

# Private Employee-Benefit Plans Today

by JOSEPH ZISMAN\*

*On the twentieth anniversary of the Social Security Act, the Secretary of Health, Education, and Welfare said, "The combined protective forces of individual self-reliance, the private company thrift and pension plans, and the Federal social security programs now go far toward assuring the economic and social independence of American families. These forces help prevent or alleviate dependency and its train of hardships, afford better opportunity for the Nation's children, and help sustain the general welfare of our people." The Federal program of old-age and survivors insurance, the Secretary went on to say, "stimulates individual thrift and initiative; it does not replace them." Among the forms private initiative has taken are the employee-benefit plans sponsored and initiated unilaterally or jointly by employers and trade unions. This article describes the current status of such plans, their growth, and their characteristics.*

EMPLOYEE-benefit plans have had an astonishing growth in the past decade, spurred as they have been by such factors as wartime economic expansion, wage stabilization, favorable tax treatment, broadening areas of collective bargaining, high prosperity, and the desire for greater employer-employee harmony. During this period large numbers of employee pension and health and welfare plans were initiated, and existing plans increased their coverage, liberalized their benefits, or did both.

The plans are of two types, which often, however, cover the same workers. The health and welfare plans are designed to provide life insurance, disability insurance, and hospital, surgical, and medical expense insurance or health services. The pension plans pay benefits on retirement because of old age or permanent disability.

Although there are no comprehensive statistics, an idea of the growth and coverage of these plans can be obtained from group insurance and related statistics. These have been recently assembled by a subcommittee of the Senate Committee on Labor and Public Welfare. Moreover, the subcommittee has made certain estimates and projections from these sta-

tistics. Its final report thus becomes a useful source of data on this subject.<sup>1</sup>

The growth from 1945 to 1955 of group insurance provided by the employee-benefit plans is shown in table 1. Coverage under group life insurance increased more than 2.8 times, and the amount of insurance in force almost 4.6 times. Group hospital expense insurance and private pension plans had a similar growth.

The Senate subcommittee estimated that in 1954 employee-benefit plans, providing a variety of benefits, covered more than 31 million workers and afforded protection for 45 million dependents (table 2). Supplementary unemployment benefits—a new form of protection—are estimated to have covered almost 2 million workers in October 1956, according to unpublished figures of the Bureau of Labor Statistics.

Employer contributions to private pension and welfare plans are estimated by the Department of Commerce to have risen from approximately \$4.0 billion in 1952 to more than \$5.3 billion in 1955, or from 2.6 percent of wages and salaries in private industry in 1952 to 3.1 percent

in 1955.<sup>2</sup> In 1954, according to the estimates of the Senate subcommittee, employers and employees together contributed about \$6.8 billion to finance the plans (employers, more than \$4.5 billion; employees, more than \$2.3 billion). Reserves of the pension funds were estimated as aggregating probably as much as \$25.0 billion.

Employee-benefit plans, the Senate subcommittee pointed out, have the same general objectives as the Federal and Federal-State social security programs. Private pension plans are supplementary to the basic Federal old-age and survivors insurance system. Not only are they designed to add to the employee's retirement income, but many of them will supplement the new Federal benefits for permanent and total disability occurring before normal retirement age when these benefits become payable on July 1, 1957. Group life insurance and other death benefits supplement the survivor benefits provided under the Social Security Act. Temporary disability benefits, as distinguished from workmen's compensation benefits, are now payable under the laws of only four States. In Rhode Island the benefits are provided exclusively by a publicly operated plan. In California, New Jersey, and New York the benefits may be provided through the State-operated insurance fund plans or through private plans, in which case they tend to be somewhat higher than the statutory requirements. In other States the private employee-benefit plans constitute a voluntary approach to the problem of income maintenance during periods of loss of earnings due to illness or accidents. In some instances the plans supplement the benefits provided under workmen's compensation laws. The only State that provides a form of health insurance, other than workmen's compensation, under a public program is California, where

<sup>1</sup> *Welfare and Pension Plans Investigation: Final Report of the Committee on Labor and Public Welfare Submitted by Its Subcommittee on Welfare and Pension Funds* (S. Rept. 1734, 84th Cong., 2d sess., 1956).

<sup>2</sup> *Survey of Current Business, National Income Number*, July 1956, pages 16 and 22.

\* Division of Program Research, Office of the Commissioner.

hospitalization benefits are financed from contributions for temporary disability insurance. Employee-benefit plans pay hospital expense and other medical benefits to a large segment of the population. The year 1955 saw the development of employer-trade union agreements for the supplementation of unemployment benefits provided through the Federal-State unemployment insurance programs.

### Plan Sponsorship and Administration

As far back as 1831 a printers' union in New York City paid weekly unemployment benefits to its members. The American Express Company established the first industrial pension plan in 1875. At about the same time, employee mutual benefit associations—usually providing sickness benefits—were established. Employers began to establish group life insurance plans in 1910. The first collectively bargained health and welfare plan was negotiated in 1926 by the Amalgamated Association of Street and Electrical Railway Employees and the Chicago Rapid Transit Company. Table 3 shows the percentages of workers covered under

welfare and pension plans with different types of administrative arrangements.

### Impact of Collective Bargaining

Originally, most plans were sponsored and administered by employers. When an employer sponsors an employee-benefit plan, he alone decides on the class of employees to be covered, the type and amount of benefits, the conditions under which the benefits are paid, and the method of financing, underwriting, and administration. He may change, or even discontinue, the plan at will.

With the development of collective bargaining, the unions acquired a say in these matters. Decisions of the National Labor Relations Board and of the courts in 1949 established the rights of the unions in this area. When a legally constituted bargaining agent represents employees, the employer is legally bound to bargain with the agent on the initiation, modification, or abandonment of any employee-benefit plan. As a result, many collective-bargaining agreements have been entered into by employers and trade unions that call for the initia-

Table 2.—Estimated coverage under private employee-benefit plans, by type of benefit, December 31, 1954

[In millions]

Type of benefit	Total	Em- ployees	De- pend- ents
Life insurance and death benefits.....	30.6	29.5	1.1
Accidental death and dis- memberment.....	14.0	14.0	-----
Temporary disability.....	23.2	23.2	-----
Hospitalization.....	75.6	31.3	44.3
Surgical.....	67.3	28.3	39.0
Medical.....	38.7	17.3	21.4
Retirement <sup>1</sup> .....	12.5	12.5	-----

<sup>1</sup> Excludes annuitants.  
Source: *Welfare and Pension Plans Investigation* (S. Rept. 1734), p. 11.

tion of an employee benefit plan. Others have modified a plan's provisions with respect to coverage, benefits and/or employer contributions. Still others simply provide that the plan cannot be changed during the life of the agreement. According to the Bureau of Labor Statistics, of the settlements concluded during 1955 that involved 1,000 or more workers, about two-fifths called for the modification or introduction of such plans. More than half of the 7.1 million workers concerned in these settlements were affected by the agreements.<sup>3</sup>

Most employees and their dependents, however, are covered by plans that have not been brought within the scope of collective-bargaining agreements. The Senate subcommittee estimated that at the end of 1954 only 12 million of the more than 31 million employees covered under welfare plans were in plans within the scope of such agreements. For pension plans, the estimates are 7.2 million employees out of 12.5 million.

### Employer-Administered Plans

In employer-administered (unilateral) plans the employer performs all the necessary functions to carry out the provisions of the plan. Even when the union has a voice in the selection of the insurance carrier, the employer conducts all transactions with the carriers. Once the decisions on the plan provisions and the ex-

<sup>3</sup> Bureau of Labor Statistics, *Current Wage Developments*, No. 98, February 1, 1956, pages ii and vii.

Table 1.—Growth of group insurance in private employee-benefit plans, by type of insurance, selected years, 1945-55

Item	End of year—			
	1945	1950	1954	1955
	Group life insurance <sup>1</sup>			
Number of master policies.....	30,000	56,000	81,000	89,000
Individuals covered (thousands) <sup>2</sup> .....	11,451	19,391	28,634	32,098
Insurance in force (millions).....	\$22,172	\$47,793	\$86,395	\$101,300
	Group hospital expense insurance			
Individuals covered:				
Insurance companies (thousands) <sup>2</sup> .....	7,803	22,305	35,010	38,116
Blue Cross plans (thousands) <sup>3</sup> .....	18,881	37,451	44,201	47,734
	Private retirement plans			
Number of plans <sup>4</sup> .....	7,425	12,330	21,000	23,000
Individuals covered (thousands) <sup>5</sup> .....	5,600	8,600	12,500	13,300

<sup>1</sup> Excludes group credit and wholesale employee insurance.

<sup>2</sup> Employees and dependents, with minor exceptions.

<sup>3</sup> Includes individual and group enrollment. About three-fourths are employees and their dependents, enrolled in groups.

<sup>4</sup> Insured and self-insured plans; excludes "pay as you go" plans.

