Evolution of employer-provided defined benefit pensions

For more than a century, employer-provided defined benefit pension plans, which guarantee the retiree a specified level of income, have grown in number, assets, coverage, and complexity; in recent years, compliance with pension legislation has been added to the equation

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Employers in the United States began to provide pension benefits for their employees more than a century ago. Since then, increases in life expectancy and the society's decision that its workers should enjoy an adequate income in their retirement years have led to the widespread private pension system that exists today. As pension coverage has expanded, so has the availability of data designed to keep employers, employees, and policymakers aware of pension plan developments.

The first employer-provided retirement plan in the United States was the industrial pension plan of the American Express Company, implemented in 1875.[1] In 1880, the Baltimore and Ohio Railroad established the first formal plan to be financed jointly by employer and employee contributions; it covered more than 77,000 workers. By 1987, there were more than 232,000 private defined benefit[2] pension plans in the country, covering nearly 40 million workers. These plans had assets of nearly $900 billion.[3]

The first private retirement plan, offered by American Express, was unusual in that it applied only to disabled elderly employees.[4] A worker was eligible only upon completing 20 years of service and reaching age 60. Additionally, the company's general manager had to recommend retirement, subject to approval by the executive committee of the board of directors. The annual benefit was 50 percent of the worker's annual average pay during the 10 years preceding retirement, up to a maximum of $500 annually. Four decades later, in 1915, the company was still operating under the same plan, except that the age requirement had been dropped. The plan was terminated in 1918, when the firm's express business was transferred to the American Railway Express Company. The American Railway Express Company continued to contribute to pensions on an informal basis while the American Express Company adopted a new plan in 1921.[5]

By 1986, the American Express pension plan had evolved into an extensive program covering more than 23,000 employees.[6] It covered all retirees, not just the disabled. Employees had the option of retiring with a normal (unreduced) benefit at age 60, or retiring earlier with a reduction in the amount of the benefit because it would be paid over a longer time. Typical of modern-day pension plans, the benefit was computed by multiplying a portion of the employee's salary, usually for the period immediately preceding retirement, by a specific percentage. The result was then multiplied by the employee's years of service with the company. Vesting, the guaranteed right of employees to future benefits, was assured after 10 years of service with American Express.

Obviously, the pension available to American Express employees has changed greatly over the last century. This article briefly describes the evolution of typical modern pension plans, such as the American Express plan, and the growth in the types and coverage of retirement plans

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through the 20th century. The enormous financial commitment involved in providing pensions in the modern economy also will be addressed. And because the spread of pension plan coverage and the aging of the U.S. population has spurred interest in data on pension benefits, we also look at statistics on pension plans published by the Bureau of Labor Statistics and other organizations over the past century.

The earliest plans

Pension plans for private sector employees were first offered in the railroad, banking, and public utilities industries. Born in the early 1800's, the railroad transportation industry gave rise to some of the first large corporations in the United States. Because of the relative youth of the new industry's labor force, many decades passed before the railroads encountered the need to provide pensions for significant numbers of retirement-age workers. The B&O Railroad, the Central Railroad of New Jersey, and the Illinois Central Railroad—all established between 1827 and 1851, and among the largest railroads of their day—had been in existence for at least 50 years before they established their own pension plans. Once initiated, however, coverage spread quickly, and by 1916 more than half of all U.S. railroad employees were covered by railroad pension plans. Only a decade later, the proportion of covered railroad employees had risen to 80 percent.[7] Also during the early 1890's, banks and public utilities became prominent enterprises, providing services to rapidly growing urban areas of the Nation. They began providing pensions for their workers around 1910.

