

PRIVATE PENSION PLANS

HEARINGS
BEFORE THE
SUBCOMMITTEE ON FISCAL POLICY
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
EIGHTY-NINTH CONGRESS
SECOND SESSION

PART 1

APRIL 26, 27; MAY 2, 1966



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PRIVATE PENSION PLANS

TUESDAY, APRIL 26, 1966

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee, met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representative Griffiths and Senator Javits.

Also present: James W. Knowles, executive director, Nelson D. McClung, economist, Donald A. Webster, minority economist, and Hamilton D. Gewehr, administrative clerk.

Representative GRIFFITHS. The Subcommittee on Fiscal Policy will be in order.

I would like to thank you gentlemen for being here. I understand from the staff that you have been most cooperative in your response to our invitation to appear as witnesses.

OPENING STATEMENT OF HON. MARTHA W. GRIFFITHS, A REPRESENTATIVE FROM THE STATE OF MICHIGAN, AND CHAIRMAN OF THE SUBCOMMITTEE ON FISCAL POLICY OF THE JOINT ECONOMIC COMMITTEE

Representative GRIFFITHS. Since it became known that we intended to look into private pension plans, I have received many letters from people all over the country. Some are from people now working who protest against the conditions which must be satisfied in order to qualify for a pension. Some letters are from retired people protesting the disappointment of their pension expectation. Often these people were denied pensions on the flimsiest pretexts. Actually, I wanted to bring these people in and have them testify and then let the plans represented come in and explain. However, the staff protested that we could not do that.

The private pension system enjoys substantial tax support. Private pension plans were granted tax support from a congressional recognition of their public aspects. Potentially, private pension plans serve a public purpose—the assurance of income to workers during their retirement years. They actually serve this purpose only if workers for whom contributions are made enjoy reasonable assurance of receiving a pension. Unless private pension plans satisfy high standards with respect to protection of workers' pension rights, saving

through pension plans serves no more public purpose than private saving in general and should not, therefore, receive preferential tax treatment.

One purpose of these hearings is to determine as best we can for several basic patterns of pension plans what the chances are that workers now covered will ever receive a pension. And we should like to know what thought is being given to improving those chances through the design of plans which have a higher probability that contributions will pay pensions to those for whom they were initially made and not just to a favored few.

Contributions to private pension plans have built up large funds. Some of these funds are managed by insurance companies, which long ago we put under public supervision. The bulk of the funds, however, are managed by private trusts. The trustees are nominally accountable under State laws to those, the members of the pension plan, for whom funds are held. Actually, it is rare that a worker covered by a noncontributory pension plan can bring a trustee to a reckoning. To whom then are these trustees responsible? By what standards do they manage the funds entrusted to their care? Not just the members of the pension plan but everyone has an interest in this question because the economy with which wealth is managed affects all our livelihoods.

We have asked representatives of several major plans to appear before this subcommittee to explain how their plans serve the public interest in private pension plans, and I would like to explain to you gentlemen who are here, that I have had no complaints on your fund. You are not here because I had complaints; I did not. Today we have representatives from the Western Conference of Teamsters pension trust. The Boeing Co. plan, which we were to take up this afternoon, has been reset for 2 p.m. on May 3. Otherwise, the schedule of hearings remains as announced in the press release, which we will include in the record at this point.

[For immediate release, Thursday, April 21, 1966]

CONGRESS OF THE UNITED STATES, JOINT ECONOMIC COMMITTEE

Representative Martha W. Griffiths (D., Mich.), Chairman of the Fiscal Policy Subcommittee of the Joint Economic Committee, today announced hearings on private pension plans. The schedule below lists officials of private plans who will appear before the Subcommittee and the dates on which they will appear. Immediately following the scheduled testimony from private plan representatives, the Subcommittee expects to hear public officials.