<sup>5</sup> In insured and self-insured plans, including "pay

as you go" plans; for 1954 and 1955, excludes annuitants.

Source: Data for life insurance and hospitalization insurance covered by insurance companies, Life Insurance Association of America; for Blue Cross plans, Blue Cross Commission of the American Hospital Association; for private pension plans, estimated by the Division of the Actuary and the Division of Program Research, Office of the Commissioner, Social Security Administration.

tent of employer financing have been made, the responsibility for the plan's operations is his. The day-to-day operation of the plan may be lodged in the industrial relations department or the treasurer's office. Sometimes—most commonly in pension plans—a special committee on which employees are occasionally represented is set up to make policy decisions. When trust funds are created, trust companies are usually given the investment functions and, in pension plans, handle the benefit payments in accordance with the sponsor's instructions. In all self-insured plans, the employers assume the underwriting functions of the insurance carrier and the adjudication of claims as well. Approximately 92 percent of the workers covered under welfare plans and 86 percent of those covered under pension plans in 1954 were in single-employer-administered plans (table 3).

### Trade Union Plans

Trade union plans include (1) those that are union-sponsored and originally financed entirely out of union dues and assessments and (2) plans created by collective-bargaining agreements and financed in whole or in part by employer contributions but administered entirely by the unions.

The first type is found largely in unions originally affiliated with the American Federation of Labor. The benefit structure and method of financing are generally specified in the bylaws of the international or local union sponsoring the benefits. The plans tend to be self-insured. No adequate statistics exist on these plans, but the last report (December 1955) of the American Federation of Labor shows 75 international unions, with a combined membership of about 8.1 million, that paid benefits in 1954. Excluding the "miscellaneous" category, which includes such benefits as strike benefits, these unions paid approximately \$88.1 million. With the advent of collective bargaining for welfare and pension plans, many of these plans have become financed in whole or in part by employer contributions and therefore have changed their structure. Plans of probably as many as 12 unions with a total mem-

**Table 3.—Percentage distribution of employees covered by private employee-benefit plans, by type of administrative arrangement, 1954**

Administrator	Welfare plans	Pension plans
Total.....	100.0	100.0
Employer.....	92.0	86.0
Union.....	.5	.5
Union and employer jointly:		
Single-employer fund.....	.5	.5
Multi-employer fund.....	7.0	13.0

Source: S. Rept. 1734, p. 14.

bership of about 3.4 million fall in this group. The coverage resulting from union membership dues and assessments alone may therefore be estimated at approximately 4.7 million. The number of employees relying entirely on their unions for welfare and pension benefits is considerably less, since most of the unions involved have negotiated plans with employers. Death and sickness benefits are those most frequently provided by the unions.

The second group of plans includes funds administered solely by unions and set up before the passage of the Taft-Hartley Act (and excluded from its provisions) and those that do not have an interstate aspect. It also includes a number of plans set up under arrangements whereby an insurance policy is issued to a union as policyholder; the employer pays the full premium (or his share) directly to the insurance carrier, and the union is the sole administrator of the plan.

In both groups of plans, the unions' functions are the same as those of employers in the employer-administered plans.

### Employee-Benefit Associations

Employee-benefit associations are generally found in large firms. Usually, they are limited in membership to the employees of one establishment so that several associations may be found in one multi-unit firm. They are organized by the employees, sometimes with the encouragement of the employer. The amount of employee contribution, the type and amount of benefit, and the conditions under which benefits are paid are specified in the association's bylaws.

The employer's participation is usually limited to making certain administrative facilities available, collecting dues, and sometimes auditing the books. The benefits are generally self-insured. Sickness benefits are those most frequently provided.

At one time these associations were an important factor in the employee-benefit picture, but with the development of group insurance and the advent of collective bargaining in this area they have decreased in importance. From 1947 to 1954 the membership is believed to have declined from 1,460,000 to 800,000.

Employee-benefit associations have their own constitutions and bylaws and are operated through elected boards of directors and officers, on which management is occasionally represented. Day-to-day operations are usually handled by a paid manager or secretary.

### Joint Employer-Trade Union Plans

The jointly sponsored plan may involve only a single employer and a trade union local. More often, however, it is designed to make possible economical coverage of the employees of small employers in an entire industry (for example, the United Mine Workers Welfare and Retirement Fund in the bituminous coal industry), in an industry within an area (the Hotel Trades Welfare Fund in New York City), or, less frequently, in an area in which employers in various industries bargain with the same union (the Toledo Plan). Some plans take in not only the employees of many employers but also, as in the hotel trades, the members of several local craft unions in an industry or of several locals in an international union, as in the ladies' garment industry. Though some of these plans may have replaced or, in the case of single-employer plans, modified an existing plan, most of them provide coverage in firms where none previously existed.

In such arrangements the employers enter into a collective bargaining agreement with the union under which they contribute to a fund so many cents per employee-hour worked or per unit of produc-

tion, or a specified percent of their payrolls. When the plan includes one employer only, the fund may be supervised by a committee or by a board of trustees. In multi-employer arrangements, the fund is supervised by a board of trustees. In both instances, management and the unions are equally represented, as required by the Taft-Hartley Act. The plans also provide for neutral trustees or for the appointment of neutral persons in the event of a deadlock. The trustees decide the types and amounts of benefits, the manner in which they are to be underwritten, and the selection of the underwriter. They appoint a salaried manager to handle day-to-day operations, which are no different from those of any other type of plan except that the multi-employer plans must provide machinery for collecting contributions from the participating employers and for maintaining the employee records.

### Method of Underwriting

Most death benefits and temporary disability and health benefits are underwritten by insurance carriers (table 4). The retirement benefits are often self-insured. Insurance carriers are of three types: commercial carriers, Blue Cross and Blue Shield plans, and independent plans.

### Death Benefits and Temporary Disability and Health Insurance Benefits

**Commercial insurance carriers.**—Most commercial carriers underwrite all types of cash benefits on a group basis and operate more or less nationally. A number of companies, however, write only casualty insurance.

**Blue Cross, Blue Shield, and other medical-society-sponsored plans.**<sup>4</sup>—A distinctive feature of these plans is that they generally provide service benefits rather than fixed cash benefits. Within the limits of their contracts, the Blue Cross plans provide hospital accommodations and other hospital services. The Blue Shield and other medical-society-sponsored

<sup>4</sup> See "Voluntary Health Insurance and Medical Care Costs, 1948-55," *Social Security Bulletin*, December 1956.

Table 4.—Estimated employee coverage of employee-benefit plans by type of benefit and method of underwriting, December 31, 1954

[Numbers in thousands]

Type of benefit	Employees covered by plans insured through—							
	Total		Commercial insurance <sup>1</sup>		Blue Cross or Blue Shield <sup>2</sup>		Self-insurance	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Life insurance and death benefits.....	29,476	100.0	27,476	93.2	-----	-----	<sup>3</sup> 2,000	6.8
Accidental death and dismemberment.....	13,972	100.0	13,972	100.0	-----	-----	-----	-----
Temporary disability.....	23,223	100.0	18,323	78.9	-----	-----	<sup>4</sup> 4,900	21.1
Hospitalization.....	31,267	100.0	14,281	46.7	14,681	45.7	<sup>5</sup> 2,385	7.6
Surgical.....	28,309	100.0	14,983	53.0	10,731	37.9	<sup>6</sup> 2,585	9.1
Medical.....	17,334	100.0	7,463	42.7	7,591	43.9	<sup>6</sup> 2,280	13.4
Major medical-expense.....	1,889	100.0	796	100.0	-----	-----	-----	-----
Retirement.....	<sup>5</sup> 12,500	100.0	<sup>6</sup> 3,915	31.3	-----	-----	<sup>8</sup> 8,585	68.7

<sup>1</sup> Life Insurance Association of America, *Group Insurance and Group Annuity Coverage*, 1954.

<sup>2</sup> Health Insurance Council, *Extent of Voluntary Health Insurance Coverage in the United States, 1954 survey*. Employees estimated to be 75 percent of the total number of subscribers.

<sup>3</sup> Rough estimate based on data for various trade unions, employee-benefit associations, and company-administered plans; for hospitalization, surgical, and

medical benefits, mostly independent plans and unions.

<sup>4</sup> Health Insurance Council, *Extent of Voluntary Health Insurance Coverage in the United States, 1953 survey*, p. 26.

<sup>5</sup> Estimated by the Division of the Actuary, Social Security Administration.

<sup>6</sup> Institute of Life Insurance, *Tally of Life Insurance Statistics*, May 1955.

plans provide surgeon's and physician's services. The plans pay the hospitals, surgeons, or physicians directly. Any residual costs not met by the plan are billed to the patient. Many of the Blue Shield and other medical-society-sponsored plans have agreements with "participating" physicians, under which the physicians accept from the plan stated amounts (on a "schedule of fees") as full payment for their services when the subscriber's annual income does not exceed certain limits—for example, \$2,400 for a single person and \$4,000 if he has a family.