In manufacturing, the spread of pension plans occurred later than in other industries, because most manufacturing firms were just coming into existence as the pension movement was sweeping the railroad, banking, and public utilities industries near the turn of the 20th century. Many of the new manufacturing firms took note of the experience of the railroads and quickly established their own pension systems. Some leading manufacturers—firms such as the United States Steel Corp. and the International Harvester Co., founded in 1901 and 1902, respectively—immediately saw the competitive necessity for pension plans in large modern corporations and established their own plans within 10 years of their founding.[8]

As indicated earlier, the most common method of determining the amount of a benefit payment in the earliest private pension plans was to multiply the worker's average salary over a specific period by a certain percentage, and to multiply the result by the number of years worked. The period over which the salary was averaged was usually 10 years, normally the decade preceding retirement. Benefits generally ranged from 1 to 2-1/2 percent of average earnings times years of service. For example, if the pension formula provided benefits equal to 1 percent of average salary times years of service, the worker with a $5,000 annual average salary and 30 years of service would receive an annual pension of $1,500 (0.01 x $5,000 x 30 years).

This method of calculating pension benefits is very much like that used in many modern-day plans. For example, the 1989 Employee Benefits Survey of medium-size and large establishments showed that 63 percent of full-time employees were covered by defined benefit pension plans. Of these workers, 75 percent were covered by plans that computed benefits as a percentage of earnings, and 64 percent would have pension payments calculated as a percentage of earnings in those years just prior to retirement.[9] And, participants in such plans frequently were provided benefits as a flat percent per year of service, within the range of 1 to 2-1/2 percent.

One advantage to the worker in using a percentage of salary to determine benefits is that, no matter how income levels in general change with time, the retired employee always receives the same proportion of his or her designated salary base. As a result, such benefit formulas have remained very similar for almost a century.

Some plans did not use the flat percentage of salary formula, adopting some other form of calculation. In some of the early plans, the percentage increased in proportion to the length of service. In other plans, the salary was divided and different percentages were applied to different income strata. In still other plans, all earnings above a certain amount, which varied from $4,000 upward, were not included in the calculation. Several companies set a flat pension amount that varied from $12 to $50 a month.[10] Similar variations in pension benefit formulas are still seen in today's plans.

There was also considerable variation in age requirements in the early plans. Typically, the plans specified one age at which retirement was expected, known as the "compulsory age," and an earlier age at which retirement was permitted. The optional, or earlier, retirement age could not be elected by the worker without employer approval. Both of these ages were subject to change at the discretion of the employer. The employer could also choose to continue the employee in service although the worker had reached the compulsory age.

In some of the plans, there was no age requirement at all; the decision about when to retire employees was left entirely to company officials. However, in the majority of plans, ages 65 and 70 were the most commonly set compulsory retirement ages, while the age for optional retirement ranged from 50 upward.

An interesting feature of these early plans was that many called for different retirement ages for men and women. According to a 1926 BLS study, a third of the plans surveyed set retirement ages for women at 5, 10, or more years earlier than for men.[11] However, most of these plans made no reduction in the service required for the specified retirement age. Therefore, women had to begin working for the companies from between 5 to 10 years earlier in life than did men in order to be eligible for pensions.

There were certain negative aspects of almost all pension programs. Typically, in the first half-century of significant plan growth (1880–1930), during which more than 400 private plans were established, almost all plans were discretionary. This meant that employers could modify, suspend, or annul the pension program at any time. Additionally, it was also understood that the company could withhold or terminate the pension of any employee for any reason, at any time.

Vesting, the guaranteed right of an employee to a future benefit, was virtually unheard of in pension plans of the early 20th century. Indeed,

> At the turn of the century, when the early pension plans were being established, employers felt little pension obligation to any employee who did not stay alive, stay well, and stay put until retirement. Pensions were hardship payments, charity for nearby and visible former workers. If an employee died before retirement, his family usually did not receive anything. If he became disabled after long service, he might be taken care of. If he quit or was discharged, he probably received nothing.[12]

It also was understood that employees should keep working until they became eligible for retirement benefit payments, but this in itself did not guarantee that an annuity or some other distribution would be paid. However, some employees did challenge their companies in court, claiming that they were entitled to some benefit for their years of service. Almost all of these claimants lost.[13]

The 1920's through World War II

The twenties. A major innovation in pensions occurred in 1921 when the Metropolitan Life Insurance Company offered the first group annuity contract.[14] This type of contract made it possible to provide more workers with a postretirement income less expensively than would be the case if each employee had to be individually insured. Both the employee and the employer benefited because the "risk" of an individual retiring and the cost of the plan were shared among many people, and because the burden of administering a pension plan was lightened for the employer.

