

Employee-Benefit Plans in 1966

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Employee-benefit plans providing income-maintenance payments and health-expense benefits have undergone vigorous expansion, especially since 1950. The rates of growth, however, have dropped in recent years. The following article discusses recent trends in these plans along with an assessment of the current structure of private retirement plans.

CONTRIBUTIONS and benefit payments under private employee-benefit plans continued to expand in 1966, although at a somewhat reduced rate than in the past. Benefit payments totaled \$14.4 billion in 1966 (9 percent more than in 1965), and contributions rose \$1.5 billion (a gain of about 8 percent over the preceding year) to a total of \$20.8 billion.

Health plans were an exception to the general growth of employee-benefit plans in 1966. Benefit payments under these plans increased by only 6 percent and contributions by 7 percent (compared to the usual 10–15 percent annual growth experienced in the past 10 years). This shift is accounted for, in large part, by the impact of the Federal health insurance program for the aged (Medicare), which started paying benefits in July 1966. In calendar 1966, after only 6 months' experience, such benefit payments amounted to \$1 billion. A portion of these expenditures would otherwise have been made through group policies of private insurers.

Gains in employee coverage under various types of employee-benefit plans were much smaller than the growth in contributions and benefits. Although all types of plans registered substantial absolute gains in coverage over the previous year, the rate of increase did not equal the overall rate of growth in the labor force, except for major medical expense protection and temporary disability coverage. At the end of 1966, 128 million employees and their dependents had hospital expense coverage, 49 million had life insurance protection, 52 million had major medical ex-

pense coverage, and more than 26 million employees were under retirement plans.

An "employee-benefit plan," as defined here, is any type of plan sponsored or initiated unilaterally or jointly by employers and employees and providing benefits that stem from the employment relationship and that are not underwritten or paid directly by government (Federal, State, or local). In general, the intent is to include plans that provide in an orderly, predetermined fashion for (1) income maintenance during periods when regular earnings are cut off because of death, accident, sickness, retirement, or unemployment and (2) benefits to meet medical expenses associated with illness or injury.

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

DEVELOPMENTS IN 1966

Several developments at the Federal level directly influenced employee-benefit plans. With the introduction of Medicare, employers with employee-benefit plans made adjustments to take the new public program into account for their employees (and retired workers) aged 65 and over. Some persons in that group who were formerly covered by group health insurance on the job (or during retirement) were dropped from group coverage. In many cases, the employer (or fund) agreed to pay the enrollee's share of the premium under the voluntary part of Medicare—supplementary medical insurance.

For aged persons still in group health insur-

*Office of Research and Statistics. Earlier articles on employee-benefit plans have appeared in the March or April issues of the *Bulletin*.

ance plans the protection provided is invariably complementary to their Medicare coverage. It is estimated that about 3.7 million aged persons are still enrolled in group hospital plans (either on the job or as retired persons) that are complementary to Medicare. It is estimated that before Medicare went into effect, more than 5 million persons aged 65 and over had group hospital coverage.

Under Blue Cross and Blue Shield group plans, the practice is to provide, in general, the same benefits to older employees and covered annuitants that are provided to younger members, but with Medicare benefits "carved out." The group plan simply pays for the benefits not paid for by Medicare. Insurance companies under group policies have filled in or added on to the benefits provided under Medicare in various ways—by providing types of benefits not covered, by making the Medicare deductible and coinsurance amounts reimbursable expenses under major medical policies, or by "carving out" Medicare benefits from the regular group coverage. The independent plans have generally complemented Medicare by providing their regular benefits with Medicare benefits carved out. Plans that provide comprehensive coverage of physicians' services through group practice have continued this coverage for older persons and generally are reimbursed by Medicare on a cost basis for their expenses in providing that share of the services for which Medicare would be responsible.¹

Another Federal change affecting private pension plans was the 1966 amendment to the Self-Employed Individual Tax Retirement Act of 1962, which extended certain tax advantages to the self-employed (currently estimated at about 8 million). The 1966 amendment liberalized the law to permit tax deductible contributions by the self-employed person up to \$2,500 a year (previously this was limited to 50 percent of contributions up to \$2,500). Until now, experience under plans for the self-employed has been limited, and only a small number of plans have been established. According to the Internal Revenue Service, about 37,000 favorable determination letters were processed by the end of June 1967. However, possibly no more than 50,000 per-

sons (self-employed and their employees) had obtained coverage under these qualified plans by that time. To qualify, the self-employed person must also provide retirement plan coverage for any full-time employees with 3 or more years of service.

Improvements in economic security measures were emphasized in major negotiations in 1966, despite considerable pressure to keep wages in step with rising prices.² Although a large number of workers were involved in negotiated changes in their plans, the proportions affected were smaller in 1966 than in 1965 and 1964, because only a few large collective bargaining agreements (including employee-benefit plans) expired that year. In many instances involving smaller groups, however, improvements were made that paralleled some of the changes in major settlements in 1964 and 1965.

Among key settlements affecting employee-benefit plans in 1966 were those negotiated in the electrical equipment industry. The Westinghouse Electric Corporation, General Electric Company, and Radio Corporation of America negotiated pension plans and health and welfare agreements with the International Union of Electrical, Radio, and Machine Workers, which provided substantial increases in retirement benefits and liberalized early retirement, as well as other improvements. In the General Electric Company plan, the basic benefit formula is now 1 percent of earnings up to \$6,600 and 2.1 percent above this amount; it previously was 0.8 percent of earnings up to \$4,800 and 2 percent above. Minimum pension benefits were increased from \$2.70 for each year of service to \$4.50 a year of service. In addition, transitional supplemental benefits for persons retiring early, or because of disability, were increased to bridge the gap before receipt of full social security benefits. The vesting provision was also liberalized so that vested rights are granted all employees terminating employment with 10 or more years of service.

In the Westinghouse plan, under which the normal retirement benefit amount credited for each year of service varies by job classification, future pension benefits were substantially increased. For example, persons earning \$4.25 or

¹For details, see Louis S. Reed and Kathleen Myers, "Health Insurance Coverage Complementary to Medicare," *Social Security Bulletin*, August 1967.

²Department of Labor, Bureau of Labor Statistics, *Current Wage Developments*, No. 232, Supplement, April 1, 1967.

over per hour accumulate benefits at the rate of \$6.40 for each year of credited service; previously it was \$3.80 a year. In addition, supplements for early retirements and disability retirements were improved and the age-40 requirement for vesting (after 10 years of service) was removed. Moreover, the unions obtained substantial improvement in the health insurance package and income security provisions upon layoff.

Pension improvements in the meatpacking industry included major changes in Armour and Company's agreement with the Meat Cutters. Normal retirement benefits were increased from \$3.25 to \$5 a month for each year of service, with retirement permitted at age 62 after 10 years of service.

HISTORICAL DATA

With the 1966 data, the historical series on employee-benefit plans has undergone one substantial revision (tables 1-4). The data for health benefit plans have been adjusted upward to take into account the rising proportion of health insurance purchased on a group basis from Blue Cross-Blue Shield plans. Until now, a fixed proportion of total Blue Cross-Blue Shield coverage—75 percent—was attributable to group plans. Studies made by the Blue Cross Association and the Blue Shield Association indicate that about 80 percent of their membership now relates to group coverage (excluding group conversions). Therefore, it was assumed that the proportion of coverage, contributions, and benefit payments attributable to employed groups increased gradually from 75 percent during the period 1950-60 to 80 percent in 1966. The revised ratios have the effect of increasing absolute levels but do not disrupt, to any large extent, previously observed trends and relationships.

The data in tables 1-4 do not separately identify certain new types of employee benefits that have been introduced and developed in recent years. In the health insurance field, drug prescription and dental care benefits are receiving increasing attention because of the tendency to cover the costs of these services through separate coverages. The data presented here on contributions and benefits generally include these plans to the extent that they are reported with other health insurance

benefits by the commercial insurance carriers, the Blue Cross-Blue Shield plans, and the independent plans. Excluding the major medical policies of insurance companies and comprehensive Blue Cross-Blue Shield plans, which usually cover the cost of prescribed drugs as part of a broad spectrum of health services, it is estimated that up to 1 million workers are covered by drug prescription plans. Dental care plans are estimated to cover almost 4 million workers and dependents, a rapid increase from the less than 1 million reported for 1962.

Group long-term disability insurance plans are another type of benefit not separately identified in this series. These plans, which cover approximately 1-2 million workers, generally have a six-month waiting period before benefits start and pay benefits until age 65. For the most part, insurance companies report the experience of the group long-term disability policies with their accident and health data. This type of plan is included under "temporary disability insurance" here.