The plans generally operate in the local community. The Blue Cross plans are affiliated with the Blue Cross Commission of the American Hospital Association, the Blue Shield plans with the Blue Shield Medical Care Plans. The two types are closely coordinated, and the Blue Cross plans commonly handle the enrollment and other business procedures for the Blue Shield plans.

**Independent plans.**—This category includes facilities providing various kinds of medical services. Some of the plans are sponsored by the consumers of medical care (for example, Group Health Association, in Washington, D. C., and the Group Health Cooperative of Puget Sound); some by physicians engaged in the group

practice of medicine (Ross-Loos Medical Group, of California, and the Kaiser Foundation Health Plan on the Pacific Coast); others by unaffiliated organizations serving whole communities, as do the Blue Cross or Blue Shield plans (Health Insurance Plan of Greater New York and the Inter-County Hospitalization Plan, of Pennsylvania); and still others by trade unions (Labor Health Institute, of St. Louis, Missouri, and the various International Ladies' Garment Workers' Union (ILGWU) health centers).

**Claims handling by insurance carriers.**—Insurance carriers are the mediums through which benefits are provided under insured plans. The sponsors of the plans pay the premiums or subscription dues to these carriers. They receive a master policy, and the employees are given certificates of insurance.

For cash benefits, the person presents his claim to the insurance organization either directly or through the employer's personnel office, the employee-benefit association, or the local union office. In multi-employer plans it may be placed through the administrative office of the trust fund. The insurance carrier, after proper verification of the claim, pays the benefit. When hospitalization, surgical, or other medical benefit is involved, the beneficiary may assign

his claim to the hospital or physician, who is paid directly by the insurance carrier. When Blue Cross and Blue Shield plans or similar plans providing service benefits are used, the insuring organization issues an identification card to the employee, who presents it to the hospital or physician rendering the service.

Commercial insurance carriers often enter into arrangements with the policyholder—the employer, employee benefit association, trade union, or welfare fund administrator—who thereby assumes most or all of the administrative functions. The policyholder then maintains the records of the employees covered, reporting to the insurance company only the changes that occur in the group. He often handles all matters relating to claims, including the establishment of their validity, and may even be authorized by the carriers to draw drafts on them in payment of such claims.

**Self-insurance.**—As can be seen from table 4, many covered workers are in self-insured plans. The benefit plans of the American Telephone and Telegraph Company and of the United Mine Workers Welfare and Retirement Fund, for example, are self-insured. Another outstanding self-insured plan is that of the Consolidated Edison Company of New York City, whose employee-benefit association has made direct arrangements—similar to those used by the Blue Cross and Blue Shield organizations—for hospitalization and medical services with certain hospitals and physicians in New York City. The benefits available to the members of the ILGWU by collective bargaining with employers constitute another example of self-insurance.

In self-insured plans the sponsors, with the trustees, perform the functions of the insurance carriers. They may provide the benefits out of current income or out of funds accumulated through systematic payments in amounts designed to make the money available when necessary.

### Retirement Benefits

Although most pension plans are underwritten by commercial carriers, most employees covered under pen-

**Table 5.—Method of financing private employee-benefit plans covering hourly workers, in 438 firms, by type of benefit, 1954**

Type of benefit	Percent of firms with cost paid by—			
	Em- ployer only	Em- ployer and em- ployee	Em- ployee only	Un- known
Life insurance and death benefits:				
Employees.....	41.8	54.8	2.3	1.1
Dependents.....	27.8	61.1	5.6	5.5
Accidental death and dismemberment.....	43.1	52.0	3.0	1.9
Temporary disability.....	39.4	53.1	6.2	1.3
Hospitalization:				
Employees.....	35.3	45.2	18.3	1.2
Dependents.....	15.2	44.2	37.7	2.9
Surgical:				
Employees.....	36.2	47.3	15.5	1.0
Dependents.....	16.0	45.4	36.9	1.7
In-hospital medical care:				
Employees.....	36.8	48.4	12.6	2.2
Dependents.....	16.7	50.0	30.0	3.3
Retirement.....	65.2	34.8		

Source: National Industrial Conference Board, "Personnel Practices in Factory and Office" (5th edition), *Studies in Personnel Policy*, No. 145, 1954.

sion plans are in self-insured programs (table 4). In 1955 there were 18,980 insured pension plans covering an average of 219 employees per plan. Most of these plans (12,530) covered, on the average, only 38 employees.<sup>5</sup> They were funded through individual policies because small groups do not lend themselves to self-insurance or to group annuity underwriting.

Under an insured pension plan the sponsor makes specified payments to an insurance company at stipulated times. The insurance company invests the money and guarantees that the reserves thus accumulated will be sufficient to provide the contemplated benefits.<sup>6</sup> Moreover, it assumes the responsibility for paying out the benefits in accordance with the provisions of the plan.

Under most self-insured plans the

<sup>5</sup> *Life Insurance Fact Book*, 1955, page 33.

<sup>6</sup> Under "deposit administration" plans this guarantee does not operate until the employee retires. The sponsor's payments are held on deposit in an undivided account, and when an employee retires the company withdraws an amount sufficient to purchase (at the then guaranteed rates) the retirement income to which he is entitled.

sponsors make periodic payments into a trust fund. The funds are generally held by banks and trust companies, whose functions are to hold, invest, and pay benefits in accordance with the terms of a trust agreement and the plan's provisions. These trustees assume no underwriting functions. It is the sponsor's responsibility to accumulate sufficient funds to meet the obligations of the plan. Usually, he employs a consulting actuary to design the plan, make a "valuation" of its cost, and calculate the amount of the periodic payments necessary to assure the adequacy of the fund accumulated. Once a plan is in operation, the actuary makes periodic valuations that take actual experience into account.

If the payments into the fund are sufficient to cover the cost of pensions "currently" earned by the employees, plus an amount to amortize the "past service" liability within a period of time, the plan is said to be fully funded. If they are insufficient, it is partially funded. In the few plans that are wholly unfunded—"pay as you go" plans—benefits are paid out of current income.

### Method of Financing

Most employees covered by retirement plans are in noncontributory plans—that is, plans financed entirely by the employers. Plans providing other types of benefit tend to be contributory—financed jointly by employers and employees, often on a 50-50 basis. This type of financing is especially common in the plans in certain mass-production industries (the automobile and steel industries, for example) that provide both retirement and other benefits. In these industries, if retirement benefits are not provided, the other benefits are frequently noncontributory. There are, of course, variations. Employees often bear the greater part of the cost of dependent's benefits, sometimes the entire cost. In many plans the employees bear the full cost of health insurance coverage for themselves and their dependents (table 5). Contributory plans are found more frequently among those that cover salaried employees than among those covering hourly workers only.

**Table 6.—Estimated employer and employee contributions under private employee-benefit plans, by type of benefit, 1954**

Type of benefit	Amount (millions)	Percent contributed by—	
		Em- ployer	Em- ployee
Total.....	\$6,846.2	66.3	33.7
Life insurance and death benefits.....	882.1	59.6	40.4
Accidental death and dismemberment.....	33.5	60.0	40.0
Temporary disability benefits and sick leave.....	684.6	67.9	32.1
Health insurance and services.....	1,953.0	33.9	66.1
Retirement.....	3,293.0	87.0	13.0

Source: S. Rept. 1734, p. 84.

In insured plans the underwriting practices of the insurance carriers and the regulations of the State insurance departments influence the proportion of the cost that is borne by the employer. Insurance companies believe that if the employer is not sufficiently interested to assume part of the cost the policy will ultimately prove unsatisfactory to them. Moreover, they do not look favorably upon contributory plans that cover a small number of employees, except in pension plans that combine life insurance with an annuity. For group term life insurance the maximum employee contribution in a standard group is 60 cents a month per \$1,000 of insurance. For other types of insurance, the companies expect the employers to bear at least 25 percent of the overall cost. In practice, the employee contributes a specified amount and the employer pays the balance of the cost. In 1954, employers bore two-thirds of the total cost of the benefits provided (table 6).

### Types and Amounts of Benefits

Employee benefit programs result in a wide range of benefits. A recent study by the National Industrial Conference Board lists 14 different types of benefits. In addition to those shown in table 2, the list includes polio-expense insurance, supplementation of workmen's compensation, subsidized savings, and profit sharing and other types that are normally included among medical benefits and

retirement plans. Severance pay and supplementation of unemployment benefits should also be mentioned. A brief description of the more common types follows.