Another event that helped spur the growth in the numbers of new pension plans was the clarification of plan tax status contained in the Internal Revenue Act of 1921. Before 1921, employer contributions under a pension or other deferred compensation plan were not specifically exempt from Federal corporate income tax (instituted in 1915). However, it was common practice to allow firms to deduct such contributions as "ordinary and necessary business expenses," if the charges were "reasonable."[15] This informal practice was codified during the 1920's:

> In 1921 trusts created by employers as part of a stock bonus or profit-sharing plan for the exclusive benefit of some or all of the employees were made exempt. It was also provided that employer contributions to such trusts and income earned by them would not be taxable to the beneficiaries until actually distributed. These provisions were extended to pension trusts in 1926.[16]

It was estimated that as many as 3.7 million workers were covered in 1929 and as much as $55 million in pensions was paid to 90,000 retirees in 1927. At the time, it was further predicted that as much as $82 million would be paid to 123,000 retirees in 1930.[17]

The Depression years. By the eve of the Great Depression, most large enterprises—railroads and public utilities, and iron, steel, oil, and other manufacturing companies—provided pensions for their employees. However, most workers still had no legal rights to their benefits.

During the years leading up to the Depression, certain trade unions had organized their own plans, largely in industries previously without pension plans. These plans were union-financed by member contributions and covered nearly 20 percent of union members by 1930.[18]

According to Murray W. Latimer, "Most pension plans operating in 1929 seem to have been framed with the idea of relating the benefit to the employee's standard of living at the time of retirement."[19] Indeed, half of the noncontributory pension plans operating in that year specified average pay during the last 10 years of service as the basis for the benefit calculation. None of the nearly 400 plans studied by Latimer attempted to adjust pension benefits to keep pace with price changes. The only plan that provided for any adjustment of the benefit after retirement was that of the Perfection Stove Co., adopted in 1913.[20] The plan's postretirement adjustments were based on the percentage change each 6 months in the average hourly earnings of all employees in the firm.

According to a 1925 BLS study covering well over 200 firms that had pension plans, practically all plans specified that workers meet both age and service requirements in order to retire and receive benefits.[21] Firms required as few as 10 years to as many as 45 years of service, although both of these extremes were uncommon. A typical plan had a service requirement of between 20 and 25 years.

Occasionally, a plan set a service period, coupled with an age requirement, but also provided the option of retiring at any age after a longer period of service than the standard set by the plan. For instance, one company in the survey offered retirement at age 65 after 15 years of service or retirement at any age after 45 years of service. More often, however, a longer period of service entitled an employee to retire at an earlier, but specified, age. Another firm, for example, provided that its workers could retire at age 65 after serving 30 years, and at age 60 after serving 40 years.

An exhaustive study conducted by Latimer in 1932 shows that more than three-fourths of the 397 pension plans established between 1874 and 1929 were entirely employer financed.[22] These noncontributory plans covered nearly 96 percent of employees working for companies that reported having a pension plan.[23] The other one-fourth of the pension plans, covering only 4 percent of employees, required employees to contribute a specified amount to their plan or, more rarely, offered employees the opportunity to receive a certain minimum benefit from their employer, which they could supplement by making their own contributions to the plan.[24]

In 1930, some 2.7 million active workers, or about one-tenth of the work force, were covered by private pension plans. Annual pension disbursements reached $90 million and plan assets totalled $800 million.[25] Two events had a significant effect on pension plan development in the 1930's—the economic depression and the passage of the Federal Social Security Act of 1935.

