5%, however, for each year that his age at commencement is less than 65.

An Humble employee gains a fully vested annuity after 10 years of service, regardless of age at termination. This right is voided, however, should he withdraw contributions made under a former plan. The benefit is computed by use of the normal retirement benefit formula (1.6% x service x final pay), and is payable at age 65.

This section on vesting concludes the analysis of actual pension plan provisions. The following Chapter summarizes the findings and conclusions arrived at during the course of this study.

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96 Sinclair, Section 10.1(b).

CHAPTER V

SUMMARY AND CONCLUSIONS

From a slow and halting beginning, industrial pension plan coverage has been dramatically expanded and revised. Despite the fact that the nation had been through a series of economic, political, social, and international upheavals, expansion in pension plan coverage appears to have followed a steady course until the mid-1940s. The first industrial pension plan was established by a felt manufacturer, Alfred Dolge, in 1882. By 1929, 139 manufacturers had pension plans. By 1938, this number had grown to 238, and by 1940, to 437. During these early decades, it appears that pension plan expansion followed its own slow but inexorable course despite the expansionist attitude at the turn of the century, World War I, the prosperity of the roaring 1920s, or the suffocating depression of the 1930s. The great transformation came during the late 1940s and early 1950s as the result of a number of new elements within the economy.

World War II brought with it economic and political conditions which were highly conducive to pension plan expansion. The manpower shortage and competition among firms for employees in conjunction with the wage freeze acted to stimulate the use of fringe benefits as a means of attracting and holding manpower. The nation's blue collar workers soon found themselves enjoying perquisites formerly reserved for industry's upper echelons. In general, the growth of fringe benefits received the blessings of the National War Labor
Board, whose responsibility it was to hold the line on wage rates.

Until the late 1940s, labor unions gave scant attention to pensions in contract negotiation, the general assumption being that it was the prerogative of management to grant or withhold such benefits. The United Mine Workers, with John L. Lewis as president, was the pioneer in introducing pensions to the collective bargaining table in 1946, when the mine operators agreed to establish a pension fund by setting aside 5¢ for each ton of coal mined. The real breakthrough came, however, in the 1949 Inland Steel Case when the National Labor Relations Board ruled that pensions were a bargainable issue under the National Labor Relations Act of 1935. By 1963, it was estimated that 22,000 industrial pension plans were in operation, most of them included in collective bargaining agreements.

Provisions in the earliest pension plans were quite simple, generally setting forth only eligibility requirements and the pension amount. Those in operation today tend to be rather lengthy documents which spell out in detail how a wide range of contingencies and alternatives shall be handled. Even so, these provisions can be placed in four general classifications: (1) those dealing with administration of the plan; (2) those dealing with eligibility requirements; (3) benefit formulae, and; (4) financing arrangements.

Insofar as administration is concerned, there is considerable inter-industry diversity, and, in some industries, appreciable intra-industry variations. Of the four industries included in this
study, only the automobile industry provides for joint administration by management and labor. Any dispute arising under the plans concerning eligibility and pension amount is referred to a six member board which is made up of three company appointed members and three union appointed members. Deadlocks are referred to a mutually acceptable impartial chairman who may vote in the case of a tie. Plan administration in the steel industry is by the firm. Decisions concerning an employee's right to a pension may be challenged, however, and subjected to a special two-step grievance procedure which culminates in arbitration before an impartial umpire. In the final analysis, administration in the steel industry differs from the automobile industry more in form than in results. The rubber industry is quite similar to the steel industry, except that disagreements are settled by resort to the regular grievance procedure established by the collective bargaining agreement. In the petroleum refining industry, administration is by the firm, whose determination is conclusive. Where an appeal is allowed by one of these plans, it amounts to no more than a request that the decision be reviewed.

Eligibility requirements for a normal retirement benefit in the automobile, steel, rubber, and petroleum refining industries may be summarized as follows:
Table V-1. Eligibility Requirements.