Coverage

All types of employee-benefit plans had substantial gains in membership in 1966, and the increases in major medical expense coverage³ and temporary disability insurance were the most impressive (table 1). Major medical expense coverage now includes about 19 million workers—a gain of 8.5 percent over 1965. Approximately 1.7 million workers were added under temporary disability plans, so that more than 29 million persons were covered at the end of 1966. Retirement plan coverage grew by 1 million—a 4-percent gain—to a total of 26.4 million.

Coverage under health insurance plans—other than major medical—had a slight reversal from the previous growth pattern, due in part to the drop in the number of employed persons aged 65 and over who are covered by private group plans. Hospital and surgical insurance coverage increased by about 1.6 million employees each, to 50.1 million and 48.6 million, respectively. Regu-

³Data for major medical expense insurance relate exclusively to plans underwritten by commercial insurance companies and exclude Blue Cross-Blue Shield plans of this type (covering about 14.4 million persons at the end of 1966).

TABLE 2.—Coverage and contributions under employee-benefit plans,¹ by type of benefit in relation to employed wage and salary labor force and payroll, 1950, 1954-66

Year	Life insurance and death	Accidental death and dismemberment	Hospitalization	Surgical	Regular medical	Major medical expense	Temporary disability, including formal sick leave	Supplemental unemployment	Retirement
	Covered employees as percent of all wage and salary workers ²						Covered employees as percent of wage and salary workers in private industry ³		
1950	38.9	16.2	48.7	35.5	16.4	1.5	46.2		22.5
1954	48.2	26.3	58.4	52.2	32.8	1.5	49.6		30.8
1955	50.9	28.3	60.0	54.7	37.0	4.2	49.2	2.1	32.2
1956	52.3	30.4	62.2	57.8	39.2	6.3	50.2	4.1	34.3
1957	54.4	32.1	64.7	60.1	42.5	8.9	50.4	3.8	36.6
1958	56.5	33.3	66.5	62.1	45.1	11.2	49.7	3.6	39.3
1959	58.0	34.1	66.3	62.6	46.8	13.7	49.5	3.9	40.3
1960	58.1	35.5	69.0	65.6	50.2	16.5	49.0	3.4	42.4
1961	60.4	36.2	71.4	68.4	53.6	19.7	49.4	3.6	44.6
1962	60.3	37.4	71.7	68.6	54.3	21.4	49.4	3.5	45.3
1963	61.5	40.2	73.7	70.8	56.8	23.7	49.6	3.5	46.0
1964	63.2	42.1	73.8	71.1	58.1	24.8	49.9	3.6	46.5
1965	63.4	43.5	74.3	72.0	60.3	26.8	50.3	3.8	46.3
1966	62.1	41.5	73.0	70.8	60.0	27.7	51.1	3.8	46.1
	Employer and employee contributions as percent of all wages and salaries ⁴						Employer and employee contributions as percent of wages and salaries in private industry ⁵		
1950	.34	.01	.40	6.21			.40		1.67
1954	.39	.02	.65	6.37		.01	.48		2.17
1955	.44	.02	.69	6.38		.02	.49	.02	2.19
1956	.46	.02	.73	6.41		.04	.48	.07	2.23
1957	.47	.02	.79	6.45		.07	.51	.09	2.38
1958	.51	.03	.85	6.47		.12	.53	.06	2.45
1959	.52	.03	.90	6.48		.14	.51	.06	2.52
1960	.54	.03	.96	6.49		.18	.53	.05	2.47
1961	.58	.03	1.06	6.54		.24	.53	.05	2.47
1962	.59	.03	1.11	6.56		.26	.54	.07	2.45
1963	.62	.03	1.16	6.56		.28	.53	.06	2.46
1964	.63	.03	1.21	6.58		.30	.51	.05	2.56
1965	.64	.03	1.25	6.61		.31	.54	.04	2.68
1966	.62	.03	1.20	6.61		.31	.54	.04	2.65

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

² Coverage of private and public employees related to average number of private and government full-time and part-time civilian employees—68.6 million in 1966 (table 6.3 in *Survey of Current Business*, July 1967) and the *National Income and Product Accounts of the United States, 1929-1965 Statistical Tables (Supplement to the Survey of Current Business)*, 1966.

³ Coverage of private employees related to wage and salary employed labor

force in private industry—57.3 million (from table 6.3 in source listed in footnote 2).

⁴ Amounts for private and public employees related to private and government civilian wages and salaries—\$380.0 billion in 1966 (from table 6.2 in source listed in footnote 2).

⁵ Amounts for private employees related to wages and salaries in private industry—\$316.7 billion in 1966 (from table 6.2 in source listed in footnote 2).

⁶ Data on contributions for surgical and regular medical benefits not available separately.

lar medical expense coverage rose 1.8 million and now covers 41.2 million employees. The number of workers with life insurance coverage rose 1.2 million, an aggregate of 42.6 million workers now have this coverage.⁴

The differences in coverage under the various types of health benefit plans have been narrowing in recent years; the gap in total (employees and dependents) coverage between hospital insurance and surgical insurance was about 5.5 million in 1960, and it is now just about 4 million. Similarly, the gap between surgical insurance and regular medical insurance has narrowed from 25 million

in 1960 to about 20 million in 1966. Major medical expense insurance, which continued to have the strongest growth among different types of health benefits, now covers about half as many as regular medical expense insurance; in 1960 it covered about a third as many.

The gains in membership (new plans established and net additions to existing plans) under most types of employee-benefit plans did not keep pace with the rapidly expanding employed labor force in 1966. The two most common types of health insurance—hospitalization and surgical—actually showed a slight decline in relation to the employed wage and salary civilian work force. This decline reflects, in part, the drop in group coverage for the employed aged as a result of Medicare. The decline also indicates that much of the expansion in employment occurred

⁴The data on group life insurance in this series exclude the servicemen's group life insurance provided members of the Armed Forces. This insurance is underwritten by commercial insurance companies but is excluded here because the series is confined to civilian wage and salary workers.

in industries where employee-benefit plans are uncommon.

In 1966, hospital insurance plans included 73 percent of the total wage and salary work force, compared with slightly more than 74 percent at the end of 1965 (table 2). Surgical expense coverage dropped from 72 to about 71 percent of the total labor force. While regular medical expense coverage remained at about 60 percent of the work force, major medical insurance had one of the largest increases of any type of benefit this year—one percentage point—and now covers almost 28 percent of the civilian labor force. Employee coverage under life insurance and accidental death and dismemberment insurance declined in relation to the total labor force, and they now stand at 62 percent and 41.5 percent, respectively.

Private retirement programs now cover about 46 percent of the private wage and salary work force—about the same proportion as in the preceding 3 years. The rate of growth for retirement plans has been slowing down. From 1950 to 1963, the annual growth in coverage normally exceeded the growth in the labor force so that the proportion of wage and salary workers covered by pension plans in private industry rose by 1–2

percentage points a year. The slackening since 1963 indicates that, under the existing structure and operation of private pension plans, a large proportion of the rapidly expanding employed labor force is finding it difficult to secure supplemental retirement protection. The most accessible groups are already covered, and future expansion must be in industries in which small businesses are prevalent. Current trends indicate that the vast majority of newly established pension plans are in this category.

Contributions

In 1966, total employer and employee contributions to employee-benefit plans were estimated at \$20.8 billion, an increase of \$1.5 billion or 8 percent from 1965 (table 3). The rate of increase, however, was substantially lower than that of 1964 and 1965 and was about the same as that of the early sixties.