With the onset of the Great Depression in 1929, businesses began having great difficulty acquiring cash to meet operating expenses, including rising pension payments.[26] Profits plummeted and, as a result, employers were forced to cut costs drastically, including pension benefits. As a result, more firms began to require employees to contribute toward their plans. Some companies actually abolished their pension plans, while others reduced the amount of benefit payments. In cases where plans were terminated, some retirees could expect to receive no further payments. And few new fully employer-financed plans were created in the 1930's.

The Federal Social Security Act of 1935 was another reason for a shift from noncontributory to contributory plans. According to an article in the March 1940 *Monthly Labor Review*,

> A significant change since the enactment of the Federal [Social Security Act] is that many self administered noncontributory plans have been converted into contributory group-annuity plans. This was caused, in part at least, by the act, as the employer who pays half the cost of the employee's pension under the Federal act can hardly be expected to pay for the entire cost of a supplementary pension.[27]

It is difficult to tell whether the Depression or the Social Security Act had a stronger effect on the reduction of benefits and the change from noncontributory to contributory funding. The same March 1940 article noted that the termination of about half of 55 formal plans that had been discontinued was attributable to the Depression and the other half to the Social Security Act. Neither the passage of the Social Security Act nor the Depression caused any large-scale termination of plans, according to a 275-firm study conducted in 1939 by the National Industrial Conference Board. Of the firms that had had a formal pension plan at some time during the preceding decade, 80 percent still maintained the plan in the spring of 1939.[28] Only 29 plans had been discontinued because of Social Security, and 26 had been terminated due to the Depression. The most significant changes in the plans were reductions in retirement allowances and consequent decreases in employer contributions.[29]

The 1940's. In 1940, more than 4 million people, or about one-seventh of the active work force, were covered by private pensions, with 160,000 retirees receiving annual benefit payments of $140 million.[30] Pension assets totalled $2.4 billion. Contributions to all private pension plans grew beyond $300 million in 1940, with the employer's portion declining to less than two-thirds of the total. This change was a result of the severe economic conditions of the 1930's.

The greatest period of pension growth took place after 1940. Several factors promoted this increase. One development was the clarification in 1942 of several sections of the Internal Revenue Code that dealt with pension trusts, in conjunction with an increase in normal and excess profits tax rates. The net effect was that an employer's contributions to a *qualified* pension plan were deductible for Federal tax purposes.

Prior to 1942, some employers interpreted the Internal Revenue Code of 1926 (recall that it had made employer contributions to pension trusts covering "some or all employees" tax-exempt) very liberally. As a result, pension plan trusts were created that included as participants only small groups of officers and key employees in high income brackets. Establishment of a pension plan, originally intended as an employer initiative to benefit employees thus became a means by which both the firm and a select group of its workers could avoid income taxes. Congress acted to eliminate this tax avoidance device by imposing several qualifying factors on pension trusts. Only if these conditions were met would such trusts "qualify" for tax-exempt status.[31] Additionally, the Federal Government decided that earnings from a pension trust would not be federally taxed until after retirement, when the employee would probably be in a lower tax bracket.

The second wartime development that influenced the growth of private pensions was the effort to curb inflation by establishing general price controls. Because wages also were frozen, the only other type of compensation with which employers could compete for scarce labor was employee benefits, including pensions. Between 1940 and 1945, private pension plans added another 2.25 million active workers to their ranks.[32]

The postwar era. By the end of World War II, corporate profits began to rise, and a National Industrial Conference Board survey showed a marked shift back to noncontributory pension plans.[33] This trend continued into the 1950's. However, from 1945 to 1949, the growth in numbers of new plans fell off substantially, as organized labor became concerned with recovering wage increases that had been forgone under wartime wage stabilization policies.[34]

The large labor unions, especially the United Steel Workers Union (CIO), pushed for higher wages, but when they encountered intense public opposition, shifted their goal to increasing the benefits of already existing pension plans.[35] Organized labor was aided in its struggle for more secure pensions by a 1948 National Labor Relations Board ruling that compelled employers to include pensions in the collective bargaining process.[36] One school of thought, advocated by organized labor, held that Social Security provided insufficient funds as a sole source of retirement income and that pensions should fill the gap.[37]

Between 1945 and 1950, pension plans added another 5 million new participants, more than double the number of new plan entrants over the preceding 5 years.