The purpose of these hearings is to develop the major policy issues in private pension plans in the context of a number of representative plans. The Subcommittee believes that these hearings can contribute to a better general understanding of the role of private pension plans in an overall program of income protection for the aged by making concrete some of the unfamiliar technical concepts of pension planning. It expects that the hearings will also suggest ways to improve existing private pension plans.

SCHEDULE

- Tuesday, 26 April—Room S-407, The Capitol (AE-1) :**
 10:00 Western Conference of Teamsters Pension Trust Fund.
 Union: John G. Marshall, Trustee.
 Company: Henry Ivers, Trustee.
- Wednesday, 27 April—Room S-407, The Capitol (AE-1) :**
 10:00 Studebaker Terminated Automobile Workers Plan.
 Union: Willard Solenberger, United Auto Workers.
 Company: Clifford M. MacMillan, Vice Pres., Industrial Relations.
 2:00 International Ladies' Garment Workers Union (AFL-CIO) National Retirement Fund.
 Union: Louis Rolnick, Director, Health and Welfare Department.
 Company: Harold Korzenik, United Knitwear Manufacturers League.
- Monday, 2 May—Room S-407, The Capitol (AE-1) :**
 10:00 The New York City District Council of Carpenters Pension Fund.
 Union: Thomas Maziotta, Supervisor, Welfare and Pension Fund.
 Company: James B. Martin, General Contractors Association.
 2:00 Plan for Employees' Pensions, Disability Benefits and Death Benefits of the American Telephone and Telegraph Company.
 Union: Louis B. Knecht, Assistant to the President, Communication Workers of America.
 Company: Harold H. Schroeder, Assistant Vice President, American Telephone and Telegraph Company.
- Tuesday, 3 May—Room S-407, The Capitol (AE-1) :**
 10:00 Savings and Profit-Sharing Pension Fund of Sears, Roebuck and Company.
 Company: L. L. O'Connor, Vice President, Sears, Roebuck and Company.
 2:00 Boeing Company Plan.
 Union: Albert Epstein, International Association of Machinists and Aerospace Workers (AFL-CIO).
 Company: Anson Blaker, Assistant Treasurer, The Boeing Company.
- Monday, May 9—Room S-407, The Capitol (AE-1) :**
 10:00 W. Willard Wirtz, Secretary of Labor.
 James J. Reynolds, Assistant Secretary for Labor-Management Relations, Department of Labor.
- Wednesday, May 11—Room S-407, The Capitol (AE-1) :**
 2:00 Robert M. Ball, Commissioner, Social Security Administration.
- Monday, May 16—Room S-407, The Capitol (AE-1) :**
 10:00 John W. Macy, Jr., Chairman, Civil Service Commission.
 2:00 Stanley S. Surrey, Assistant Secretary of the Treasury.
 Sheldon S. Cohen, Commissioner, Internal Revenue Service.
- Friday, May 20—Room S-407, The Capitol (AE-1) :**
 10:00 Henry Root Stern, Jr., Supt. of Insurance, State of New York.
 Frank Wille, Supt. of Banking, State of New York.
 2:00 Dean Miller, Deputy Controller of the Currency.
 Frederic Solomon, Director, Division of Examinations, Board of Governors of the Federal Reserve System.

Members of the Subcommittee on Fiscal Policy are Representative Martha W. Griffiths, Chairman; Representative Hale Boggs; Representative William B. Widnall; Senator Paul H. Douglas; Senator William Proxmire; Senator Herman E. Talmadge; Senator Jacob K. Javits; and Senator Jack Miller.

Representative GRIFFITHS. Senator Javits would like to make a statement.

Senator Javits?

**OPENING STATEMENT OF HON. JACOB K. JAVITS, U.S. SENATOR
FROM THE STATE OF NEW YORK, MEMBER OF THE SUBCOMMITTEE
ON FISCAL POLICY AND RANKING MINORITY MEMBER OF
THE JOINT ECONOMIC COMMITTEE**

Senator JAVITS. Madam Chairman, as I am a member of the subcommittee, I am making a statement in lieu of testifying. It seems a little artificial for me to testify.