The reduced rate of growth in total contributions in 1966 is chiefly due to a falling off in the two major components of the employee-benefit

TABLE 3.—Estimated total employer and employee contributions¹ under employee-benefit plans,² by type of benefit, 1950, 1955, 1960–66

[In millions]

Type of benefit	1950	1955	1960	1961	1962	1963	1964	1965	1966
Total.....	\$3,937.0	\$7,850.9	\$12,509.1	\$13,460.4	\$14,600.1	\$15,615.0	\$17,278.7	\$19,277.0	\$20,782.0
All wage and salary workers:									
Life insurance and death benefits ³	480.0	880.0	1,416.2	1,556.6	1,677.1	1,867.0	2,039.0	2,224.0	2,361.0
Accidental death and dismemberment ⁴	18.4	43.4	70.0	75.0	80.0	92.0	99.0	116.0	131.0
Total health benefits.....	856.3	2,193.4	4,267.0	4,924.2	5,507.9	5,993.3	6,725.7	7,520.0	8,041.5
Hospitalization ⁵	562.4	1,385.1	2,504.8	2,833.6	3,159.0	3,472.2	3,884.6	4,332.8	4,546.8
Surgical and regular medical ⁵	293.9	769.5	1,282.2	1,439.6	1,595.9	1,684.1	1,876.1	2,109.2	2,299.7
Major medical expense ⁷		38.8	470.0	651.0	753.0	837.0	965.0	1,078.0	1,195.0
Wage and salary workers in private industry:									
Temporary disability, including formal sick leave ⁸	502.3	854.1	1,170.9	1,204.6	1,297.1	1,340.7	1,378.0	1,547.0	1,721.4
Written in compliance with Law.....	75.9	178.8	238.8	255.3	255.4	244.4	238.0	258.4	280.5
Supplemental unemployment benefits ⁹		40.0	115.0	120.0	158.0	142.0	147.0	120.0	128.0
Retirement ¹⁰	2,080.0	3,840.0	5,480.0	5,580.0	5,880.0	6,180.0	6,890.0	7,750.0	8,400.0

¹ Excludes dividends in group insurance.

² Plans whose benefits flow from the employment relationship and are not underwritten or paid directly by government (Federal, State, or local). Excludes workmen's compensation required by statute and employer's liability.

³ Group and wholesale life insurance premiums based on data from Institute of Life Insurance and Health Insurance Association of America, *Group Insurance Coverages in the United States*, annual issues, modified to exclude group plans not related to employment; excludes premiums of \$48.7 million for the servicemen's group life insurance plan, which went into effect in late 1965. Self-insured death-benefit costs based on data for various trade-union, mutual benefit association, and company-administered plans.

⁴ Data from Institute of Life Insurance and Health Insurance Association of America (see footnote 3).

⁵ Data from Louis S. Reed, "Private Health Insurance: Coverage and Financial Experience, 1940-66," *Social Security Bulletin*, November 1967. For employees under plans other than group insurance and union and company plans, it was assumed that the proportion of subscription income attributable to employed groups increased gradually from 75 percent in 1950-60 to 80 percent in 1966.

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

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

⁸ Data from "Income-Loss Protection Against Illness, 1948-66," *Social Security Bulletin*, January 1968. Includes private plans written in compliance with State temporary disability laws in California, New Jersey, and New York, shown separately in next line.

⁹ Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed by supplemental unemployment benefit funds covering temporary and permanent layoffs. For the steel industry plans, includes accruals of contingent liability contributions as well as regular contributions.

¹⁰ Estimated by the Office of the Actuary, Social Security Administration. Includes contributions to pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

TABLE 4.—Estimated benefits paid under employee-benefit plans,¹ by type of benefit, 1950, 1955, 1960–66

(In millions)

Type of benefit	1950	1955	1960	1961	1962	1963	1964	1965	1966
Total.....	\$1,312.4	\$4,070.9	\$7,848.5	\$8,757.7	\$9,875.2	\$10,694.8	\$11,773.4	\$13,187.6	\$14,419.9
Benefits for all wage and salary workers:									
Life insurance and death benefits ²	309.9	581.5	1,017.6	1,122.3	1,236.5	1,341.8	1,426.3	1,541.9	1,693.6
Accidental death and dismemberment ³	16.0	26.1	47.3	58.0	68.8	82.5	88.0	89.5	97.0
Total health benefits.....	708.7	1,902.9	3,898.2	4,481.5	5,082.7	5,536.2	6,241.6	7,012.1	7,427.5
Hospitalization ⁴	477.5	1,241.8	2,355.0	2,675.8	3,004.8	3,312.4	3,730.7	4,160.5	4,312.0
Written in compliance with law.....	2.1	5.6	8.0	7.3	6.5	3.5	2.4	2.5	2.6
Surgical and regular medical ⁴	231.2	637.1	1,116.2	1,243.7	1,410.9	1,471.8	1,641.9	1,847.6	1,979.5
Major medical expense ⁶		24.0	427.0	562.0	667.0	752.0	869.0	1,004.0	1,136.0
Benefits for wage and salary workers in private industry:									
Temporary disability, including formal sick leave ⁷	407.8	710.4	1,030.4	1,035.7	1,129.2	1,183.3	1,200.5	1,310.1	1,434.8
Written in compliance with law.....	54.3	195.2	196.1	201.4	204.3	198.2	191.4	197.2	208.7
Supplemental unemployment benefits ⁸			105.0	100.0	108.0	91.0	57.0	54.0	87.0
Retirement ⁹	370.0	850.0	1,750.0	1,960.0	2,250.0	2,460.0	2,760.0	3,180.0	3,680.0

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

² Group and wholesale life insurance benefits based on data from Institute of Life Insurance, *Life Insurance Fact Book*, 1967, modified to exclude group plans not related to employment; excludes \$46.2 million in benefits paid under the serviceman's group life insurance plan, which went into effect in late 1965. Self-insured death benefits based on data for various trade-union, mutual benefit association, and company-administered plans.

³ Unpublished data from the Institute of Life Insurance.

⁴ Data from Louis S. Reed, "Private Health Insurance: Coverage and Financial Experience, 1940-66," *Social Security Bulletin*, November 1967. For employees under plans other than group insurance and union and company plans, it was assumed that the proportion of benefits attributable to employed groups increased gradually from 75 percent in 1950-60 to 80 percent in 1966.

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

⁶ Unpublished data from the Health Insurance Association of America. Represents benefits paid under group supplementary and comprehensive major medical insurance underwritten by commercial insurance carriers.

⁷ Data from "Income-Loss Protection Against Illness, 1948-66," *Social Security Bulletin*, January 1968. Includes private plans written in compliance with State temporary disability insurance laws in California, New Jersey, and New York, shown separately in next line.

⁸ Based on trade-union and industry reports. Excludes dismissal wage and separation allowances, except when financed from supplemental unemployment benefit funds covering temporary and permanent layoffs.

⁹ Estimated by the Office of the Actuary, Social Security Administration. Includes benefits paid under pay-as-you-go and deferred profit-sharing plans, plans of nonprofit organizations, union pension plans, and railroad plans supplementing Federal railroad retirement program.

series—retirement and health plans. Pension plan contributions of \$8.4 billion were about 8.4 percent greater than those in 1965. In dollars, this advance was only about three-fourths of that in 1965. The three types of health benefit programs had a 7-percent increase in contributions. Although the rise was greater than that for some types of benefits in the series, it was the lowest increase for health insurance since the series began in 1950. This slowing of the rate of growth in contributions for health and medical care is directly attributable to Medicare, which resulted in a reduction in employers' and employees' contributions for private health insurance and increased the amount of health and medical care payments in the public sector.⁵ Despite the slowdown, contributions under health benefit plans amounted to more than \$8 billion and represented about two-fifths of total contributions to employee-benefit plans in 1966.

Contributions under temporary disability benefit plans rose 11.3 percent—almost the same growth rate as for 1965—and totaled about \$1.7 billion. For supplemental unemployment benefit plans, contributions were about \$8 million higher. Both

life insurance and accidental death and dismemberment insurance shared in the general decline in rate of increase in contributions and together totaled \$2.5 billion.

Despite the \$1.5-billion rise in total contributions to employee-benefit plans in 1966, as a proportion of aggregate wage and salary payrolls they declined or stayed at about the same levels as in 1965 for some types of plans (table 2). This ratio of employee-benefit plan contributions to aggregate payrolls had a fairly steady increase for most types of benefits since 1950. During 1966, for contributions of employers and employees to retirement plans the relation to payroll dropped slightly from \$2.68 per \$100 of private wage and salary payroll in 1965 to \$2.65 per \$100. A much larger decline was recorded for basic hospital expense insurance, which went from \$1.25 per \$100 in payroll to \$1.20 per \$100. The proportion of contributions to payroll for the remaining types of health benefits remained about the same. As a result, total health insurance contributions now equal \$2.12 per \$100 of all wages and salaries, compared with \$2.17 per \$100 in 1965. The slackening in the ratio of contributions to aggregate payrolls reflects, in part, the record spurt in aggregate wage and salary payrolls in 1966 (about 10 percent above 1965) at the same time that the

⁵ Ida C. Merriam, "Social Welfare Expenditures, 1929-67," *Social Security Bulletin*, December 1967.

rate of increase of contributions to benefit plans declined.