The 1950's. By the end of 1950, private pensions covered 10.3 million persons, more than one-fourth of all persons employed in commerce and industry in the United States.[38] One-half million retirees were receiving benefits totalling $370 million in 1950. Annual contributions to private pension plans exceeded $2 billion, with employers contributing almost $1.7 billion of the total. This increase in the proportion of the cost borne by the employer was due largely to the fact that most extant plans had been initiated during the 1940's, when union pressure was strong, and most plans created through collective bargaining were wholly employer financed.

During the early 1950's, age 65 continued to be the most prevalent normal retirement age. A contemporary BLS study indicated that attainment of age 65 appeared as the normal retirement requirement in more than 95 percent (286 plans out of 300) of plans examined.[39] The majority of the remaining plans set normal retirement age at 60. Interestingly, women still frequently had a lower normal retirement age requirement, normally 5 years earlier than that for men.

In addition to age requirements, almost all of the plans in the 1953 BLS study required a period of service to be completed before normal retirement benefits could be paid. Although service requirements for plans in the study ranged from 1 to 30 years, the majority of workers could retire after 15 years of service or more.

The most common age at which early retirement would be permitted was 55; a majority of employees also had to have completed at least 15 years of service in order to qualify. More than 40 percent of firms offering early retirement required workers to obtain company approval to retire early.

The trend toward the financing of benefits solely by the employer also continued in the 1950's. A Bureau of Labor Statistics study of 300 pension plans subject to collective bargaining showed that, in 1952, 75 percent of these plans were noncontributory.[40]

The sixties. The slower pace of pension plan growth during the 1960's is primarily attributable to increased employment in companies that already had private pension plans; over the preceding decade, the introduction of new plans had accounted for most of the increase in numbers of covered employees.[41] By yearend 1960, pension plans covered 23 million persons, about one-half of all private sector workers, and provided total retirement income in the amount of $1.7 billion.[42] Annual contributions reached $5.6 billion and pension plan assets rose to $57 billion.

The typical pension plans of the 1960's were characterized by benefits requirements similar to those of the 1950's. Normal retirement benefit requirements continued to be age 65 with 10 to 15 years of service.[43] Sometimes, alternative normal retirement criteria were found, such as age 55 and 15 years of service, or any age after 20 years of service. Early retirement was most commonly permitted between ages 55 and 60 after 5 to 15 years of service.

Throughout the 1960's, employers continued to increase their contributions toward the cost of their employees' pensions. Others assumed the entire cost. Because of these changes, only about 20 percent of the active workers covered in 1969 were required to contribute toward the cost of their pension benefit; more than 25 percent of employees had been required to contribute at the beginning of the 1960's.[44]

Many firms provided for the worker's attainment of guaranteed rights prior to normal retirement, in the event of voluntary separation. According to a BLS study of more than 1,000 pension plans operating in 1969, 77 percent of employees in the firms surveyed were covered by such benefit vesting provisions, and the majority of these were provided full vesting after 5 to 10 years of service.[45]

ERISA and beyond

The 1970's. Although many employers already were meeting some basic standards, Congress saw a need to establish legal standards that would guarantee benefits to workers covered by private pension plans. The most significant legislation in pension history is the Employee Retirement Income Security Act (ERISA), enacted in 1974.[46] The main goal of the Act is to protect employees' benefit rights related to participation, funding, and vesting. ERISA affects all aspects of private pension plans, from creation to termination.