### Life Insurance and Death Benefits

Life insurance is the most frequently provided benefit that is financed in whole or in part by employer contributions. Generally, it is in the form of group, 1-year renewable, term life insurance. It has neither cash nor loan value, nor has it extended or paid-up value. Employees who terminate their employment therefore lose their insurance. The insurance remains in force, however, for 31 days, during which time the employee may convert it to any form of permanent life insurance at premium rates applying to his attained age and the plan of insurance selected. Usually the plan provides for a waiver of premium in the event of permanent and total disability occurring before age 60. For groups that are particularly good risks, a few insurance companies provide for the payment of the face value of the policy to the insured, either in a lump sum or in installments in the event of disability.

The minimum amount issued on an individual life is \$500. The maximum under most State laws is \$20,000, or it is 150 percent of the employee's annual compensation but not more than \$40,000. Some plans provide a flat amount to all employees, and some provide specified sums to certain classes of employees, but generally the amount is related to the employee's annual compensation. The current trend is to provide an amount equal to one or one and one-half times the employee's annual earnings. At the end of 1955, however, the average amount of group term life insurance was almost \$3,300 per covered employee. The coverage of the employee's dependents is a relatively new development. At the end of 1955 the average amount of group term life insurance per covered dependent was \$550.

When permanent protection is desired, group paid-up or group permanent life insurance may be used.

Both have a cash value in addition to paid-up value and are more expensive than term insurance. Group paid-up life insurance is issued in connection with term life insurance. At the outset a specified amount of insurance is issued for each employee. Each year a unit of paid-up insurance is purchased. The amount of term insurance is then reduced by the amount of paid-up insurance purchased so that the total amount of insurance remains the same. In contributory plans the employee's contribution is used to purchase the paid-up insurance, the employer's to purchase the term insurance. Group permanent life insurance is primarily a retirement program. The face value of the insurance is paid to the beneficiary if the employee dies before retirement. Should he live to retirement age, the cash value of the insurance is used to provide a retirement income.

### Accidental Death and Dismemberment

Accidental death and dismemberment insurance, often referred to as "double indemnity" insurance, is generally issued with group life insurance. It provides benefits in the event of death or dismemberment due to bodily injury caused by external violent and accidental means.

The amount, expressed as a "principal sum," is usually the same as for the group life insurance but seldom exceeds \$10,000. The full amount is paid in the event of death, the loss of the sight of both eyes, or the loss of two members of the body. One-half the amount is paid for the loss of the sight of one eye or the loss of one member. The insurance now generally covers death or dismemberment resulting from both occupational and nonoccupational injuries.

### Temporary Disability Provisions

Temporary disability insurance usually takes the form of paid sick leave or sickness and accident insurance.

*Paid sick leave.*—Formal paid sick-leave programs simply provide that, in the event of sickness, the employee's wages or salary will be con-

tinued, usually in full, for a specified period. Although many collective-bargaining agreements now include paid sick-leave clauses, they still affect relatively more office employees than hourly workers.<sup>7</sup>

In general, these programs require a minimum period of service—often 6 months or more—before the employee can qualify for paid sick leave. This period tends to be longer for hourly workers than for office employees. Benefits are usually payable without a waiting period and continue for 1, 2, or 3 weeks and sometimes longer, depending on the employee's length of service and whether he is an office employee or an hourly worker. Unused sick leave is sometimes accumulated. Unions have negotiated many contracts that require the employer to make cash payments to the worker representing the value of unused sick leave at the end of the year.<sup>8</sup>

Many firms have a sick-leave plan integrated with temporary disability insurance; the leave covers the periods before and after the insurance benefits are payable. In a few plans both benefits and leave are effective concurrently and in full for the specified duration. In others the joint benefits cannot exceed full pay. Paid sick leave is often integrated with workmen's compensation in the same manner.<sup>9</sup>

**Sickness and accident insurance.**—Sickness and accident insurance follows a definite pattern. Benefits are payable after a waiting period that may be as long as 14 days, although there is usually no waiting period in the case of an accident and one of more than 7 days is rarely found. Benefits are customarily payable for 13 or 26 weeks—seldom for more than 52 weeks. A combination frequently found provides for benefits beginning immediately in case of accident, after 7 days in case of illness,

and payable for as long as 26 weeks. The amount of benefit tends to approximate 50 percent of the employee's weekly wage but may be as high as 66½ percent and occasionally higher. The minimum weekly benefit is seldom less than \$10 and the maximum seldom greater than \$60. The average weekly benefit paid in 1955 was \$32.

The standard policies do not cover disabilities compensable under workmen's compensation laws. They require that a physician be in attendance. When maternity cases are covered, the benefit is generally limited to 6 weeks.

The laws of California, New Jersey, New York, and Rhode Island provide for compulsory nonoccupational disability benefits.<sup>10</sup> In California and New Jersey, employers insure with the State fund unless the agency has approved a private plan (insured or self-insured). In New York, employers must arrange for benefit payments by purchasing a policy from an insurance company, from the State fund, or through self-insurance. Rhode Island employers must insure with the State fund, and benefits may be supplemented through private arrangements. The basic provisions of these laws are shown below.

Provision	California	New Jersey	New York	Rhode Island
Waiting period (number of days)-----	7	7	7	1 week
Benefit duration (number of weeks)-----	26	26	20	26
Weekly benefit amount-----	\$10-40	\$10-35	\$10-40	\$10-30
Contributions (percent):				
Employee <sup>2</sup> -----	1.0	0.5	0.5	1.0
Employer <sup>2</sup> -----		0.25	(4)	

<sup>1</sup> Plus \$10 a day for hospitalization; maximum \$120.

<sup>2</sup> On first \$3,000 of annual wage except in Rhode Island, where it is \$3,600.

<sup>3</sup> Subject to experience rating; average effective rate in 1954, 0.19 percent.

<sup>4</sup> Remainder of cost.

In 1955, 47 percent of the employees covered in California, 62 percent

<sup>10</sup> See Alfred M. Skolnik, "Temporary Disability Insurance Laws in the United States," *Social Security Bulletin*, October 1952; and Margaret Dahm, *Experience and Problems under Temporary Disability Insurance Laws*, Department of Labor, Bureau of Employment Security, October 1955.

of those in New Jersey, and 97 percent of those in New York were covered under private plans.<sup>11</sup> The average weekly benefit in 1955 under the private plans was \$36.00 in California and \$36.43 in New York.

## Health Insurance

**Hospital expense insurance.**—The service benefit plans, such as Blue Cross, generally provide semiprivate accommodations. Cash benefit plans pay maximum daily benefits of \$5-\$15 toward the cost of room and board. Provisions for reimbursement of \$10 or more a day are frequent.<sup>12</sup>

Service benefit plans provide full benefits for 21-120 days and sometimes partial (usually half) benefits for an additional 20-120 days or more. Full service benefits for 30 days followed by 90 days of partial benefits are most frequently found, and 70 days of full benefits rank next. Cash benefit plans seldom provide more than 70 days of benefit.

In addition to room and board accommodations, the plans provide for ancillary benefits, such as the use of operating rooms and anaesthesia, basal metabolism tests, oxygen, and drugs. The service benefit plans tend to provide the actual services. The cash benefit plans provide allowances toward these expenses in amounts usually related to the daily benefit allowances—5, 10, 15, or 20 times the allowance and sometimes more. Ten or 15 times the daily allowance is common. Maternity cases are usually covered, but room and board accommodations are generally limited to 10 days, 14 days, or a maximum dollar amount.

The current trend in hospital expense insurance is to extend this coverage to the employee's dependents. Sometimes the benefits provided them are less than those for the employees.

**Surgical and other medical expense insurance.**—This kind of insurance is available from the same types of organizations that offer hospital expense insurance.

<sup>11</sup> See *Annual Statistical Supplement, 1955* (*Social Security Bulletin*), page 13.

<sup>12</sup> State of New York, Department of Labor, *Health and Welfare Benefits in New York State*, December 1955, page 53.

<sup>7</sup> Bureau of Labor Statistics, *Occupational Wage Survey, 1955-1956* (Bulletin No. 1181), 1956.

<sup>8</sup> *American Federation of Labor Research Report*, Vol. 8, No. 10, December 1954, page 2.

<sup>9</sup> "Paid Sick Leave and Group Insurance," *Management Record*, National Industrial Conference Board, February 1955, page 54.

The "service" characteristics of the Blue Shield plans are less distinct than those of the Blue Cross plans. First, nearly a third of the plans provide cash benefits only. Second, the service feature is nearly always limited to the surgical expense insurance, and other medical expense insurance takes the form of cash benefits. Third, even for surgical benefits, the service feature applies only to those employees whose income is less than a specified amount. For a single employee the income limits range from \$1,800 to \$5,000; the amounts most often specified are \$2,400 and \$3,000, with few plans having a limit above \$3,600. For family coverage, the range is from \$2,600 to \$6,000, with limits of \$3,600, \$4,000, and \$5,000 most frequent. Few plans specify a limit above \$5,000.

The surgical fees shown on the schedule fall in a wide range. The lowest fees are from \$1 to \$10, although \$5 is provided by most plans. The maximum allowed for any one procedure ranges from \$150 to \$450. In more than half the plans the maximum is \$200, \$225, or \$250; only 10 percent have fees of more than \$300.