Benefits

Benefit expenditures in 1966 were estimated at \$14.4 billion, an increase of \$1.2 billion over the \$13.2 billion paid out in 1965 (table 4). Total health benefit payments accounted for about \$415 million of the rise and retirement benefits accounted for \$500 million. Benefits paid under private plans, like contributions, experienced a smaller rate of increase than usual, except for retirement payments. Percentagewise, health benefit payments rose only about 6 percent, compared with the typical gain of 12 percent. On the other hand, retirement benefits were almost 16 percent above the 1965 level—a rate of increase considerably above that experienced in the past 5 years.

Temporary disability benefits (including formal sick leave) amounted to \$1.4 billion or almost 10 percent above 1965 levels. Death benefit payments (including accidental death and dismemberment) totaled \$1.8 billion, about \$160 million more than the total in the preceding year and one of the largest absolute increases recorded. Supplemental unemployment payments spurted from \$54 million to \$87 million, reflecting benefit improvements and layoffs during the year in industries with such plans.

The distribution of benefit payments among the types included in the series shows a slight shift from the pattern previously prevailing. The three types of health benefits have grown as a proportion of the benefit dollar since 1955—53 cents in 1965, compared with 47 cents the earlier year. Most of the change in composition of the total benefit dollar can be attributed to the major medical expense share, which grew from less than 1 cent in 1955 to 8 cents in 1966. In 1966, the portion of the dollar benefit outlay for all types of health benefits dropped to 51 cents. On the other hand, payments from retirement plans rose to over 25 cents per dollar of expenditures in 1966, compared with about 21 cents in 1955. Although death benefit payments dropped from 15 cents of the benefit dollar in 1955 to about 12 cents in 1966, for the past decade the ratio had remained more or less stable. Temporary disability benefit pay-

ments have declined from 17 cents to 10 cents of the benefit dollar.

During the past 5 years, total health benefit payments have increased by almost \$3.0 billion—from \$4.5 billion in 1961 to \$7.4 billion in 1966. This impressive gain is a measure of some of the real progress made to provide more nearly adequate services and benefits. Part of the increase, however, reflects attempts to keep up with sharply rising medical care costs. Obviously, the effectiveness or degree of protection of these coverages in meeting the costs of medical care can only be measured by analysis of the patterns of benefits provided and the proportion of health care expenses covered.

Analysis of reported negotiated settlements in the period 1961–66 gives some indication of the extensiveness of changes in health insurance plans in major collective bargaining situations. During this time, major settlements included changes in health and welfare benefits for 60–70 percent of the workers involved in wage settlements.⁶ The most frequent adjustments were in hospital, medical, and surgical insurance. Next in line were life insurance coverage improvements. Accident and sickness benefits also were improved for a substantial number of workers in each year. Each year a large number of workers were also included in settlements under which the employer assumed a greater proportion of the cost of health insurance benefits as well as life insurance and accident and sickness benefits.

These trends are also evident in the Health Insurance Institute's annual studies of new group health insurance policies issued during the year.⁷ For example, in new plans covering 25–499 employees, 55 percent of the employees in basic hospital expense plans were provided hospital room-and-board benefits of \$14 a day or more in 1963; in 1967 this ratio was 83 percent. In 1967, 90 percent of the employees in basic surgical expense plans had maximum surgical schedules of \$300 or more, compared with 73 percent in 1963. For comprehensive major medical plans, there was a trend toward higher maximum benefits—almost 40 percent of the employees covered in new plans in 1967 had maximum benefits of \$15,000 or more,

⁶ Department of Labor, *op. cit.*

⁷ Health Insurance Institute, *New Group Health Insurance: I. Policies Issued in 1967 and II. The Five-Year Trend, 1963–67.*

TABLE 5.—Private pension and deferred profit-sharing plans: ¹ Estimated coverage, contributions, beneficiaries, benefit payments, and reserves, 1950, 1955, 1960–66

Year	Coverage, ² end of year (in thousands)			Employer contributions (in millions)			Employee contributions (in millions)			Number of beneficiaries, end of year (in thousands)			Amount of benefit payments (in millions)			Reserves, end of year (in billions)		
	Total	In-sured	Non-insured	Total	In-sured	Non-insured	Total	In-sured	Non-insured	Total	In-sured	Non-insured	Total ³	In-sured	Non-insured ³	Total	In-sured	Non-insured
1950.....	9,800	2,600	7,200	\$1,750	\$720	\$1,030	\$330	\$200	\$130	450	150	300	\$370	\$80	\$290	\$12.1	\$5.6	\$6.5
1955.....	15,400	3,800	11,600	3,280	1,100	2,180	560	280	280	980	290	690	850	180	670	27.5	11.3	16.1
1960.....	21,200	4,900	16,300	4,690	1,190	3,500	790	300	490	1,780	540	1,240	1,750	390	1,360	52.0	18.8	33.1
1961.....	22,200	5,100	17,100	4,770	1,180	3,590	810	290	520	1,910	570	1,340	1,960	450	1,510	57.8	20.2	37.5
1962.....	23,100	5,200	17,900	5,020	1,240	3,780	860	310	550	2,100	630	1,470	2,250	510	1,740	63.5	21.6	41.9
1963.....	23,800	5,400	18,400	5,260	1,350	3,910	920	340	580	2,280	690	1,590	2,460	570	1,890	69.9	23.3	46.5
1964.....	24,600	6,000	18,600	5,900	1,470	4,430	990	370	620	2,490	740	1,750	2,760	640	2,120	77.2	25.2	51.9
1965.....	25,400	6,300	19,100	6,660	1,680	4,980	1,090	420	670	2,750	790	1,960	3,180	720	2,460	85.4	27.3	58.1
1966.....	26,400	7,000	19,400	7,260	1,760	5,500	1,140	440	700	3,110	870	2,240	3,680	810	2,870	93.9	29.4	64.5

¹ Includes pay-as-you-go, multiemployer, and union-administered plans, those of nonprofit organizations, and railroad plans supplementing the Federal railroad retirement program. Insured plans are underwritten by insurance companies; noninsured plans are, in general, funded through trustees.

² Excludes annuitants; employees under both insured and noninsured plans are included only once—under the insured plans.

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

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

compared with only 1 percent in 1963. Under short-term disability plans, 46 percent of the employees in new plans written in 1967 were eligible for benefits for 26 weeks or more, compared with 35 percent in 1963.

RETIREMENT PLAN TRENDS

An estimated 26.4 million employed workers were covered by private pension and deferred profit-sharing plans at the end of 1966—1 million more persons than at the end of 1965.⁸ This growth was greater than the typical increment in the past 4 years, during which the absolute increase in the number of persons was in the range of 700,000–900,000 (table 5).

In contrast to the experience of the 1950's, when most new coverage was attributable to noninsured plans, insured plans increased their coverage in 1966 by 700,000, reaching a total of 7 million; noninsured plans rose only 300,000 to a total of 19.4 million. The reversal in the trend of greater proportionate increases for noninsured plans than for insured plans began during the 1960's. The proportion of all workers covered by insured plans hit a low point of 23 percent in 1960, but by the end of 1966 had risen to 26.5 percent, thus regaining for insured plans the position they had held in the early fifties.

⁸ An ongoing review of the coverage estimates for private retirement plans appears to indicate that downward revision in the series is necessary. Revised data will be presented in a *Bulletin* note when the adjustments are completed.

Contributions

Total contributions (employer and employee) to retirement plans moved up \$650 million during 1966 and totaled \$8.4 billion. In 1965 the total amount contributed was \$7.8 billion. The 8.4-percent increase was substantially lower than the record growth for 1964 and 1965 but appreciably higher than the rates observed in the early sixties.

Despite the declining rate of increase in contributions to insured plans, their share of total contributions still appears to have more or less stabilized at about a fourth of the total. Contributions for noninsured plans (\$6.2 billion) shared the general decline in the rate of growth in contributions for all types of employee benefits but still had a more robust gain than that of insured plans.

The proportion of total contributions borne by employees dropped to 13.6 percent during 1966, a slight change from the pattern prevailing in the period since 1951. During that period the employers' share was 85–86 percent, despite strong union pressure for full employer financing of retirement benefits. A single year's experience may not indicate a permanent change, but a number of larger plans have dropped employee contributions or reduced them through plan amendment.

Average contributions per covered employee—a rough measure of plan improvements as well as increased funding—continued to climb rapidly and now stand at about \$324 per employee per year, compared with \$310 in 1965. Similarly,

employer contributions per capita had a sharp rise from \$266 per employee in 1965 to \$280 in 1966.

Benefits and Beneficiaries

Private retirement plans have now reached a stage in which the growth in beneficiaries and benefits tends to be much more dynamic than the growth in coverage and contributions. It is estimated that 3,110,000 beneficiaries were paid almost \$3.7 billion from private retirement plans in 1966. This was a net increase of some 360,000 from the number in 1965. The rate of increase of 13 percent marks a departure from the lower rates during the early sixties when the growth rate was typically less than 10 percent.