However, pension plan provisions were becoming more sophisticated and more secure even before the full effects of ERISA were realized. By late 1974, according to a BLS study of key changes in 149 major pension plans, one-third of the plans appeared to be in accord with at least one of ERISA'S standards: full vesting after 10 years of service.[47]

The majority of plans studied provided cliff vesting. Under a cliff vesting schedule, an employee is not entitled to any benefits accrued under a pension plan until having satisfied the service requirement for 100-percent vesting. In fact, most of the plans that offered vesting during the 1970–74 period provided cliff vesting.[48]

Age and service requirements for vesting of benefits also underwent significant change during the 1970–74 period. By the end of 1974, according to the same BLS study of key pension changes, 6 plans had eliminated their age or service requirements, or both; 13 plans had eliminated their age requirement and lowered their service requirements, most commonly to 10 years; and 3 plans had dropped age requirements while retaining the same service requirements. By 1975, 90 percent of the 149 plans studied guaranteed eligible employees a pension, even if the employee should leave the company before becoming eligible for retirement.[49]

By the mid-1970's, according to the same study, 128 (86 percent) of the 149 plans studied were entirely employer-financed. By yearend 1977, total employer contributions to defined benefit pension plans had risen to $31.2 billion, covering nearly 35 million active employees.[50] Benefit payments more than doubled, to $15.2 billion, and assets increased to $231 billion in the first half of the decade.

According to a 1979 BLS survey, at decade's end, the majority of covered workers could retire between ages 61 and 65, and receive unreduced benefits with no service requirement.[51]

Developments in the 1980's. The private pension system has been marked by growth and maturity since the passage of ERISA. Over the period 1977–87, defined benefit pension assets posted an enormous increase and defined benefit payments increased almost fourfold.

However, defined benefit coverage remained relatively stable in the last decade. Several possible reasons have been cited for this stagnancy. First, ERISA requires employers to insure their defined benefit plans with the U.S. Pension Benefit Guaranty Corp., thus increasing costs for operating pension plans. Such insurance payments are not required for defined contribution plans, a different type of plan in which fund contributions by employers are specified, and contributions often are invested in interest-bearing accounts. These plans do not specify the amount of the final benefit received, which depends on the size of the worker's account and the appreciation in its value from inception to termination.

Other ERISA requirements, such as vesting and other minimum benefit standards, may also have increased the cost of administering defined benefit pension plans. Declining employment in industries that historically have favored defined benefit plans, such as manufacturing firms that participate in collective bargaining, and the termination of many overfunded plans during the mid-1980's are other factors frequently cited as contributing to the slowing of growth.

The increasing number of smaller, service-oriented firms, which are usually not collective bargaining participants, has played an important role in the growth of defined contribution plans.

Many such firms favor savings-type vehicles. To a smaller extent, the increasing number of defined contribution plans also can be partially explained by the termination of defined benefit pension plans, some of which have been replaced with defined contribution plans. Other often cited factors in the growth of defined contribution plans are favorable tax treatment of employer and employee contributions and an increasing desire by employees to have more control over funds invested for retirement.

As a result of changes in pensions and other benefits, there was increased interest in obtaining comprehensive data on benefits. The Bureau of Labor Statistics began its Employee Benefits Survey in 1979, in part to meet this need, and began to publish valuable data during the early 1980's. The Employee Benefits Survey provides detailed data on the incidence and characteristics of a variety of employee benefits in medium-size and large establishments, as well as in State and local governments. Currently, the survey is further expanding its scope to include benefits provided employees of small private establishments (1 to 99 employees). With this addition, the Employee Benefits Survey will be the most comprehensive economywide benefits survey available.

During the 1980's, plan assets grew rapidly, while employee coverage increased only slightly. By 1980, almost 180,000 defined benefit pension plans, funded by $400 billion in assets, covered 38 million active workers.[52] By 1987, more than 232,000 defined benefit pension plans covered nearly 40 million participants, and the assets of these plans reached nearly $900 billion.

Benefit provisions became more generous during the decade. In 1980, the majority of pension plan participants (70 percent) in medium-size and large firms were fully vested after 10 years of service, according to the Employee Benefits Survey. By 1989, the majority of workers became vested at any age after 5 years of service, in compliance with recent amendments to ERISA. The most common early retirement requirement in 1989 was attainment of age 55 with 10 years of service. The majority of employees could receive normal retirement benefits before age 65.