Most Blue Shield plans provide for payment toward the physician's fees in nonsurgical cases, usually only when the patient is hospitalized. The amounts range from \$2 to \$5 per day (per visit in some plans); \$3 is common. Few plans pay an allowance for the first 2 or 3 days. The benefit is payable for as few as 13 days in some plans and as many as 180 in others but usually for the same number of days that the affiliated Blue Cross plan allows for hospital room and board; hence, 30 days is not infrequent. If more than one visit a day is allowed, a maximum limit (often \$150) for the period is usually specified. When provided, the allowance for physician's services at his office is sometimes smaller than for hospital visits; the allowance for home visits is usually larger.

The pattern of surgical and other medical insurance provided by commercial insurance carriers is similar to that in the Blue Shield plans. The basic differences, as already indicated, are that the former provide cash benefits only and pay the insured

person rather than the physician providing the service. The surgeon is not bound to accept any amount shown on the schedule of surgical fees as full payment of his charges, regardless of the employee's income.<sup>13</sup> The schedules vary not only in the maximum amount payable but also in the amounts payable for a given procedure in different schedules with the same maximum benefit amount. A typical schedule with a maximum benefit of \$200 provides \$100 for an appendectomy, \$30 for a tonsillectomy, and \$200 for removal of a kidney. The amounts payable for these operations in schedules with higher or smaller maximums are usually in proportion. Schedules with fees of \$250 or \$300 are found with increasing frequency, with even higher schedules (up to \$500) being adopted in high medical cost areas—especially on the West Coast.

For other types of medical care, the insurance company policies usually pay benefits beginning with the physician's first visit at the hospital. For physician's services at his office or at the patient's home the policy may exclude the first, second, or third visit in sickness cases or in both accident and sickness cases. The benefit amount ranges from \$2 to \$9 but seldom exceeds \$3 for visits to the physician's office and \$5 for home or hospital visits. Maximum amounts of \$150 or \$250 are usually set.

*Major medical expense insurance.*<sup>14</sup>—This is the newest type of group health insurance. It is intended to help meet the cost of serious illnesses or accidents—that is, situations in which the basic insurance falls short of adequate protection. The employee's dependents may also be covered. The maximum amount payable may be \$2,500, \$5,000, \$7,500 (commonly), or \$10,000. A common form has a "corridor" that excludes the first \$100-\$500 of expenses in

<sup>13</sup> In Georgia, Maine, Rhode Island, Tennessee, and Wisconsin, however, the State medical societies have established schedules of fees applicable to certain income groups.

<sup>14</sup> For a detailed description see Donald I. Cody, "Major Medical Coverage," *Best's Insurance News, Life Edition*, August 1956, page 69.

excess of those covered by the basic plan. In addition, under the coinsurance feature the insurance company pays 75-80 percent of the expenses above the corridor and the employee pays the remainder. A comprehensive form includes both the basic and the major medical protection in the same package. There are many variations of these benefit provisions.

### *Group Insurance for Retired Employees*

When an employee retires, if special arrangements have not been made in advance, he loses his group insurance unless he converts it to an individual policy at higher rates that he must pay entirely by himself. For health insurance, except in Blue Cross and Blue Shield plans, this arrangement is often not possible. A conversion privilege of any kind under a group hospital and surgical policy issued by a commercial insurance carrier is a recent development. Employers and trade unions have recognized this problem, and there is a distinct trend toward making advance arrangements for the continuance of insurance protection after retirement. A major difficulty, of course, is the somewhat higher cost of insuring older persons than younger ones.

Although statistics on the subject are still rather fragmentary, two recent studies throw some light on the continuation of insurance after retirement. A Bureau of Labor Statistics study<sup>15</sup> was based on 300 employee-benefit plans (covering 5 million workers) under collective bargaining. It shows that half the plans (with 71 percent of the covered employees) that provide life insurance continued this benefit to retired employees, generally in reduced amounts. One-fifth of the plans (with 35 percent of the covered employees) providing health benefits had similar provisions, but the level of benefits was less often reduced (40 percent of the plans for hospitalization and one-third for

<sup>15</sup> *Older Workers Under Collective Bargaining: Part II, Health and Insurance Plans, Pension Plans* (Bureau of Labor Statistics Bulletin No. 1199-2), October 1956, pages 3-13.



**Table 7.—Illustrative monthly benefits payable to hourly workers under selected private retirement plans**

[Benefit amounts reflect effect of eligibility requirements where applicable]

Plan <sup>1</sup>	Benefit at age 65 after 30 years of continuous service assuming level monthly wage of—					
	\$300, with benefit from—		\$350, with benefit from—		\$400, with benefit from—	
	Plan only	Plan and OASI <sup>2</sup>	Plan only	Plan and OASI <sup>2</sup>	Plan only	Plan and OASI <sup>2</sup>
United States Steel Corporation <sup>3</sup> .....	\$55.00	\$153.50	\$55.00	\$163.50	\$55.00	\$163.50
Ford Motor Company.....	67.50	166.00	67.50	176.00	67.50	176.50
Goodyear Tire and Rubber Company.....	54.00	152.50	54.00	162.50	65.75	174.25
United Mine Workers <sup>4</sup> Welfare and Retirement Fund.....	100.00	198.50	100.00	208.50	100.00	208.50
Amalgamated Clothing Workers <sup>5</sup> .....	50.00	148.50	50.00	158.50	50.00	158.50
International Ladies' Garment Workers <sup>6</sup> .....	65.00	163.50	65.00	173.50	65.00	173.50
Westinghouse Electric Company.....	67.50	166.00	67.50	176.00	67.50	176.00
Aluminum Company of America.....	55.00	153.50	55.00	163.50	65.00	173.50
du Pont (E.I.) de Nemours & Company.....	105.00	203.50	116.00	224.50	132.00	240.50
Consolidated Edison Company of New York.....	113.00	211.50	146.00	254.50	179.00	287.50
General Electric Company <sup>7</sup> .....	72.00	170.50	84.00	192.50	114.00	222.50
Cities Service Company <sup>8</sup> .....	82.50	181.50	96.25	204.75	110.00	218.50
Johnson and Johnson <sup>9</sup> .....	75.60	174.10	94.50	203.00	121.50	230.00

<sup>1</sup> All plans are noncontributory unless otherwise noted.

<sup>2</sup> Old-age benefit only.

<sup>3</sup> Beginning Nov. 1, 1957, minimum will be \$2.40 a month per year of service (up to 30) before Nov. 1, 1957, and to \$2.50 a month per year of service (up to 30) from that date, without old-age and survivors insurance offset.

<sup>4</sup> Bituminous-coal industry. Normal retirement at age 60 with full plan benefits as shown.

<sup>5</sup> Men's clothing industry.

<sup>6</sup> Cloak and Suit Joint Board, New York City.

<sup>7</sup> Contributory. Beginning Oct. 1, 1958, contributions on first \$4,200 of wages or salary will be waived.

<sup>8</sup> Contributory.

surgical and other medical care).

Employers paid the full cost of life insurance for retired employees in two-thirds of the plans (with three-fourths of the covered employees) and shared the cost with active employees in 11 percent of the plans (with 16 percent of the covered employees). They shared the cost with retired employees in 11 percent of the plans, and the retired employee paid the full cost in the remainder. Fewer employers (two-fifths of the plans, covering two-fifths of the employees) paid the entire cost of health insurance for retired employees. Retired employees paid the full cost in about one-third of the plans (with half the employees) and shared the cost with employers in practically all the remaining plans. About 90 percent of the plans that continue health benefits for retired employees do so for their dependents as well, but the full cost is met by employers less often.

An earlier study, made by the National Industrial Conference Board,<sup>16</sup> was based on the employee-benefit plans of 327 firms. Though the prac-

tice of continuing benefits after retirement was more common among these firms than among those studied by the Bureau of Labor Statistics, both studies showed that for life insurance, more often than for other types of insurance, (1) protection was continued after retirement, (2) benefits were reduced, and (3) the full cost was paid by the employer. The full cost of health insurance was more often paid by employers when the plans were underwritten by insurance companies, and by employees when protection was provided by Blue Cross or Blue Shield plans.

### Retirement Benefits

A detailed analysis of the provisions of retirement plans is beyond the scope of this article.<sup>17</sup> All that

<sup>17</sup> Profit-sharing retirement plans are not included in this analysis. Though such plans have many of the features discussed here, they have others that are peculiar to them. The plans are financed, in whole or in part, from the employers' profits, with shares apportioned to the participants in a manner that takes their compensation and length of service (or participation) into account. Benefits at retirement are the result of the accumulations of the apportionments, the participating employee's contributions (if any), and the earnings thereon.

can be attempted here is a summary of the most important provisions that are found in such plans. For convenience, it is helpful to group them in two broad categories: pattern plans and conventional plans.<sup>18</sup>

The pattern plans are those that have been adopted by certain international trade unions and that have been negotiated, with minor exceptions, with individual employers or groups of employers. Except in the steel and rubber industries the benefit provided is a flat amount, which may vary with the employee's length of service but not with his rate of compensation. The plans are usually noncontributory and have other common characteristics.