<table>
<thead>
<tr>
<th>Industry or Firm</th>
<th>Minimum Age</th>
<th>Minimum Service (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>65</td>
<td>10</td>
</tr>
<tr>
<td>Steel</td>
<td>65</td>
<td>15</td>
</tr>
<tr>
<td>Rubber</td>
<td>65</td>
<td>10</td>
</tr>
<tr>
<td>Petroleum Refining:</td>
<td>65</td>
<td>10</td>
</tr>
<tr>
<td>Gulf</td>
<td>65</td>
<td>No minimum</td>
</tr>
<tr>
<td>Sinclair</td>
<td>62</td>
<td>No minimum</td>
</tr>
<tr>
<td>Shell</td>
<td>65</td>
<td>15</td>
</tr>
<tr>
<td>Humble</td>
<td>65</td>
<td>15</td>
</tr>
</tbody>
</table>

1 The right to participate in this plan is reserved to employees with one or more years of service.

In general, years of service in all industries is coterminous with seniority. Time spent on leaves of absence, military service (up to 4 years), sickness, and disability is commonly counted as credited service.

Considerable diversity exists among industries and firms insofar as normal retirement benefits are concerned. The normal retirement benefit to which a man with 30 years of service and average monthly earnings of $550 would be entitled in each of the industries and firms is summarized in Table V-2.

Table V-2. Normal Retirement Benefits.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile Industry</td>
<td>$127.50</td>
</tr>
<tr>
<td>Steel Industry</td>
<td>85.00</td>
</tr>
<tr>
<td>Rubber Industry</td>
<td>97.50</td>
</tr>
<tr>
<td>Petroleum Refining Industry</td>
<td></td>
</tr>
<tr>
<td>Gulf</td>
<td>123.75</td>
</tr>
<tr>
<td>Shell</td>
<td>132.00</td>
</tr>
<tr>
<td>Sinclair</td>
<td>247.50</td>
</tr>
<tr>
<td>Humble</td>
<td>180.00</td>
</tr>
</tbody>
</table>

1 Computation based on the assumption that the retiree has 30 years of service, average earnings of $550 per month, and has reached normal retirement age.
Some form of early, special early, or disability retirement is provided in most industrial pension plans. Early retirement provisions allow a qualified employee to elect retirement before reaching normal retirement age, in some cases as early as age 55. Election of the early retirement option always results in a reduction in the monthly benefit. The most liberal early retirement benefit is provided by the automobile industry, which guarantees up to 70% of pre-retirement earnings for a 30-year man between the ages of 60 and 65. Early retirement benefits to which employees under the plans studied would be entitled, assuming various age, service, and earnings combinations, are presented in Table IV-1 of Chapter IV.

Special early retirement is provided by the automobile, steel, and rubber industries. Though eligibility requirements differ somewhat between these industries, a worker otherwise qualified may be placed on special early retirement at the request of the firm or under mutually satisfactory conditions. The benefit of a special early retiree is normally greater than the benefit payable to a regular early retiree of equal age and service. In the rubber industry for instance, a special early retiree age 55 with 30 years of service would receive $195 monthly. A regular early retiree similarly situated would receive a monthly benefit of $65.74. None of the petroleum refining plans included in this study provided for special early retirement.

All of the pension plans studied provided for some form of disability retirement. In many of these, eligibility requirements are lower than for other forms of specialized retirement. Indeed,
age at the onset of the disability is immaterial under some of the plans. Under those plans which provide for special early retirement, the disability benefit is the same as the special early benefit for similarly situated employees. The steel industry guarantees a minimum disability benefit of $100 per month which applies if the benefit formula yields a smaller amount. In the petroleum refining industry, which does not have special early retirement provisions, the benefit for a disabled worker is usually computed in the same way as for a regular early retiree, but is unreduced for age. The Shell plan guarantees a disability benefit that is at least 25% of final compensation, and the Humble plan sets the minimum at 37½% of pay.