The trend toward private defined benefit pension plans that are financed entirely by the employer continued in the 1980's. In 1989, BLS reported that 96 percent of those full-time employees in medium-size and large establishments who were covered by defined benefit pension programs had their benefits wholly employer-financed.[53]

THE CHANGES IN PRIVATE PENSION PLANS that have occurred since 1875 have, in almost all cases, benefited the employee. Changes have resulted from employers' initiatives, collective bargaining, and pension legislation. In recent years, ERISA has proved to be perhaps the single largest influence on current pension plans. This act regulates almost every aspect of pension, profit-sharing, and thrift plans. Many pension provisions stabilized under ERISA; the guarantee of certain minimum benefits has ensured that employees covered by different pension plans can expect to be equally secure in their benefits. In the years since passage of ERISA, the health of the Nation's pension plans has continued to receive close scrutiny; as the population ages, policymakers will no doubt continue to pay close attention to the availability and terms of employer-sponsored retirement income plans. □

Footnotes

[1] William C. Greenough and Francis P. King, *Pension Plans and Public Policy* (New York, Columbia University Press, 1976), p. 27.

[2] Defined benefit pension plans and defined contribution plans are the two major types of retirement income devices used by private and public organizations in the United States. Defined benefit pension plans calculate retirement benefits using specific formulas, generally based on salary, years of service with a firm, or both. Employers are obligated to provide benefits based on these calculations.

Defined contribution plans generally specify an employer contribution, but not a formula for determining benefits as in a defined benefit pension plan. Instead, individual accounts are set up for participants, and benefits are based on amounts credited to these accounts, plus investment earnings. This article deals primarily with defined benefit pension plans.

[3] John A. Turner and Daniel J. Beller, eds., *Trends in Pensions* (U.S. Department of Labor, 1989), p. 421.

[4] Murray W. Latimer, *Industrial Pension Systems in the United States and Canada*, 2 vols. (New York, Industrial Relations Counselors, 1932), vol. 1, pp. 21–22.

[5] *Ibid.*, p. 28.

[6] Data are from 1986 Internal Revenue Service Form 5500.

[7] American Council of Life Insurance, *1987 Pension Facts* (Washington, American Council of Life Insurance, 1987). Unless otherwise noted, pension data cited from the American Council of Life Insurance combine both defined benefit pensions and defined contribution plans. Nevertheless, the data are a close approximation of the actual trend in defined benefit pension plans. Traditionally, defined contribution has been the minor component of retirement systems, while defined benefit pension payments have

made up the majority of retirees' income. During the 1980's, however, defined contribution became an increasingly important part, in terms of assets and coverage, of many major retirement systems.

[8] National Industrial Conference Board, *Industrial Pensions in the United States* (New York, National Industrial Conference Board, 1925), pp. 141–57.

[9] The Employee Benefits Survey (formerly the Level of Benefits Survey) was begun in 1979 as the Bureau of Labor Statistics' primary vehicle for collecting detailed information on the incidence and characteristics of employee benefits in medium-size and large establishments. In 1987, the program was expanded with the addition of a State and Local Government Survey. Smaller establishments (100 to 250 employees) and all service industries were added in 1988. Currently, the Employee Benefits Survey is further expanding its scope to cover benefits provided employees of small establishments (1 to 99 employees). The survey, which will soon cover the entire nonagricultural economy, is one of the most comprehensive benefits surveys available.

[10] Mary Conyngton, "Industrial Pensions for Old Age and Disability," *Monthly Labor Review*, January 1926, p. 45.

[11] *Ibid.*, p. 47.

[12] Greenough and King, *Pension Plans*, p. 154.

[13] *Ibid.*, pp. 35–38.

[14] *1987 Pension Facts*, p. 33.

[15] Charles L. Dearing, *Industrial Pensions* (Washington, The Brookings Institution, 1954), p. 286.