Conventional plans include all other plans and generally provide benefits that vary with both the employee's length of service and his rate of compensation. Probably half these plans are contributory. The larger plans tend, however, to be noncontributory, and they include considerably more than half the employees covered in conventional plans. Practically all plans adopted by employers before 1950 were of the conventional type.

*Coverage.*—In the early 1940's some employers limited their formal pension plans to salaried employees only or to all employees earning more than \$3,000 annually. The trend now, however, is clearly in the direction of covering all employees. There may be a single plan for all employees, a pattern plan for employees in collective-bargaining units and a conventional plan for the others, or separate conventional plans for different groups of employees.

*Requirements for participation.*—To participate in a plan, employees may be required to have reached a certain age, served a stated period, or both. Few pattern plans have age requirements for participation. They

<sup>18</sup> For a detailed analysis of 240 plans of both types see Bankers Trust Company of New York. *A Study of Industrial Retirement Plans*, 1956 edition. For an analysis of recent trends in group annuity plans, see Weltha Van Eenam and Martha E. Penman, *Analysis of 157 Group Annuity Plans Amended in 1950-54*, Social Security Administration, Division of the Actuary (Actuarial Study No. 44), July 1956.

<sup>16</sup> "Insurance for Retired Employees," *Management Record* (National Industrial Conference Board), March 1955, pages 104-107.

specify instead a service requirement for benefits, usually 10 or 15 years and sometimes 20, but the trend is toward shortening the period required. Although many conventional plans have both age and service requirements for participation, the proportion without them is increasing. Service requirements are usual and range from less than 1 year to 5 years. Most of the plans have no age requirement, but, in those that do, age 25 or age 30 is a frequent stipulation; the trend is in the direction of liberalizing these requirements.

*Retirement age.*—The normal retirement age—that is, the earliest age at which an employee may retire with “full” benefits—is almost universally 65 for men. In pattern plans, 65 is nearly always the age for women also. In conventional plans—although in a declining number—the age for women is sometimes 60 or even 55. It appears that this practice is on the decline. A few plans have a normal retirement age as high as 70; some others provide for retirement at age 60.

The normal retirement age, however, is not always the age at which the employee must retire. In most plans, retirement may be deferred beyond normal retirement age, either at the employee's option or at that of his employer, sometimes indefinitely or to a specified age. The Bankers Trust Company found that 65 was the automatic retirement age, as well as the normal one, in 27 percent of the pattern plans and in 74 percent of the conventional plans it studied. Even when an automatic retirement age is specified, retirement may be postponed with the consent of the employer. No automatic retirement age was specified in one-third of the pattern plans studied and in only 6 percent of the conventional plans. In the other plans, retirement was automatic for men at ages ranging from 66 to 70. Although in most plans no increase in the benefit results from postponed retirement and the pension usually begins at actual retirement, provisions in recently revised and new plans indicate a tendency to increase benefits.

Retirement before attainment of normal retirement age is generally

permitted—less often in pattern plans than in conventional plans. Specific provisions for early retirement because of disability, however, are more common in the former than in the latter. Although the trend in pension planning is to include disability retirement provisions, they are seldom found in insured plans. Many plans do not pay disability benefits unless the employee has reached a specified age (for example, 50) and served a stated period—say 15 years—but the tendency is to impose a service requirement only. Early retirement (without disability) is somewhat more frequently contingent on the employer's consent than simply on the election of the employee. The attainment of a certain age, usually 60 in pattern plans and 55 in conventional plans, is almost always required. This stipulation is often accompanied by a service requirement of 5-30 years but most commonly 10-15 years. The benefit, of course, is reduced actuarially or on the basis of a formula that more or less compensates for the increased cost of early retirement.

*Benefit formulas.*—The amount of the retirement benefit is generally based on the employee's period of service, his rate of compensation, or both. The benefit formulas vary greatly. Some are expressed in terms of a flat amount (often \$2.25 monthly) for each year of service, based on the employee's entire service or a specified maximum number of years—say, 30. Others are expressed as a proportion of the compensation earned while in the plan or in the employer's service—for example, 1 percent of each year's compensation. Sometimes, and the use of this method seems to be growing, the percentage is applied to the average compensation in the last 5 or 10 years of the employee's service, and the result is multiplied by the number of years of creditable service. This percentage may be smaller for past service (service before the plan's inception) and may apply to the rate of compensation on a fixed date (before the inauguration of the employee-benefit plan).

Many plans apply a smaller percentage, often 1 percent, to the first

\$3,000, \$3,600, or \$4,200<sup>19</sup> of annual compensation and a larger percentage, which may be 2 percent, to the remainder. In some of the plans that do not differentiate between earnings above and those below the wage amounts covered by the Federal old-age and survivors insurance program, the amount of the old-age benefit under that program (sometimes only half of it) is deducted from the plan's benefit. The trend, however, is toward the elimination of such deductions. A few plans provide for a flat benefit, such as \$125, that includes the old-age benefit after a specified period of credited service (25 or 30 years), reduced proportionately for less service.

There are many other types of benefit provisions. One airline company plan, for example, adjusts the benefit resulting from the formula to changes in the Bureau of Labor Statistics consumer price index after April 1, 1954. A recent development, called “split funding,” results in a benefit based in part on a conventional benefit formula and in part on the results of the plan's investment policy, which permits the inclusion of common stock in its portfolio. For salaried employees many firms combine a pattern-plan formula with a conventional-plan formula.

In recent years there has been a trend toward minimum benefit provisions.<sup>20</sup> In pattern plans in the steel industry, for example, the minimum (after 30 years of service) is \$140 a month less \$85—an amount equal to the maximum old-age and survivors insurance benefit payable before the 1954 amendments.<sup>21</sup> In the pattern plans in the rubber industry the minimum is \$54 (after 30 years' service)

<sup>19</sup> These amounts correspond to the maximum taxable wage base under old-age and survivors insurance in the original Social Security Act and successive amendments.

<sup>20</sup> Dan M. McGill, *Fundamentals of Private Pensions*, Pension Research Council, 1955, page 41. See also Weltha Van Eenam and Martha E. Penman, *op. cit.*, pages 2, 26.

<sup>21</sup> On November 1, 1957, the minimum will be changed to \$2.40 a month per year of service before November 1, 1957, and to \$2.50 a month per year of service from that date. The benefit is subject to the 30-year maximum provision but not to the old-age and survivors insurance offset.

independent of the old-age and survivors insurance benefit. In plans where the minimum is subject to an offset for the old-age and survivors insurance benefit, the minimums range from \$100 to \$200 per month. In others the minimum may be as low as \$15 a month or as high as \$100. The flat benefit plans, of course, have "built-in" minimum provisions. Increasingly the minimums are being liberalized and made independent of old-age and survivors insurance benefits.

Ceilings on the amount of benefits may be imposed by limiting the amount of earnings or length of service on which benefits are based or by adopting a maximum benefit provision. In general the trend is toward eliminating or raising maximum benefits.

The formulas for disability retirement benefits are just as varied as those for age retirement benefits and like them are becoming more liberal. In a New York State study of pension funds held by State and national banks in the State, 15 distinct types are listed. A large number of plans provide a benefit that is the actuarial equivalent of accrued credits or of the normal retirement benefit. Many plans provide flat monthly benefits (ranging from \$20 to \$65); others pay stated amounts (\$1.50-\$3.00) for each year of service subject to minimums (\$22.50-\$50.00) and maximums (\$45.00-\$90.00). A few pay 25 percent of the final average salary. In the automobile industry, the monthly benefit is usually \$4.50 for each year of credited service, less the amount of the old-age and survivors insurance benefit. In money-purchase plans the balance in the employee's reserve account is often paid. The benefits are payable for the duration of the disability in some plans; in other plans until normal retirement age, when the full retirement benefit begins. Some are subject to deductions for other disability and/or old-age and survivors insurance benefits.

*Amount of benefit.*—Table 7 shows the results of the benefit formulas and eligibility provisions of 13 well-known pension plans as they apply to production workers with 30 years of

continuous service and level monthly wages of \$300, \$350, and \$400. In the first eight plans, the formulas give little or no weight to the different wage levels.

In the conventional plans analyzed by the Bankers Trust Company, the range in the median benefits (exclusive of old-age and survivors insurance benefits) was 26-30 percent of average compensation for employees averaging \$4,200 annually; 36-40 percent for those averaging \$7,200; and 41-45 percent for those averaging \$20,000. When the old-age and survivors insurance benefit is included, however, the medians ranged from 57 percent to 61 percent, 52 percent to 56 percent, and 47 percent to 51 percent, respectively.