Both insured and noninsured plans had substantial increases in the number of retirees, but noninsured plans had more vigorous expansion. Reflecting these differences in growth, noninsured plans now account for 72 percent of the total number of retirees and insured plans for 28 percent.

As in the past, the growth in benefits paid by private retirement plans outstripped the growth rate for beneficiaries, mirroring past and recent improvements in the level of benefits promised under many pension plans. In addition, the importance of past service benefits, typically at lower levels than current service benefits, is declining in importance for persons now reaching retirement age. In 1966, benefit payments grew 16 percent (almost double the growth rate of contributions), as \$500 million more was expended than was paid out in 1965. Average expenditures have risen more than \$200 per retiree since 1960 and now average \$1,256.

Since the growth rate for beneficiaries has been greater than that for active coverage, the ratio of active workers to retired participants has changed radically in the past 17 years. In 1950 there were about 22 active members for each retiree. By 1960, this ratio was 12 to 1 and, in 1966, the ratio was 9 to 1.

These statistics and comparisons give some indication of the rapidly increasing role of private plans in income maintenance for the aged. At the end of 1966, it is estimated that 18 percent of the population aged 65 and over were receiving private pension income as pensioners (or as their

wives). In 1960, the proportion was 12 percent, and it was 4 percent in 1950.

These figures do not take into account the number of persons receiving private retirement benefits before age 65, and thus do not reflect decisions to take early retirement or disability pensions. The number of persons receiving such benefits before age 65 is unknown, but it is estimated that about 15 percent of all persons receiving private pension benefits are under age 65.

Reserves

Private pension plan assets (book value) set aside for current and future benefit payments amounted to \$93.9 billion at the end of 1966, a record \$8.5 billion increase from the preceding year. Despite substantially increased contributions and investment yields, the 10-percent increase was lower than that for 1965 and less than relative growth in most earlier years. This decline in the rate of growth reflects the rapidly expanding payments under private pension plans and a slackening in percentage growth of employer and employee contributions in 1966.

Assets of insured plans have dropped further below that of noninsured plans. The assets of noninsured (trusteed) plans rose at a faster rate than insured plans (11.0 and 7.7 percent, respectively), a continuation of the pattern that emerges in the fifties. Therefore, the proportion of total reserves set aside for noninsured plans continued to climb and now equals about 69 percent. In 1950, the distribution for noninsured and insured plans was 54 percent to 46 percent.

Similarly, the gap between average reserves per covered employee in noninsured and insured plans continues to narrow: the average in 1966 for noninsured plans was about \$3,300, and for insured plans it was about \$1,200. Average reserves on an aggregate basis rose to about \$3,600 per employee.

Since the end of 1950, reserves for private pension plans have increased by \$81.8 billion. During this period, total contributions—\$81.7 billion—have been about the same as the amount of increase in reserves. Benefit payments have totaled \$26.2 billion, so that, on an aggregate basis benefits have been met by the yield on the funds' investments (\$26.3 billion). In the earlier

years of retirement plans, as reserves were being built up, aggregate earnings of the fund did not approach benefit payments. Since 1961, aggregate earnings have exceeded aggregate benefit payments. In 1966, the gain on investments was about \$3.8 billion, well above benefit payments of \$3.7 billion. It may be noted, however, that the earnings from pension funds dropped substantially, percentagewise, from 1965.

CHARACTERISTICS OF RETIREMENT PLANS

An overall view of the private retirement structure reveals astonishing diversity in financing and coverage arrangements, in the types of benefits provided, and in the scope and level of protection afforded. This diversity has been influenced by a wide variety of factors—the financial ability and interest of the individual firm or industry, the extent of collective bargaining, industry and labor-market forces, and the consideration given to the basic social security program—old-age, survivors, disability, and health insurance (OASDHI).

The overwhelming majority of the 26 million workers covered by private retirement plans are under pension plans, as distinguished from deferred profit-sharing plans. The latter are plans in which the company's payments into the retirement fund are partly or wholly dependent on annual profits, so that neither contributions nor benefits are known in advance. Major public interest is centered on pension plans, designed generally to provide determinable cash benefits for life to qualified workers, financed through regular contributions by employers and in some cases by employees.

About half the 26 million workers covered by private retirement plans are under collectively bargained plans that have been negotiated between management and unions. The substantial number of workers belonging to plans under collective bargaining results to some extent from multiemployer plans, which cover more than a third of the workers under collectively bargained plans. Multiemployer plans are generally organized on an industry basis to meet situations where, for example, the employer is too small to set up his own plan. Under these plans, all employers contribute into a common pension fund from

which their employees, who may have shifted from one employer to another in the industry, draw pensions. These plans covered fewer than 1 million workers before 1950. In the late fifties, they were extended in many industries, so that by 1960 they included more than 3 million persons. About 5 million workers are now in these plans.

A recent Bureau of Labor Statistics study of pension plans (based on a sample of reports and documents filed with the Department of Labor's Office of Labor-Management and Welfare-Pension Reports, under the Welfare and Pension Plan Disclosure Act) yields some significant data on the characteristics of current private pension plans. By the end of September 1966, financial reports for more than 30,000 plans had been filed.⁹ The worker coverage figures relate to 1964-65. The previously unpublished tabulations in this section, made available through the cooperation of BLS, exclude deferred profit-sharing plans, plans of nonprofit organizations, and plans with fewer than 26 workers—all of which are included in the coverage estimates by the Social Security Administration.

Although the typical pension plan is small, about 60 percent of all workers in the study were in plans with 5,000 or more workers. A fifth of the coverage was in 18 large plans, with 100,000 or more participants in each of the plans and combined coverage of almost 3.5 million, as shown below.

[Percent]

Number of workers covered	Plans	Workers ¹
All pension plans.....	100.0	100.0
Under 200.....	62.4	4.6
200 and under 500.....	16.5	5.1
500 and under 1,000.....	8.8	5.8
1,000 and under 5,000.....	9.4	24.4
5,000 and under 10,000.....	1.4	9.7
10,000 and under 25,000.....	.9	11.3
25,000 and under 50,000.....	.4	11.8
50,000 and under 100,000.....	.1	7.3
100,000 and over.....	.1	20.0

¹ Active workers 1964-65.

Source: Unpublished data, from the Bureau of Labor Statistics, Department of Labor.

⁹The Bureau of Labor Statistics analyzed a stratified random sample of plans on file, selected on the basis of industry and size of plan. Data for each sample plan were weighted so that tables show estimates for all pension plans filing reports. The figures on private plan and worker coverage in these tables differ from published data for all plans on file in the Office of Labor-Management and Welfare-Pension Reports for the same date, mainly because the BLS study excludes profit-sharing, savings, and thrift plans.

Though almost 90 percent of the plans studied had more than 25 participants but fewer than 1,000, these plans accounted for only 15 percent of the coverage. Medium-size plans—1,000–5,000 persons covered—represented the remaining 10 percent, but they had a fourth of all covered workers.

Almost 40 percent of the plans, covering 70 percent of the workers, indicated that the plans were mentioned in collective bargaining agreements between management and unions (table 6). The variations in the impact of collective bargaining and the other underlying forces in the development of private retirement plans have resulted in concentrations of coverage in certain industries and occupations. The high coverage in most manufacturing industries can be attributed, in large part, to the spread of private pension coverage to unionized workers in mass-production industries since 1950. Three out of five of all private plans with the same proportion of workers are in manufacturing industries, so that probably 65–70 percent of all employed workers in manufacturing (mostly in collectively bargained plans) now enjoy private pension coverage in addition to their basic OASDHI protection

TABLE 6.—Selected characteristics of private pension plans, summer 1967

Characteristics	Plans		Workers ¹	
	Number	Percent	Number (in thousands)	Percent
All plans studied.....	17,091	100.0	17,485	100.0
Method of financing: ²				
Contributory.....	4,403	25.8	3,855	22.0
Noncontributory.....	12,517	73.2	13,335	76.3
Type of worker covered: ³				
Salaried and production workers.....	6,974	40.8	7,052	40.3
Production workers only.....	5,119	30.0	7,902	45.2
Salaried workers only.....	4,247	24.8	2,177	12.5
Workers earning more than a specified amount.....	649	3.8	341	2.0
Type of employer unit:				
Single employer.....	15,786	92.4	12,555	71.8
Multiemployer.....	1,305	7.6	4,929	28.2
Collective-bargaining status: ⁴				
Mentioned in collective-bargaining agreement.....	6,341	37.1	12,524	71.6
Not mentioned in collective-bargaining agreement.....	10,730	62.8	4,952	28.3

¹ Active workers 1964–65.