[16] *Ibid.*

[17] Latimer, *Industrial Pension Systems*, pp. 230–31.

[18] *1987 Pension Facts*, p. 30.

[19] Latimer, *Industrial Pension Systems*, p. 108.

[20] *Ibid.*

[21] This section is based largely on "Industrial Pensions for Old Age and Disability," *Monthly Labor Review*, January 1926, p. 47.

[22] This section is based largely on Latimer, *Industrial Pension Plans.*

[23] *Ibid.*, p. 47.

[24] *Ibid.*, p. 48.

[25] *1987 Pension Facts*, p. 30.

[26] Dearing, *Industrial Pensions*, p. 35.

[27] "Effect of Social Security Act on Company Pensions," *Monthly Labor Review*, March 1940, p. 644.

[28] From National Industrial Conference Board, "Company Pension Plans and the Social Security Act," Studies in Personnel Policy No. 16 (New York, 1939), cited in "Effect of Social Security Act on Company Pensions," *Monthly Labor Review*, March 1940, p. 643.

[29] One means of controlling employer costs for providing retirement plans is to coordinate pension benefits with Social Security. For more details, see Donald Bell and Diane Hill, "How Social Security Payments Affect Private Pensions," *Monthly Labor Review*, May 1984, pp. 15–20.

[30] *1987 Pension Facts*, pp. 30–31.

[31] Dearing, *Industrial Pensions*, pp. 286–87.

[32] *1987 Pension Facts*, p. 31.

[33] Data are from *The Conference Board Management Record* (National Industrial Conference Board), July 1949 (p. 286), October 1949 (pp. 426, 444), and November 1949 (pp. 466, 481), as cited in "Company Pension and Group Insurance Plans: Cost Sharing," *Monthly Labor Review*, March 1950, p. 298.

[34] Dearing, *Industrial Pensions*, pp. 45–46, 57–58.

[35] *Ibid.*

[36] *Inland Steel Company* v. *United Steelworkers of America* (77 NLRB 4 (1948)).

[37] See Greenough and King, *Pension Plans*, p. 45. Social Security benefit levels and earnings bases were unchanged from 1937 to 1949.

[38] *1987 Pension Facts*, p. 31.

[39] "Pension Plans Under Collective Bargaining Agreements—Part III," *Monthly Labor Review*, July 1953, pp. 716–17.

[40] *Ibid.*, p. 718.

[41] "Private Pension Plans, 1960 to 1969—An Overview," *Monthly Labor Review*, July 1970, p. 45.

[42] *1987 Pension Facts*, p. 32.

[43] "Private Pension Plans, 1960 to 1969," p. 48.

[44] *Ibid.*, p. 46.

[45] *Ibid.*, p. 49.

[46] Since 1974, several laws have been enacted which expand upon the pension plan requirements established in ERISA. Notable among these are the Retirement Equity Act of 1984, which provided expanded survivor benefits, and the Tax Reform Act of 1986, which liberalized vesting requirements.

[47] Evan L. Hodgens, "Key changes in major pension plans," *Monthly Labor Review*, July 1975, pp. 25–26.

[48] There are several different types of vesting schedules. Under a cliff vesting schedule, an employee is not entitled to any benefits accrued under a pension plan until satisfying the service requirement for 100-percent vesting. Graduated vesting schedules give an employee rights to a gradually increasing share of pension benefits determined by years of service, eventually reaching 100-percent vesting status.

For more information on vesting provisions, see Avy D. Graham, "How has vesting changed since the passage of Employee Retirement Income Security Act?" *Monthly Labor Review*, August 1988, pp. 20–25.

[49] Hodgens, "Key Changes," p. 23.

[50] *Trends in Pensions*, pp. 387, 421.

[51] *Employee Benefits in Industry: A Pilot Survey*, Report 615 (Bureau of Labor Statistics, 1980), p. 13.

[52] *Ibid.*

[53] *Employee Benefits in Medium and Large Firms, 1989*, Bulletin 2363 (Bureau of Labor Statistics, June 1990), p. 124.