Madam Chairman, may I say first that I think the Chair has inaugurated what could be one of the most constructive and enlightening aspects of the work of Congress. Pension plans have resources which according to our figures are now almost in the hundred billion dollar category. It is an unbelievably big part of the American economy. It will have to be interrelated to social security and many other things. Regulation is urgently required in my judgment.

Madam Chairman, the Senate Committee on Government Operations, of which I am a member, actually investigated pension plans last year and demonstrated that the law—such law as exists, both State and Federal—is as full of holes as Swiss cheese. Also, as the ranking minority member of the Senate Labor and Public Welfare Committee—the legislative committee in charge of this matter in the Senate—I can assure the Chair that I will move heaven and earth to see that we act based upon the Chair's splendid work in this committee.

So, when I speak to this subject, Madam Chairman, it is not idly, but based upon a great deal of work. In addition, I am the author of S. 2532, in which the cosponsors are Senators Prouty and Allott, to endeavor to do something about what happens to pension assets after they are paid into the pension fund itself, and this will undoubtedly have a hearing before our committee very soon. It is with that in view, Madam Chairman, that I would like your indulgence for 5 or 6 minutes so that I may make a statement in lieu of testimony.

I welcome the opportunity to participate in these hearings on private pension plans, because I believe that these are pressing problems here which are vitally in need of close examination and thoughtful consideration.

THE BASIC PROBLEMS

The basic problems, as my staff and I see them, are funding, vesting, transferability of pension rights, reinsurance of pension plans, and proper administration of pension trust funds. I am convinced, moreover, that these problems are inherently interrelated, and that as we proceed with these hearings we will establish the need for a broad program creating basic minimum standards for all private pension plans, to insure that all such plans will live up to the bare minimum requirements which every worker has grown to expect when he participates in such a plan.

As I said before, private pension plans are now fast approaching the \$100 billion figure in total reserve assets. The provisions of these plans, their benefits, and their soundness have rapidly become a matter of primary importance and great satisfaction—or dissatisfaction—to families throughout the country, in every State and in every industry.

Yet, from time to time we hear very disturbing reports concerning certain inadequacies in our private pension plan structure. In Janu-

ary 1965, the President's Committee on Corporation Pension Funds issued a report recommending legislation to establish basic vesting requirements, minimum standards for funding, consideration of development of some institutional arrangement for portability of pension credits, and certain regulation of pension fund investments. Later in 1965, my own committee, the Senate Permanent Investigations Subcommittee, held hearings which disclosed that existing laws are inadequate, in some instances, to protect the rights of beneficiaries to the benefits which they have been promised. In the case we examined, our committee disclosed a shocking misapplication or misappropriation of \$4 million in employee benefit fund assets—all evidently without any violation of law.

There have been a number of legislative proposals to deal with certain pension plan problems. As to deliberate misapplication of assets, I have sponsored one bill, and Senator McClellan has proposed another. As to the insuring against pension plan terminations resulting from plant shutdowns such as the unfortunate recent Studebaker shutdown which caused so much havoc in South Bend, Ind., Senator Hartke, of Indiana, has sponsored a measure to establish a Federal mechanism for the reinsurance of private pension plans through the payment of premiums by the funds themselves.

I believe, however, that in the long run we will discover that all of these problems are so interrelated that they cannot be solved without a comprehensive legislative program dealing not only with malfeasance of administrators, and not only with the consequences of plant shutdowns and plant terminations, but also with the broad spectrum of questions such as adequacy of funding, reasonable minimum standards of vesting, transferability of credits under some circumstances, and, in short, the establishment of certain general minimum standards to which all private pension plans must conform.