All of the pension plans included in this study contained some form of survivor or pre-retirement death benefit. A survivor benefit is payable to the beneficiary of an employee who dies after retirement. Pre-retirement death benefits are payable to the beneficiary of an employee who dies before retirement. Survivor benefits are usually optional with the employee, and, when elected, result in a reduction of the primary benefit. Such an option is available in one form or another in every plan included in this study. Generally, pre-retirement death benefits are payable to survivors of employees who have satisfied eligibility requirements for early retirement but who are still working at the time of death. In the automobile industry, the benefit is equal to the amount which would have been payable had the employee elected the survivors benefit option and retired on the date of his death. Pre-retirement death benefits are not available in either the steel or the rubber
industry. In the petroleum refining industry, only Gulf offers a true pre-retirement death benefit. A five-year term certain benefit is guaranteed an employee who has established eligibility for either normal or early retirement. The Sinclair plan, which is contributory, provides that the employee's contribution-plus interest will be returned to the survivor of an employee who dies before retirement. This could hardly be regarded as a pre-retirement death benefit, however.

Several matters pertaining to financing must be dealt with in a pension plan. A plan may be contributory or non-contributory; it may be funded or unfunded; and pension rights may or may not vest.

Insofar as payments into the plan are concerned, the great majority of industrial pension plans are financed on a non-contributory basis, i.e., the firm meets the full cost of the plan. Of the several plans analyzed herein, only one, the Sinclair Corporation's plan, is financed on a contributory basis. Some observations concerning the relative merits of contributory and non-contributory plans appear later in this chapter.

Irrespective of who is to bear the cost of a pension plan, a decision must be made concerning what portion of the cost is to be met out of current contributions and what part is to be met out of previously accumulated funds. A plan may be fully funded in the sense that the accumulated fund would be sufficient to meet all matured obligations should the plan and contributions into it be immediately terminated, or, it may operate on a pure pay-as-you-go basis, in which case the "fund" is never larger than the amount
necessary to pay currently due benefits. The plans examined in the course of this study approach both extremes. Automobile industry plans operate on a fully funded basis insofar as normal retirement benefits are concerned, except for pension obligations assumed at the inception of the plans and any additional obligations assumed by virtue of revision of the benefit structure. The companies have 30 years in which to fund obligations arising from either of these causes. An unrevised plan would therefore be fully funded after 30 years of operation.

Funding provisions in the steel and rubber industries require that upon the retirement of an employee an amount be placed in the pension fund which would be actuarially sufficient to pay a lifetime benefit to him. Should one of these plans and contributions into it be discontinued, the fund would be sufficient to pay benefits to those who had already retired, but would contain no monies for those who had qualified for a pension or vested right but had not actually retired.

Pension plans in the petroleum refining industry allow the contributing firm considerable leeway insofar as funding is concerned. Typically, contributions are made at such times and in such amounts as firm officials deem advisable. Although an actuary's assessment of the financial condition of the plans is commonly required, funding provisions are written so that such an assessment acts only as a guideline and is in no way binding on the firm. Basically, each of these plans guarantees only that benefits will be paid when due.
Most pension plans provide that an employee who meets certain age and service requirements will be entitled to a deferred pension even though he separates before becoming eligible for either a normal or early retirement benefit. Such deferred vested benefits are commonly payable at age 65, and are usually computed by use of the normal retirement benefit formula.

Of the plans included in this study, the automobile industry plans are the most liberal insofar as vesting is concerned. A worker in that industry gains a vested right to a benefit after ten years of service, regardless of age at separation. Also, the reason for separation is irrelevant, and the benefit is payable as early as age 60.

In the steel industry, a worker must have attained the age of 40 and must have accumulated 15 or more years of service before pension rights vest. A worker who is separated for cause or who separates voluntarily is not eligible for a vested benefit. Also, the 13-week vacation benefit which is payable to a normal retiree is not payable to a man who qualifies for a vested benefit.

A rubber worker who terminates after ten years of service is eligible for a vested pension providing he is at least 40 years of age at separation. As in the automobile industry, the reason for separation is irrelevant.

Neither Gulf nor Shell provide pension benefits under conditions other than early, disability, or normal retirement. Thus, if an employee is not qualified for a benefit under one or more of these conditions, separation results in loss of all pension rights,
regardless of age and service at separation.