² Excludes 141 plans, covering 15,000 workers, for which information on financing is not available; includes 30 plans, covering 279,000 workers, which were union sponsored and operated, and financed by the worker alone.

³ Excludes 102 plans, covering 13,000 workers, for which information on type of worker covered is not available.

⁴ Excludes 20 plans, covering 8,000 workers, for which information on collective-bargaining status is not available.

Source: Unpublished data from the Bureau of Labor Statistics, Department of Labor.

(table 7). In contrast, only a small proportion of employed workers in trade and services are included in these plans.

In some other nonmanufacturing industries—such as motor and water transportation, communication, public utilities, and finance—pension coverage is, however, almost universal. Coverage in the construction industry is below the level of coverage in those industries, but it is more extensive than that in trade and services. For mining and extractive industries, coverage has been extended to a high proportion of the work force, chiefly through collective bargaining.

The growth and development of negotiated multiemployer plans has been responsible for heavy concentration of pension coverage in certain industries. These plans have developed, for the most part, in industries and occupations marked by seasonal employment, industrywide bargaining, frequent job changing, small firms, and high rates of individual employer mortality. In mining, construction, water and motor transportation, and wholesale trade, most covered workers are included in collectively bargained multiemployer plans. Within manufacturing industries, concentrations of coverage of these plans are found in apparel and food products industries.

About three-fourths of the workers in private plans are in plans financed in full by the employer—that is, in noncontributory plans (table 6). The other covered workers are in plans requiring that a portion of the costs be borne by

TABLE 7.—Private pension plan by industry group, summer 1967

Industry	Plans		Workers ¹	
	Number	Percent	Number (in thousands)	Percent
All plans studied.....	17,091	100.0	17,485	100.0
Agriculture, forestry, and fisheries.....	96	.6	44	.3
Mining.....	318	1.9	334	1.9
Contract construction.....	546	3.2	1,599	9.1
Manufacturing.....	9,936	58.1	10,626	60.8
Durable.....	5,699	33.3	6,416	36.7
Nondurable.....	4,237	24.8	4,209	24.1
Transportation.....	655	3.8	1,281	7.3
Communications and public utilities.....	846	4.9	1,286	7.4
Wholesale and retail trade.....	1,877	11.0	1,004	5.7
Wholesale trade.....	1,180	6.9	540	3.1
Retail trade.....	697	4.1	463	2.6
Finance, insurance, and real estate.....	1,977	11.6	787	4.5
Services.....	840	4.9	523	3.0

¹ Active workers in 1964–65.

Source: Unpublished data, from the Bureau of Labor Statistics, Department of Labor.

employees (contributory plans). The employee's portion in these plans is usually a fixed amount or percentage of compensation, and the employer pays the balance of cost. A few union-operated plans are financed in full by workers' contributions. There is a close relationship between collective bargaining influence and full employer financing of retirement benefits. Almost all collectively bargained multiemployer plans are noncontributory and are financed by specified employer contributions to a central fund. Similarly, collectively bargained single-employer plans, particularly those in highly organized mass-production industries, usually are financed in full by the employer. In industries and for worker groups in which the influence of collective bargaining is limited, on the other hand, there are a significant number of contributory plans for salaried personnel.

Although many early pension plans were limited to salaried workers and executive groups, the scope of protection of most of these plans has since broadened to include all employees, or the employer has established separate plans for production workers. According to available data, the number of persons in plans covering salaried and executive groups only is limited and probably accounts for about 15 percent of private pension coverage. These plans are more likely to require employee financing of part of the cost than plans extended to all employees or those limited to production workers. Furthermore, as previously mentioned, a separate plan for other employees is usually made available by the employer. About 30 percent of the plans (with 45 percent of the total workers) in the BLS study were in plans limited to production or blue-collar workers. An additional 40 percent of the plans with about the same proportion of coverage included both salaried and production workers within the scope of the plan.

Benefit Formulas

The benefit formulas in private plans are extremely varied, reflecting the needs, financial ability, and desires of a particular employer or industry, as well as collective bargaining pressures. The basic considerations in computing benefits are credited service, earnings, or both, and

the relationship to social security benefits. In actual practice, there is an almost limitless number of combinations of factors used, designed to serve a particular purpose in a specific situation. Though these wide variations exist, defined benefit formulas are by far the most common type of formula used in private pension planning and are usually based on years of credited service under the plan, earnings, or both, as shown below.

[Percent]

Type of basic formula	Plans	Workers ¹
All plans ²	100.0	100.0
Uniform amount.....	3.7	12.7
Uniform percentage of earnings.....	4.3	.7
Service only.....	29.1	28.4
Earnings and service.....	56.0	53.9
Money purchase.....	.9	.4
Other.....	1.7	2.3

¹ Active workers in 1963.

² For 4.3 percent of the plans, covering 1.6 percent of the workers, information on benefit formula was not available.

Source: Department of Labor, *The Older American Worker: (Report of the Secretary of Labor to the Congress under Section 715 of the Civil Rights Act of 1964, Research Materials)*, 1965.

Less than 1 percent of the workers are under plans that employ a money purchase formula, specifying a fixed contribution—usually a certain percentage of earnings which is used to purchase retirement benefits. A few plans have adopted variable benefit formulas, with built-in features to adjust to changes in living costs.

Benefits related to both earnings and service.— This is the most common type of defined benefit formula and applies to about half the workers in pension plans. The formulas are usually based on earnings, credited service, and a percentage factor—for example, 1 percent of earnings during each year of credited service. About half the workers are in plans using terminal years—for example, 1 percent of average earnings in the last, or highest 5 or 10, years of employment times years of credited service.¹⁰ The other workers are in plans using career earnings. The definition of credited service in these formulas may relate to all employment or to plan membership; each plan treats service by its own method. The percentage factors used tend to concentrate in the range of 1–2 percent.

¹⁰ Department of Labor, *The Older American Worker: Reports of The Secretary of Labor to Congress Under Section 715 of the Civil Rights Act of 1964, Research Materials*, 1965.

Many of the plans use a step-rate formula, in which a larger percent factor is used to apply to earnings in excess of a specified amount (usually maximum earnings taxable under social security) than to those below such an amount. The more usual formulas of this type now apply a 1-percent factor to earnings up to \$4,800, and 2 percent above that amount, for each year of service.

Benefits related to service alone.—These defined benefit formulas include about 30 percent of the workers in private plans and are typically found in negotiated plans for production workers. Such formulas multiply a dollar amount times years of credited service—for example, \$5 a month for each year of credited service. Limits on service used to compute benefits are frequently specified (typically, 30–35 years).

Benefits unrelated to earnings and service.—Formulas providing a flat uniform amount to those meeting specified requirement (\$100 a month for those persons retiring with 25 or more years of credited service, for example) are usually restricted to multiemployer plans. They apply to 10–15 percent of workers under private plans.

Benefits related to earnings, not service.—Formulas providing a uniform percentage of earnings to workers meeting specified requirements (for example, 40 percent of terminal earnings for all workers with 20 or more years of service) are now uncommon in private plans.

Minimum benefits.—Many pension plans (about a third of the plans with less than a third of the workers), especially those under collective bargaining, guarantee a minimum pension (similar to that in the social security program) to workers qualifying for normal retirement benefits.¹¹ The minimum benefit is planned to provide a higher benefit than that resulting from the application of the basic formula to individuals with low earnings and long service, while the basic benefit formula applies to persons with average or above-average earnings. Plans typically specify a flat minimum amount, or a minimum that varies with years of service for those who qualify.

The social security system has had great influence in shaping the normal retirement benefit provision (as well as other provisions) of private plans, particularly the levels of retirement benefits promised, since for almost all persons who qualify under private plans, retirement income will come from both sources. Not many private pension plans (or deferred profit-sharing plans) directly coordinate plan benefits with OASDHI benefits, though presumably all plans take potential social security benefits into account in setting projected benefit levels in the plan.

Some employers choose to integrate their plans directly with old-age benefits provided by social security through the “offset method.” Under this approach, the plan provides a retirement benefit including OASDHI benefits—that is, all or a portion of the primary social security amount payable to the individual worker will be deducted from the amount calculated under the private plan benefit formula. Under some formulas, future changes in the primary social security amount would result in a decrease in the amount paid by the plan. In plans in which part of the OASDHI benefit is offset, the retired worker will benefit to some extent by future increases in social security. Where the social security deduction is frozen on the basis of the law in effect at the time of plan adoption (or negotiation), or the law in effect at the time of retirement, the private pension of a retired worker will not be further reduced because of increases in social security that may be enacted.