*Vesting.*—When an employee terminates his employment before retirement (normal or early) without forfeiting the accrued pension resulting from his employer's contributions, he is said to have acquired a "vested" right. In multi-employer plans the question of vesting does not arise so long as an individual is employed by a participating employer. In contributory plans an employee is always entitled, on termination of employment, to a refund of his accumulated contributions—with interest in some plans. Payment of the benefit is deferred to normal retirement age or, in many plans, to optional earlier retirement age. Vesting provisions are now fairly common and are part of most conventional plans and many pattern plans. Insured plans practically always include them. Vesting is usually conditioned upon the completion of a stated period of service or participation (5-20 years), the attainment of a specified age (40-60), or both. Vesting is "full" in some plans, and in others, for employees who meet the minimum requirement, it may be "graded"—that is, "partial" but gradually becoming "full" when the employee meets all the requirements.

*Death and termination benefits.*—Benefits payable in the event of death before retirement are not usually an integral part of a retirement plan. Most employers providing employee benefits make separate provision through group life insur-

ance or some other form of death benefit. Noncontributory retirement plans seldom provide for death benefits. In contributory plans, the employee's accumulated contributions (with or without interest) are always paid to his beneficiary, and certain types of insured plans automatically provide death benefits.

Benefits in the event of death after retirement, provided under a retirement plan, generally depend on the type of annuity provided. Some types guarantee benefits for a specific period—say 10 years. If the annuitant dies within the 10 years the benefits are continued to his beneficiary until the guarantee has been fulfilled. Such annuities are more costly than those that terminate with the annuitant's death. In contributory plans the difference between the employee's contributions (with or without interest) and the benefits he received is paid to his survivor. Many plans give the employee the option of taking an annuity smaller than that resulting from the benefit formula, but one that would be continued (in whole or in part) to his survivor.

Cash termination benefits are seldom provided, except for the refund of employee contributions. A few plans, however, provide benefits that constitute a form of severance pay and that are based on the employee's length of service and his rate of compensation.

*Employee contribution.*—As already mentioned, few pattern plans require employee contributions. Even in conventional plans, the trend is away from this requirement. Moreover, in contributory plans, the trend is away from employee contributions on the first \$3,000, \$3,600, or \$4,200 of employee compensation. The Bankers Trust Company study, for example, shows that, though 55 percent of the conventional plans studied were contributory, more than 35 percent of the contributory plans did not require employee contributions on various portions (the first \$3,000-\$4,800) of earnings.

Employee contributions amounted to 1-4 percent on the first \$3,000, \$3,600, or \$4,200 of earnings and to 2-6 percent on the remainder. In most contributory plans, this rate is be-

tween two and three times the future service benefit rate. A plan that requires, for example, employee contributions of 2½ percent of the first \$4,200 of annual compensation plus 5 percent of the remainder might provide future service benefits of 1 percent of the first \$4,200 of each year's compensation plus 2 percent of the remainder.

### **Supplementary Unemployment Benefits**

The plans negotiated in the automobile industry in May 1955 illustrate the approach to supplementation of State unemployment insurance by large employers in mass-production industries. The Ford and General Motors plans supplement the State benefits by an amount that will provide a combined benefit, for the first 4 weeks of unemployment, of 65 percent of straight pay after taxes and of 60 percent for as long as 22 weeks thereafter. The laid-off employee must have at least 1 year's seniority and must register with the State employment office. There is a 1-week waiting period. The weekly minimum benefit is \$2, and the maximum is \$25. During the first 2 years of the plan an employee earns 1 week of benefit for each 4 weeks worked. Thereafter the ratio becomes 1 to 2. The duration of benefits, actually, depends on the status of the trust fund created to finance the benefits. If it should fall below 85 percent of the "base" the number of weeks of benefits is reduced in accordance with a schedule taking both the position of the fund and the employee's seniority into account. If, for example, the fund position is 40-49 percent of the "base," an employee with less than 5 years' seniority would qualify for half the benefit weeks earned, but one with more than 25 years' seniority would qualify for all of them. If the fund falls below 13 percent of the base, the benefit amount is reduced 20 percent. The plan is financed by employer contributions, 5 cents for each hour worked.

The plans of the American Can Company and the Continental Can Company differ from those in the automobile industry in that benefits may be paid for as long as 52 weeks;

the combined State and plan benefit is 65 percent of after-tax straight-time pay, plus \$2 for each dependent up to four. The plans are employer-financed. The American Can Company pays 5 cents per hour worked; the Continental Can Company contributes 3 cents per hour worked, plus a contingent liability of 2 cents per hour worked if the fund becomes exhausted.

Other types of plans also add to the employment security of workers.<sup>22</sup> A few set up what are, in effect, individual savings accounts that may be drawn upon in the case of layoff or illness. Some promise steady employment for specified periods; others restrict the employer's right to lay off workers; and still others provide severance pay.

### **Cost Factors**

Obviously, the cost of an employee-benefit plan depends on the types and amounts of benefit included, as well as the conditions under which they are provided and the composition of the group covered. For this reason it is convenient to deal with the health and welfare plans and the retirement plans separately.

### **Health and Welfare Plans**

Aside from the plan provisions, the important cost factors that are common to the benefits included under health and welfare plans are (1) the composition of the group covered, (2) its industrial risk classification, and (3) the size of the group. For all types of benefit except major medical expense and dependents' benefits, commercial insurance carriers consider certain industries—mining, for example—to be extrahazardous and thus require extra premiums. In plans paying temporary disability benefits, hospitalization, and other medical care benefits, the proportion of women is also important. In these types of insurance, a group in which women constitute 11 percent or more of the included employees is not a "standard" group, nor is a group em-

<sup>22</sup> See State of New York, Department of Labor, Division of Research and Statistics, *Guaranteed Annual Employment—New York State, 1955* (Publication No. B-89), June 1956.

ployed in a hazardous industry. A standard group for life insurance consists of individuals who are not employed in a hazardous industry. The age distribution of the group, of course, greatly affects the cost of life insurance.

Table 8 gives illustrations of the gross premium rates charged by one large commercial carrier for a "standard" group for the more common types of group insurance. It shows a gross initial monthly cost of \$10.97 per employee for a fairly complete program. An additional monthly charge of 15 cents per \$1,000 is made on the first \$75,000 of group term life insurance. Insurance carriers commonly allow premium discounts (5-15 percent, depending on the total premium) on health insurance when large groups are involved. If the group consists of 1,000 employees, the program illustrated would require a gross monthly premium of \$10,050. If it is assumed that the employees work 2,000 hours a year, the initial cost per manhour would be 6 cents; if the average annual earnings per employee are \$3,000, the program would cost 4 percent of payroll, initially. (Allowances are made by the companies to pay for administrative functions undertaken by the sponsors of the plan).

Actually the cost of group insurance depends on the claims experience of the group. If the experience should prove to be unfavorable, the rates might be increased for subsequent years. If it should prove favorable, dividends or rate credits might be allowed. While such allowances vary from group to group, they are generally substantial. For 1954, the Senate Subcommittee on Welfare and Pension Funds stated, seven life insurance companies reported dividends and rate credits allowed on all types of group insurance, in cases involving 1,000 lives, that amounted to 12.9 percent of billed premiums for the first policy years and 16.5 percent for all policy years other than the first.

Blue Cross and Blue Shield plan rates vary from area to area, depending on the comprehensiveness of the plans, the cost of the services, and claims experience in the area.

## Retirement Programs

The cost of pension plans depends on many factors. Rates of life expectancy and of investment earnings are basic. Life expectancy is continually increasing. Earnings on investments, as experienced by life insurance companies, declined from the early 1930's to 1952 but since then have tended to increase. The type and method of funding, benefit provisions, administrative expenses, and taxes are other cost factors.

According to the 1937 Standard Annuity Table, life expectancy for male annuitants is 21 years at age 55, 17.5 years at age 60, 14.4 years at age 65, and 11.6 years at age 70. For women it is longer. Assuming a rate of investment earnings of 3 percent, the amounts necessary at retirement to produce a straight life annuity paying \$100 a month for male employees retiring at the above ages are \$17,751, \$15,522, \$13,314, and \$11,185, respectively. Thus the lower the retirement age, the higher the cost. If these amounts are spread over the entire period of service, the annual outlay for male employees would be as follows:

Current age	Annual outlay, by specified retirement age			
	55	60	65	70
30.....	\$425	\$266	\$163	\$94
35.....	584	353	211	120
45.....	1,418	723	393	212

The cost thus increases with the age of the group. The cost also increases with the proportion of women in the group. The impact of rate of investment earnings on cost is illustrated by the fact that an amount invested at 2½ percent doubles itself in 35 years, but at 3 percent in only 24 years. In a typical plan a variation of ¼ of 1 percent in the rate of earnings could produce a difference of 6-7 percent in the long-range cost.