After ten years of service, a Sinclair employee is entitled to a benefit equal to 50% of a normal retirement annuity, with the percentage increasing by 5% for each additional year until a fully vested right is gained after 20 years of service. Age of the employee at separation is not relevant.

An Humble employee gains a fully vested pension right after ten years of service, regardless of age at separation. The benefit is payable at age 65 and is computed by use of the normal retirement benefit formula.

In analyzing employee benefit programs, caution must be exercised in making inter-industry and inter-firm comparisons when pension plans alone are the basis upon which the comparison is made. Pensions are only one of the many fringe benefits which may be afforded by an employer-employee relationship. Not only may benefits in other areas compensate for a weak pension plan, but they may also provide benefits to a retired employee which closely approximate pension benefits. Stock purchase plans, paid up life insurance, and matching savings plans are all of this nature. In essence then, the comparisons and conclusions contained herein pertain to pension plan coverage only, and not to the overall employee benefit program of an industry or firm.

If pension plans are to be judged on the basis of benefits payable to qualifying employees, plans in the automobile industry are generally superior to those found in other industries. Insofar as normal retirement benefits are concerned, a low-wage worker would
enjoy a distinct advantage over a steel or rubber worker of similar service. A 30-year man making $350 per month would receive a monthly benefit of $75.50 in the steel industry, $97.50 in the rubber industry, and $127.50 in the automobile industry. In the petroleum refining industry, only Sinclair's plan would provide more at $157.50. For higher paid employees, however, the automobile worker would fare less well than a steel worker or an employee in the petroleum refining industry. Benefits in these industries are computed on the basis of a service times percent of earnings formula whereas benefits in the automobile industry are computed by multiplying service by a fixed dollar amount.

An automobile worker is likely to enjoy a substantial advantage over workers in other industries if he accepts or is placed on specialized retirement (early, special early, and disability). A long service automobile worker retired under these conditions would receive a benefit greater than that available to a worker covered by any other plan included in this study. The Sinclair and Humble plans provide specialized benefits which exceed automobile industry benefits only when the worker has both short service and high earnings.

Finally, the automobile industry provides more liberal vesting and funding provisions than any other industry or firm analyzed. In addition, it is the only industry which provides for an automatic pre-retirement death benefit.

The Sinclair Oil Corporation's plan provides the highest normal retirement benefits of all the plans included in this study. Specialized retirement benefits are greater in the automobile industry,
and, in some cases, under the Humble plan. Except for funding and pre-retirement death benefit provisions, the Sinclair plan ranks roughly on par with the automobile industry.

The Humble Oil Corporation's plan compares favorably with the Sinclair plan in all areas except normal retirement benefits. For various age, service, and pay combinations, the monthly benefit under the Humble plan is generally $60 to $80 less than that available under the Sinclair plan.

The Shell Oil Company's plan strikes the median between the strongest and the weakest of the plans studied. It is superior to the Gulf, steel, and rubber plans insofar as most normal and specialized retirement benefits are concerned. A major weakness is its lack of a vesting provision. Comparatively, this is not as much of a disadvantage as it might appear because of the weakness of vesting provisions in those plans which contain them.

The Gulf Oil Corporation's plan pays larger normal retirement benefits than either the rubber or steel industries. In some cases the rubber industry pays higher specialized retirement benefits. Except for its lack of a vesting provision, the Gulf plan appears to be somewhat superior and, as indicated earlier, the vesting provisions of the rubber and steel industries promise more than they deliver.

It is difficult to choose between the rubber and steel industry plans. Out of the nine different service and pay combinations for which normal retirement benefits were computed (see Table IV-3, p. 126), the rubber industry paid the highest benefit in six cases.
pays the highest specialized retirement benefit for most age, service, and pay combinations. Steel industry plans appear to be the least effective of all the plans included in this study.

Inter-industry and inter-firm ranking of pension plans is a most difficult business. The three primary determinants of pension benefits, i.e., age, service, and rate of compensation, are given different weight by each plan. The benefit amount of a retiree therefore depends upon the weight that is given to the determinant in which his position is strongest. Anyone who attempts to evaluate and compare pension plans is immediately brought face to face with the fact that each plan stresses the determinant which is most acceptable to the contracting parties involved.