That is by no means to say that we should create a legislative straitjacket which would destroy the flexibility and inventiveness which have been one of the foundations of the enormous growth of pension plans in recent years, and I am sure we will be hearing about that, Madam Chairman, from the witnesses the Chair has provided. But I think we can all agree that there ought to be some minimum standards in this field.

Our Canadian neighbors may well be ahead of us already—or at least we may learn something from their experiences. Last year the Province of Ontario enacted the Pension Benefits Act of 1965 (Statutes of Ontario, 1965, ch. 96), which establishes a broad system of minimum requirements for funding, vesting, actuarial soundness, qualified investments, and related matters. Under that act, 8,600 pension plans have already registered, covering some 500,000 employees. The great majority of the plans covered by the act have already been amended to meet the minimum standards, and I am told that the plan has already achieved a substantial improvement in vested rights and the quality of funding. Whether there have been any adverse effects from this legislation remains to be seen—but I think it would be worth our while to find out, and I have already asked the minority staff of the Senate Labor Committee, of which I am the ranking minority member, to compile as much information as possible concerning the operations of the Ontario statute.

Madam Chairman, I ask unanimous consent to have included in the record at the close of my statement the following documents:

1. Ontario Pension Benefits Act, with accompanying regulations, and the statement by John Robarts, Prime Minister of Ontario, concerning the act.

2. S. 2352, my bill to regulate employee benefit plans, together with a copy of my statement describing the bill.

3. Copy of an editorial dated August 5, 1965, from the New York World-Telegram and Sun, entitled "Plug the Pension Holes."

Representative GRIFFITHS. Without objection it is so ordered.

(The information follows:)

STATEMENT BY HON. JOHN ROBERTS, Q.C., PRIME MINISTER OF ONTARIO, DELIVERED IN THE ONTARIO LEGISLATURE, CONCERNING THE PENSION BENEFITS ACT, 1965, MAY 21, 1965

As Honourable Members know, The Pension Benefits Act became law during the 1962-63 Session, and was amended in 1964 to repeal the standard plan provisions, which were no longer required in view of the intervening announcement that the Canada Pension Plan would be introduced on a national basis. The establishment of pension plans by employers is no longer compulsory, but the plans that exist are regulated.

The purpose of the Act, as it stands, is to strengthen the existing system of private pensions by requiring that the pension benefits should, under certain conditions, be portable and by establishing standards of solvency. While no employer is required to establish or maintain in force a pension plan for his employees, those that do so must provide vested pension benefits in the form of deferred annuities for employees who leave employment over age forty-five after having completed ten years service. Moreover, to help ensure that the pension promises will be kept, the plan must be funded and the pension fund must be properly invested.

The Pension Benefits Act came into full effect on January 1 this year and the Pension Commission has received over 8,100 applications for registration of pension plans operating in this province. The vast majority of these plans have already been amended to a greater or lesser degree in order to comply with the new standards.

To illustrate the positive achievements of our policy, I need only mention that in well over half the plans the vesting rights were seriously inadequate before the Act came into effect. Statistics published by the Pension Commission show that in the case of 4,359 pension plans covering some 553,000 Ontario members, the employee was not entitled to full vesting of his pension benefits until he had in excess of 10 years service with the employer or participation in the plan. All these plans have had to be amended in favour of the employee members.

Moreover, 98 plans were completely unfunded, being operated on a pay-as-you-go basis, and 76 plans were unfunded except as regards retired people. These two classes covered 43,000 employees. Many other plans were not funded up to the level required under the Act and in all these cases the financing will be strengthened, resulting in a greater measure of retirement security for the employees.

The necessity of making the amendments to the terms of pension plans and filing them for registration has, in many cases, imposed considerable burdens upon employers and their advisors. The response has been most encouraging and we greatly appreciate the co-operation of employers in industry, commerce and elsewhere in this necessary task.