Employee contributions introduce other cost elements. Provision of disability benefits, vesting, and death and withdrawal benefits increase the cost. The actual mortality experience may raise it or reduce it. Labor turnover also influences the cost.

**Table 8.—Illustrative monthly gross premiums under a typical health and welfare private employee-benefit program for a "standard" group, by type of benefit**

Type of benefit	Provision	Premium rate	Monthly gross premium
Life insurance and death benefits.....	\$3,000.....	\$0.79 per \$1,000 <sup>1</sup> .....	\$2.21
Accidental death and dismemberment.	\$3,000 occupational and nonoccupational.	\$0.10 per \$1,000.....	.30
Temporary disability.....	\$30 weekly; waiting period: 0 for accident, 7 days for sickness; duration, 26 weeks; maternity benefit.	\$0.76 per \$10.....	2.28
Hospitalization:			
Employee.....	Up to \$10 daily, 70 days, \$100 extra, maternity benefit.	\$1.53.....	1.53
Dependent.....	Same as for employee.....	\$3.92.....	2.61
Surgical:			
Employee.....	Up to \$200, maternity benefit.....	\$0.53.....	.53
Dependent.....	Same as for employee.....	\$1.84.....	2.123
In-hospital, physician's care:			
Employee.....	\$3 per visit, maximum \$93.....	\$0.095.....	.10
Dependent.....	Same as for employee.....	\$0.18.....	2.18

<sup>1</sup> Rates vary with age; assumes weighted average age of 45.

<sup>2</sup> Assumes two-thirds of employees will require dependents' coverage.

## Legislative Interest

Along with the rapid growth of employee-benefit plans came many problems. Among the most important of these problems were the soundness of the administrative and financial structure of some of the plans and the impact on the economy of the large sums of money continuously contributed by employers and employees and of the amounts accumulated in the plans' reserves. These problems have recently attracted the attention of the executive and legislative branches of the States as well as of the Federal Government.

A few States have made extensive studies of the operation of such plans within their jurisdiction.<sup>23</sup> Legislation exercising a degree of control over the administration of some types of plans was passed by the State of Washington in 1955 and by New York in 1956.

President Eisenhower in his legislative recommendations on labor-management relations in January 1954 and again in his Economic Report the following year urged Congress to initiate studies of welfare and pension plans. In April 1956, after a 2-year investigation, the

Senate Subcommittee on Welfare and Pension Funds submitted its final report (Senate Report No. 1734) to the Senate Committee on Labor and Public Welfare. Its findings and recommendations may be summarized as follows:

1. The large number of persons covered by the plans, the plans' impact on the economy, and tax treatment of employer contributions and accumulated reserves<sup>24</sup> places upon the Government the responsibility for protecting the equities of the beneficiaries and the public interest by ensuring the plans' sound operations.

2. The plans fill a great need and much good flows from them. The vast majority are well and honestly administered. That fact is, however, "no excuse for the abuses, irregularities, and other deficiencies which have been found to exist. The fact that dishonesty and looting exist at all, points up the opportunity for abuse under the existing absence of controls."

3. Corporate trustees have only limited responsibilities. Group insurance is extremely complex, and serious impairment of the beneficiaries'

<sup>23</sup> See, for example, State of New York Insurance Department, *Private Employee Benefit Plans—A Public Trust*, 1956, and State of New York Banking Department, *Pension and Other Employee Welfare Plans*, 1956.

<sup>24</sup> Employer contributions are deductible from taxable income as a cost of doing business. Income of trust funds that qualify under Internal Revenue Service regulations is tax exempt.

equities can result when the purchaser is unfamiliar with the practices of the industry or, as found in a few instances, he uses the services of an unscrupulous broker.

4. The group insurance business, although interstate in character and national in scope, is regulated by the States.

5. A Federal disclosure act is necessary to "bring a great measure of order to the operation of private employee welfare and pension plans." The States cannot act uniformly and speedily. The problems cannot be met on a piecemeal basis without "stimulus from the Federal level." Such an act would leave much room to the States to fix the responsibilities of the trustees and to strengthen their insurance regulations.

6. The Federal disclosure law out-

lined by the subcommittee would be effective for 3 years and would require registration of all types of plans covering at least 25 employees and detailed certified annual reports, with financial and administrative data, from all plans covering at least 100 employees. The reports would be available for inspection at specified places, and summaries would be mailed by the plans to the covered employees. The act would be administered by the Department of Health, Education, and Welfare, the Department of Labor, the Internal Revenue Service, the Securities and Exchange Commission, or a new agency. The administering agency would conduct studies and investigations and make any reports it deems necessary and at the end of 2 years would report to Congress on the desirability of

continuing, simplifying, or modifying the legislation. An advisory council would be appointed, representing employees, management, and the insurance and banking industries. The Secretary of Health, Education, and Welfare, the Secretary of Labor, and the Commissioner of the Internal Revenue Service would be ex officio members of the council.

Several bills relating to disclosure of information were introduced in the Eighty-fourth Congress, but none was acted upon. The magnitude of private employee-benefit plans and their increasing importance in the economy, particularly in relation to the overall social security protection of the American people, make it probable that the subject will receive further attention both at the national and State levels.

## Recent Publications<sup>\*</sup>

### Social Security Administration

BUREAU OF FEDERAL CREDIT UNIONS. *Federal Credit Union Handbook*. Washington: U. S. Govt. Print. Off., 1956. 58 pp. 35 cents.

Presents an overall picture of credit union operations.

BUREAU OF FEDERAL CREDIT UNIONS. *1955 Report of Operations, Federal Credit Unions*. Washington: U. S. Govt. Print. Off., 1956. 24 pp. 25 cents.

BUREAU OF PUBLIC ASSISTANCE. *Characteristics of State Public Assistance Plans Under the Social Security Act*. (Public Assistance Report No. 27.) Washington: U. S. Govt. Print. Off., 1956. No paging. 65 cents.

CHILDREN'S BUREAU. *Four Decades of Action for Children: A Short History of the Children's Bureau*, by Dorothy E. Bradbury. (Children's Bureau Publication No. 358.) Washington: U. S. Govt. Print. Off., 1956. 90 pp. 35 cents.

<sup>\*</sup> Prepared in the Library, Department of Health, Education, and Welfare. Orders for items listed should be directed to publishers and booksellers; Federal publications for which prices are listed should be ordered from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

Includes a short statement—To the Future, by Martha M. Eliot.

### General

"Better Service for Handicapped Job Seekers." *Employment Security Review*, Washington, Vol. 23, Sept. 1956, pp. 3-36. 20 cents.

Articles on counseling and selective placement, teamwork for community action, and "tailoring" the job to fit the man.

COHEN, WILBUR J., and FAURI, FEDELE F. "The Social Security Act Amendments of 1956." *Public Welfare*, Chicago, Vol. 14, Oct. 1956, pp. 183-199. \$1.

HERRERA BORNIA, ORESTES. *Seguridad Social en la Republica Dominicana*. Ciudad Trujillo: Impresora Arte y Cine, 1955. 508 pp.

Summaries, with text of laws, covering welfare activities in the Dominican Republic. Presents information on health and pension insurance, workmen's compensation, maternity protection, institutional care, and assistance programs.

HUTCHINSON, E. P. *Immigrants and Their Children, 1850-1950*. (Census Monograph Series.) New York: John Wiley & Sons, 1956. 391 pp. \$6.50.

"A survey and a guide to census data on immigrants and their chil-

dren in the population and labor force."

LINDSEY, FRED D. "The Cost of Fringe Benefits—1955." *American Economic Security*, Washington, Vol. 13, Sept.-Oct. 1956, pp. 22-28. 25 cents.

MUSHKIN, SELMA, and BOOTH, PHILIP. "Financing of Unemployment, Cash Sickness and Workmen's Compensation Insurance." *National Tax Journal*, Sacramento, Vol. 9, Sept. 1956, pp. 203-231. \$1.50.

NATIONAL SCIENCE FOUNDATION. *Organization of the Federal Government for Scientific Activities*. Washington: U. S. Govt. Print. Off., 1956. 349 pp. \$1.75.

SPAIN. *Legislacion de Seguridad Social (Vigente en 31 de Diciembre de 1954)*. Tomo III. (Pub. No. 867.) Madrid: Instituto Nacional de Prevision. No date. 2325 pp. Laws and decrees dealing with health and welfare provisions.

U. S. LAWS. *Railroad Retirement and Unemployment Insurance Act, as Amended*. Compiled by Elmer A. Lewis. Washington: U. S. Govt. Print. Off., 1956. 144 pp. 45 cents.

### Retirement and Old Age

"Compulsory Pension Scheme for Independent Workers in Belgium." *Industry and Labour*, Geneva, Vol. 16, Oct. 1, 1956, pp. 307-311. 25 cents.

(Continued on page 24)