However tenuous an attempt at ranking may be, decisions must be made in the establishment and amendment of pension plans. These decisions must be based on an understanding of what each clause in a plan does and does not do. It is with this in mind that the pension plans analyzed herein are ranked as follows:

1. Automobile industry
2. Sinclair Oil Corporation
3. Humble Oil Corporation
4. Shell Oil Company
5. Gulf Oil Corporation
6. Rubber industry
7. Steel industry

Several rather pronounced trends have been noted in the course of this study which deserve comment insofar as their general nature and desirability are concerned.

First, the trend toward non-contributory pension plans appears somewhat questionable. As non-contributory plans are favored by
virtually the entire labor movement and by a growing number of employers, the counter-arguments which follow apply to most industrial pension plans in existence today.

Unions have made much of contract negotiations in which contributory plans have been placed on a non-contributory basis. If package bargaining is as prevalent as advertised, these unions are delivering much less than the membership is led to believe. If the plan conversion is made in lieu of a basic wage increase, the membership gains only a small tax advantage, a considerable portion of which will later be recouped by the Internal Revenue Service from pension benefits. It is the view of the writer that unions have oversold non-contributory plans and that all parties involved have given undue weight to the tax advantage achieved. In fact, the present practice of making only employer contributions tax deductible is open to question. A tax law could certainly be devised to allow for employee contributions on a tax deductible basis. The self-employed have enjoyed this right for several years. The feared abuse by over-contributing should not be too difficult to prevent.

Another point, previously discussed, needs only to be mentioned here. Pension benefits are necessarily greater when employer contributions are matched to some extent by bona-fide employee contributions.

Finally, union and employee claims to certain rights are strengthened by the fact that a plan is contributory. A Union certainly has a stronger argument for participation in pension fund administration if the fund is partially created by contributions by
its membership. Further, as indicated earlier, liberal vesting provisions are much more prevalent under contributory plans.

Summing up, a hard-headed examination seems to favor contributory plans. A change in the tax laws which have encouraged the adoption of non-contributory plans would possibly reverse the trend.

Another problem which deserves serious consideration is the problem created by the magnitude of pension trust funds, the size of which will soon surpass the $100 billion mark. The rate of growth is rapid, and there is no discernible limit in sight. The economic ramifications inherent in the control of this vast aggregation of highly liquid and mobile purchasing power are myriad. Present federal statutes are designed to protect the interests of beneficiaries only, leaving most investment decisions to trustees. These trustees are generally answerable to a firm, even though the firm cannot claim legal title to the funds. A firm or group of trustees are thus allowed to exercise all the rights of ownership over stocks and bonds which are purchased with pension funds. This amounts to control without ownership or even direct legal liability. The possibilities of abuse of such a position or misuse of funds are quite evident. The fact that the abuses thus far detected have involved trade union controlled funds is no argument that corporations do not or will not engage in similar practices.

Volumes could be written on possible safeguards or solutions to the problems created by the existence of these billions of dollars being held in trust. It is sufficient here to draw attention to the fact that there is a problem and to state that the source of the
Another area in which considerable improvement could easily be made is in vesting provisions. As currently constituted, these provisions afford no protection to the mass of the nation's industrial labor force for the simple reason that most workers cannot satisfy the age or service requirements which are prerequisites to the gaining of a vested right. Indeed, under present plans, once a worker is old enough and has accumulated sufficient service with a firm to qualify for vesting, the likelihood of his separation is remote.

In the writer's view, immediate full vesting should be practiced by American industry. Package bargaining indicates that contributions to pension funds are often in lieu of wage increases, a fact which gives the worker a strong claim to immediate full vesting. Such a system would also alleviate several problems which have come to be associated with pensions.

First, an adequate pension for every retiree would be much more certain. A dollar placed in a pension fund at age 25 yields a much greater benefit than a dollar placed at age 55. Too, there would obviously be more funded dollars of all "ages" for a mobile worker.