The practice of tying the private plan benefit directly to benefits payable under OASDHI has been declining in recent years. The majority of collectively bargained plans negotiated in the early 1950’s were directly tied to OASDHI benefits. Today, the typical negotiated plan provides benefits exclusive of OASDHI benefits, so that the retired (or retiring) employee receives the full benefit of future social security increases.

A more prevalent approach is the step-rate method under which the benefit formula provides a higher level of benefits for workers with earnings above a specified amount, usually the OASDHI maximum taxable wage base, than are provided for those with earnings below this amount. In formulas of this type, a percentage

¹¹ *Ibid.*

rate is applied to earnings of up to a specified amount and a higher percentage rate is applied to earnings above that amount—for example, 1 percent of annual earnings up to \$4,800 and 2 percent above that amount, for each year of service. Under the exclusion-of-earnings approach, or excess plan, employees earning less than a specified amount are excluded because benefits only apply to earnings above the specified amount. For example, a plan may have a formula of 1 percent of annual earnings above \$4,800 for each year of credited service. In some cases, a separate plan supplemental to a basic pension plan is established that is restricted to those with earnings above a specified amount. Usually the basic plan is financed in full by the employer and the supplemental plan requires employee contributions.

Liberalization of Benefit Formulas

The primary purpose of a retirement plan—public or private—is to provide a level of benefits that replaces a portion of earnings before retirement. Increasing attention has focused on the levels of benefits promised under public as well as private plans in the light of rising prices and wage levels. There are various ways by which private pension plans attempt to keep benefits for active workers nearing retirement in pace with changing economic conditions.

First, the levels of benefits under the formulas developed in private pension plans, as under other retirement programs, may adjust automatically to rising wage levels and price changes. For example, under retirement formulas relating benefits to compensation during the final years of employment—high or last 5 or 10 years—wage and salary changes are more readily recognized in the ultimate benefit level and retirement benefits are more closely related to preretirement income. Under career average earnings-related, and service-related formulas, on the other hand, a rise in the earnings of the individual has little effect on the ultimate benefit level at retirement.

Second, private plan benefits may be adjusted on an ad hoc basis through collective bargaining and unilateral employer action. Private pension plans do not change as frequently as wages and other conditions of employment set by collective bargaining agreements and employer personnel

policies that are essentially short-term commitments. However, the history of bargaining experience of the past 15 years and the favorable experience in private pension financing have clearly shown that pension plans have not been static programs.

During the period 1950–67, several patterns have emerged in private plan efforts to keep promised pension benefits in pace with rising wage levels and inflation during a person's working lifetime. Flat dollar amounts in formulas using length of service as a variable have shown a persistent increase over time, especially through collective bargaining pressures. Furthermore, formulas originally tied to OASDHI benefits have broken completely away from that pattern, especially through collective bargaining and, where social security "offsets" have been retained, the amount has been frozen or reduced. Many plans originally basing benefits on career compensation have either adopted minimum benefits based on some final average-earnings base or have changed the basic formula to some final average earnings base. The period of service used for computing benefits has been extended and minimum pension provisions have been adopted to provide higher benefits for workers with below-average earnings. The use of step-rate formulas, providing greater benefits for higher-paid persons, has increased in prevalence, and the percentage factors used in computing benefits have been increased. Finally, variable annuity formulas have been adopted in a few cases.

Changes in benefit levels can be illustrated by viewing improvements in well known major pension plans since 1952. During this period, other provisions such as early and disability retirement and vesting have also been added to many of these plans, and some of these gains have been liberalized over time. Furthermore, changes in negotiated plans have influenced employer plans not subject to collective bargaining.

Some of the changes that have taken place in the short span of 15 years are illustrated in table 8, which compares hypothetical benefits (with and without OASDHI benefits) under the current benefit formulas of 18 large private pension plans, covering more than 3 million employees and currently paying benefits to about one-half million retirees. These comparisons merely reflect the magnitude of change and are not illustrative

TABLE 8.—Illustrative hypothetical monthly pensions payable to hourly workers under 18 selected private retirement plans, selected years, 1952, 1959, and 1967

Plan	Hypothetical benefit at age 65, for workers beginning service in indicated years after 30 years of continuous service, assuming level monthly earnings of—								
	\$350			\$400			\$550		
	1952	1959	1967	1952	1959	1967	1952	1959	1967
Ford Motor Co.:									
Plan only.....	\$40.00	\$75.00	¹ \$165.00	\$40.00	\$75.00	¹ \$165.00	\$40.00	\$75.00	¹ \$165.00
Plan and OASDHI ²	125.00	191.00	289.00	125.00	201.00	301.00	125.00	201.00	333.00
The Firestone Tire and Rubber Co.:									
Plan only.....	62.50	75.00	165.00	77.50	75.00	165.00	122.50	75.00	165.00
Plan and OASDHI.....	147.50	191.00	289.00	162.50	201.00	301.00	207.50	201.00	333.00
Westinghouse Electric Corp.:									
Plan only.....	20.00	67.50	111.00	35.00	67.50	120.00	80.00	67.50	147.00
Plan and OASDHI.....	105.00	183.50	235.00	120.00	193.50	256.00	165.00	193.50	315.00
United States Steel Corp.:									
Plan only.....	20.00	78.00	150.00	35.00	78.00	150.00	80.00	85.00	150.00
Plan and OASDHI.....	105.00	194.00	274.00	120.00	204.00	286.00	165.00	211.00	318.00
Aluminum Company of America:									
Plan only.....	38.90	78.00	150.00	56.60	78.00	150.00	109.70	126.25	150.00
Plan and OASDHI.....	123.90	194.00	274.00	141.60	204.00	286.00	194.70	252.25	318.00
du Pont (E. I.) de Nemours & Co.:									
Plan only.....	81.00	116.00	155.00	97.00	132.00	160.00	146.50	181.50	181.50
Plan and OASDHI.....	166.00	232.00	279.00	182.00	258.00	296.00	231.50	307.50	349.50
General Electric Co.:									
Plan only.....	102.00	84.00	135.00	132.00	96.00	135.00	222.00	186.00	165.00
Plan and OASDHI.....	187.00	200.00	259.00	217.00	222.00	271.00	307.00	312.00	333.00
American Telephone and Telegraph Co.:									
Plan only.....	62.50	57.00	89.00	77.50	57.00	86.00	122.50	102.00	123.00
Plan and OASDHI.....	147.50	173.00	213.00	162.50	183.00	222.00	207.50	228.00	291.00
Armour and Co.:									
Plan only.....	20.00	45.00	150.00	20.00	45.00	150.00	20.00	45.00	150.00
Plan and OASDHI.....	105.00	161.00	274.00	105.00	171.00	286.00	105.00	171.00	318.00
The Western Union Telegraph Co.:									
Plan only.....	62.50	57.00	³ 105.00	77.50	57.00	³ 120.00	122.50	102.00	³ 165.00
Plan and OASDHI.....	147.50	173.00	229.00	162.50	183.00	256.00	207.50	228.00	333.00
International Harvester Co.:									
Plan only.....	15.00	75.00	127.50	15.00	75.00	127.50	15.00	75.00	127.50
Plan and OASDHI.....	100.00	191.00	251.50	100.00	201.00	263.50	100.00	201.00	295.50
Pacific Gas and Electric Co.:									
Plan only.....	135.00	172.50	172.50	165.00	210.00	210.00	255.00	322.50	322.50
Plan and OASDHI.....	220.00	288.50	296.50	250.00	336.00	346.00	340.00	448.50	490.50
Sinclair Oil Corp.:									
Plan only.....	105.00	157.50	157.50	135.00	180.00	180.00	195.00	270.00	247.50
Plan and OASDHI.....	190.00	273.50	281.50	220.00	306.00	316.00	280.00	396.00	415.50
United Mine Workers Welfare and Retirement Fund: ⁴									
Plan only.....	100.00	100.00	115.00	100.00	100.00	115.00	100.00	100.00	115.00
Plan and OASDHI.....	185.00	216.00	239.00	185.00	226.00	251.00	185.00	226.00	283.00
Amalgamated Clothing Workers: ⁵									
Plan only.....	50.00	50.00	75.00	50.00	50.00	75.00	50.00	50.00	75.00
Plan and OASDHI.....	135.00	166.00	199.00	135.00	176.00	211.00	135.00	176.00	243.00
Ladies' Garment Workers' National Retirement Fund:									
Plan only.....	50.00	50.00	⁶ 65.00	50.00	50.00	⁶ 65.00	50.00	50.00	⁶ 65.00
Plan and OASDHI.....	135.00	166.00	189.00	135.00	176.00	201.00	135.00	176.00	233.00
National Maritime Union:									
Plan only.....	65.00	100.00	250.00	65.00	100.00	250.00	65.00	100.00	250.00
Plan and OASDHI.....	150.00	216.00	374.00	150.00	226.00	386.00	150.00	226.00	418.00
Western Conference of Teamsters:									
Plan only.....	(⁷)	75.00	⁸ 180.00	(⁷)	75.00	⁸ 180.00	(⁷)	75.00	⁸ 180.00
Plan and OASDHI.....	85.00	191.00	304.00	85.00	201.00	316.00	85.00	201.00	348.00

¹ Benefit formula effective in 1969.