Secondly, it is well known that many firms refuse to hire older workers because of the pension obligation which must be assumed. It is costly to provide a lifetime pension to an individual after only ten or fifteen years of service. The employment problems of the older worker, i.e., the worker over 45 years of age, have been
the subject of extensive public and private investigation. The writer submits that the difficulty would be substantially eliminated if vesting provisions in American industry were revised to provide immediate full vesting. This would spread the cost of a pension over all of a worker's employers, thereby substantially relieving the last employer of an obligation which he is understandably reluctant to assume under the present system.

Finally, the mobility of the nation's labor force would be enhanced by such a system. A flexible and mobile labor force will become more and more a necessity as the nation's economy becomes more dynamic. The technological explosion in products and methods of production is certain to create an environment in which constant reallocation of labor resources will be needed. This reallocation must be fast and efficient if we are to avoid a rapidly growing body of the frictionally and technologically unemployed. The continuing attachment of excess workers to the coal mining industry because of reluctance to forfeit pension rights is illustrative of the misallocation problem which can spring from a non-vesting pension system.

Difficulties connected with pension fund transfers would admittedly be present, but hardly insurmountable. Several methods of handling vested funds are available. Funds created by each employer could simply remain in trust until retirement of the worker, at which time application could be made for a benefit from each fund. Alternately, the individual funds could be transferred to a central trust at retirement age. Under either of these systems, the contributing firm would retain control of the funds until the worker
retired. Possibly a simpler and more direct solution would be the creation of a clearinghouse into which vested funds would be transferred immediately upon separation of an employee. Such a device would avoid the creation of multiple trusts for a single worker, but might be opposed by employers faced with loss of control over pension funds.

The problem, however, is not so much how vested funds are to be administered, as it is to develop pension plans in which vesting is a reality rather than a promise. To secure vesting provisions which actually result in vested pension rights is a legitimate goal for organized labor.

Notice has previously been taken of the needlessly obscure provisions in some of the plans studied. The automobile industry plans and the Humble Oil Corporation's plans are especially abstruse in some of their specialized retirement provisions. It is doubtful that one percent of the employees covered by these plans could compute their own early retirement benefit. The content of these provisions could easily be more clearly expressed as in fact they are in many other plans.

The divorcement of private plan benefits from OASDI benefits would clarify some of the plans. The early retirement provision of the Humble plan follows an elaborate procedure whereby public benefits are initially included in the computed benefit and then partially or wholly removed. Steel industry plans provide for a maximum $80 OASDI offset against normal retirement benefits. Any worker who has satisfied the requirements for normal retirement is
virtually certain to have become eligible for at least an $80 OASDI benefit. The offset has consequently become automatic and anachronistic. There is simply no justification for including an amount in the private plan benefit which must be subtracted out as a matter of course. The practice is more than useless; it gives the impression that it was calculated to deceive.

Some of the points emphasized in this critique may appear trivial in light of the tremendous forward strides which industrial pension plans have made since the 1950s. The intention of the writer, however, was to point out existing weaknesses, and not to denigrate a movement which will doubtlessly redound to the benefit of millions of retiring workmen. Even after giving due allowance for the inaccuracies inherent in extrapolating past trends, an attitude of optimism is unavoidable.
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Jack C. Wimberly was born on November 22, 1931, at Coushatta, Louisiana. He attended grade school at Hall Summit, Louisiana, and graduated from high school at Vivian, Louisiana, in 1948. He was employed by International Paper Company at Springhill, Louisiana, until entry into the U. S. Army in 1952. He received an honorable discharge in 1955 and entered Louisiana Polytechnic Institute from which he was graduated with honors in 1958. He received a graduate assistantship in economics at Louisiana State University and was awarded the Master of Arts degree in August, 1960. He received the Earhart Foundation Fellowship for the 1960-61 academic year and continued his graduate study at Louisiana State University. During the 1961-62 academic year, he served as Instructor at the University. In 1962, he accepted a position at Southeastern Louisiana College, at which institution he is presently employed. He is married and has three sons.
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