² Represents maximum old-age (primary) benefit in effect in 1967. In 1968, OASDHI benefits increased by about 13 percent.

³ Benefit formula effective in 1970.

⁴ Bituminous coal industry.

⁵ Men's and boy's clothing industry pension plan.

⁶ Benefit formula effective January 1, 1968.

⁷ Plan was established in 1955.

⁸ Assumes benefit contribution rate of 20 cents per hour.

of the real or probable relationship that retirement income may bear to preretirement income in years to come. The following assumptions¹² were

¹² It must be emphasized that these computations do not indicate the amount individual workers would receive today or in the future at retirement, because many private plans determine benefits partly on the basis of past-service formulas. Further, current OASDHI benefit amounts fall far below assumed amounts because social security benefit computations are usually based on earlier earnings history when wage levels and maximum creditable earnings were lower. The computed benefits, however, provide benchmarks to indicate broad changes in benefit formulas since 1952.

therefore made to compute the hypothetical current-service retirement benefits that would be payable for workers retiring at age 65. First, benefits were computed on the basis of selected average monthly earnings levels (\$350, \$400, and \$550) assumed to be level throughout a future service period of 30 years. Second, the full primary insurance amount under the Social Security Act is assumed to be payable at age 65 for each hypothetical employee at each of the assumed earnings levels. In terms of the OASDHI provisions in effect in 1967, this would mean a max-

imum monthly primary old-age benefit of \$124.20 for the \$350-a-month worker, \$135.90 for the \$400-a-month worker, and \$168 for the \$550-a-month worker. In 1952, the maximum benefit was \$85 for these earnings categories.

At the present time, the benefit formulas in five of the 18 plans are based on a flat monthly dollar amount per year of service; three plans—all multiemployer plans—pay uniform monthly amounts to qualified workers; two plans provide flat monthly dollar amounts that vary by job classification; and the remainder base benefit computations on some type of earnings and service formula (all these plans have alternative or minimum formulas usually based on flat monthly amounts times years of service). Only three plans (all with earnings and service formulas) have an offset for social security benefits (one-fourth of the amount is deducted in one plan, and a fixed amount in two plans). Two plans provide a smaller benefit for the portion of earnings up to \$6,600 than for earnings above that level, and in one plan the earnings level has been frozen at \$3,000.

Reflecting the changes described above, the increase in total hypothetical benefits (social security plus private plan) in the 18 plans between 1952 and 1967 ranged from about 30 percent to about 160 percent for the \$350-a-month worker; from 25 percent to 170 percent for the \$400-a-month worker; and from 10 percent to higher than 200 percent for the \$550-a-month worker. A major influence in raising combined benefits during this period, of course, were the Social Security Act amendments in 1954, 1958, and 1965, which liberalized primary old-age benefit amounts and raised the taxable earnings base (to \$4,800 in 1959, and to \$6,600 in 1966). For example, maximum primary social security benefits rose by about 45 percent for the \$350-a-month worker, 60 percent for the \$400-a-month worker, and almost 100 percent for the \$550-a-month worker. Despite these substantial increases in social security benefits, private plan benefits tend to show a vastly greater percentage increase in the benefit provided workers in the lower illustrative earnings categories, and the reverse is true at the highest illustrative earnings category.

In 1952, the benefit formulas in private illustrative plans provided workers with 30 years of future service and level average annual earnings

of \$350 and \$400 with private pensions that ranged from about 5 percent to 30 percent of preretirement income. Combined benefits (private plan plus OASDHI) generally ranged from 30 percent to 50 percent at both the \$350 and \$400 average earnings levels. Wage replacement at the \$550 earnings level was lower.

In 1967, in contrast, these plans most often replaced from 30 percent to 50 percent of preretirement earnings at the \$350 and \$400 earnings levels. When plan benefits are combined with OASDHI benefits, the replacement generally ranged from 60 percent to 85 percent at the \$350 and \$400 earnings levels. At the \$550 earnings level, the typical wage replacement by the plan was in the range of 20 to 35 percent, and, when OASDHI benefits were added, 50 to 65 percent was the range of wage replacement.

Finally, in 1952 only four of the plans provided combined benefits for the \$350-a-month worker that were 50 percent or more of preretirement earnings. At the \$550 monthly earnings level, three plans provided for retirement benefits of over 50 percent of preretirement earnings. Maximum primary social security benefits alone amounted to about 24 percent and 15 percent of preretirement earnings of \$350 and \$550, respectively. In 1967, on the other hand, all plans provided combined benefits of at least 50 percent of preretirement earnings at the \$350 and \$400 earnings levels. All but two plans replaced at least 50 percent at the \$550 earnings level, and even these plans provided over 40 percent. Under the assumed conditions in 1967, the \$550-a-month worker typically had a lower replacement of preretirement earnings, because the social security benefit represents a smaller fraction of earnings at higher levels (about 30.5 percent at the \$550-a-month level) than at lower earnings levels (about 35.5 percent of the \$350-a-month level).

In a number of instances the private plan benefit now equals, or exceeds, the primary social security benefit for workers with level earnings of \$350 and \$400 a month in 1967. For shorter plan service periods, of course, social security benefits would generally exceed the private plan benefits. In 1952, in most cases the private plan benefit was much smaller than the maximum primary social security benefit at \$350 and \$400 earnings levels, but the differences were not as great at the \$550 earnings level.

TECHNICAL NOTE

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

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

contributions by the average number of employees covered during the year.

The number of beneficiaries under pension plans relates to those receiving periodic payments at the end of the year and thus excludes those who received lump sums during the year. The retirement benefits under noninsured plans do include (1) refunds of employee contributions to individuals who withdraw from the plans before retirement and before accumulating vested deferred rights, (2) payments of the excess of employee contributions to survivors of pensioners who die before they receive in retirement benefits an amount equal to their contributions, and (3) lump-sum payments made under deferred profit-sharing plans. Because the source of the data from which the estimates have been developed does not permit distinction between these lump-sum benefits and the amounts representing monthly retirement benefits, precise data on average monthly or annual retirement benefit amounts cannot be derived.

Notes and Brief Reports

Aged Persons Receiving Both OASDI and OAA, Early 1967*

In order to effectively plan and evaluate old-age, survivors, disability, and health insurance (OASDHI) and public assistance programs and assess their changing relationship to each other, it is essential to have comprehensive data on aged persons who receive money payments from both programs concurrently. The latest report from the Assistance Payments Administration of the Social and Rehabilitation Service indicates that more than half those receiving old-age assistance (OAA) under State-Federal public assistance programs in February 1967 also received cash insurance benefits under OASDHI in that month.

These data have been gathered annually from the States since 1948 and include figures on the incidence of concurrent receipt and the amount of such monthly payments from the insurance and assistance programs. The most recent information presented here was taken from reports for February 1967 submitted by State public assistance agencies administering or supervising the administration of approved plans for old-age assistance.¹ They do not include recipients of medical assistance for the aged as they have in some previous years.

Early in 1967 more than 1 million persons aged 65 or over were receiving monthly income-maintenance payments both under old-age assistance and under old-age, survivors, disability, and health insurance. Persons getting both types of payments were only slightly more numerous than they had been in February 1966 and they repre-

*Data from tabular release on *Concurrent Receipt of Public Assistance Money Payments and Old-Age, Survivors, and Disability Insurance Cash Benefits by Persons Aged 65 or Over, 1948-67 and February 1967* (Social and Rehabilitation Service, Assistance Payments Administration), 1967.

¹For the most recent analysis of comparable information, see "Concurrent Receipt of Public Assistance and Old-Age, Survivors, and Disability Insurance by Persons Aged 65 and Over, Early 1963," *Welfare in Review* (Welfare Administration), March 1964.