The Canada Pension Plan will soon be providing an additional source of income for those retiring in future, but this will obviously not meet all the pension needs of our workers. The supplementation of the public plan by private plans is essential for a well-balanced pension system. I want to make it very clear that there is no conflict between the aims of the Ontario Act, which regulates private plans, and the new national plan.

I have pointed out on previous occasions that this Ontario Act is a piece of pioneer legislation which we are ready to expand and improve in the light of experience. Some of this experience has now been gained. The Pension Benefits Act has been subject to careful review during the past twelve months and a number of improvements can now be made to strengthen the legislation and in the interest of achieving uniformity of legislation across Canada.

Following my proposal to the other provinces at the conference of provincial Prime Ministers held at Jasper Park last summer, two interprovincial conferences have been held to consider a model or uniform Pension Benefits Act to be used across Canada. The representatives of the provinces, as well as the federal government observers, have made many helpful suggestions in producing uniform legislation for consideration by each Province. A very large measure of agreement was reached by the representatives who attended these conferences on the need for uniformity and how it might be achieved across Canada in the basic rules governing pension plans and on such matters as the vesting formula, locking-in of contributions, interprovincial co-operation and the need for ensuring solvency of pension funds.

I am pleased to be able to report to the House that the province of Quebec has indicated its intention to introduce its own Act regulating private plans, to be effective on January 1, 1966, as was foreshadowed in the resolution of the Quebec Legislature on June 9, 1964. We understand that in spite of differences of form due to legal technicalities the Quebec Act will closely follow the uniform Pension Benefits Act in all essentials.

The uniform Pension Benefits Act provides for making agreements between provinces to avoid duplicate reporting and examination of pension plans where the employer operates in more than one province. We are ready to enter into discussions on such an agreement with Quebec and with any other provinces adopting uniform legislation.

In view of the understandings reached with the representatives of other provinces and the favourable position taken by Quebec, our goal of uniform rules regulating pensions across Canada is in sight. In addition, the Federal Minister of Finance has stated that as soon as there is a wide measure of agreement by the provinces the government of Canada will introduce similar legislation applicable to employees under federal jurisdiction.

Incidentally, the concept of portable pensions is finding support in the United States. In January, the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs recommended that "a private pension plan, in order to qualify for favoured tax treatment, must provide some reasonable measure of vesting for the protection of employees".

Hence it is evident that the initiative that we have taken in the last few years has borne fruit in many places. I am therefore moving to the next stage by introducing, at this time, a revised Pension Benefits Act, which has been developed from our discussions with representatives of other governments.

The Pension Commission of Ontario has announced earlier that the new uniform Bill will not contain any changes that will require re-registration of pension plans already registered with the Commission. The Bill that I now introduce for first reading adheres to this undertaking. This is naturally a very important consideration for employers who have amended their plans in the last few months and who may have to make yet further amendments in consequence of the Canada Pension Plan.

Mr. Speaker, bearing in mind the widespread mis-understanding of this legislation, I should like to summarize the differences between the provisions of the new Bill and the provisions of the present Act:

1. We have introduced the concept of a designated province to refer to a province that enacts legislation substantially similar to this Bill. The statutory rules will become applicable in each designated province on the date named by that province under the terms of its pension benefits act.

This will mean that the vesting and locking-in rules will become applicable at different dates across Canada. This problem is temporary and has been solved by linking the rights and obligations of a member of a pension plan to the qualification date in his particular province.

The qualification date in Ontario is January 1, 1965.

2. As in the case of The Pension Benefits Act, this Bill does not require employers to establish pension plans. It merely lays down the terms and conditions under which pensions must be provided under pension plans that are now or in future established. Although none of the proposed amendments of The Pension Benefits Act require any retroactive improvement of pension benefits, they do close several loopholes which have existed.

3. The definition of "employed" has been broadened to include the successors and assigns of an employer in order to prevent evasion of liability through corporate reorganization. The definition has also been broadened to include the municipality of Metropolitan Toronto and its local boards; other municipalities were previously included.

4. The vesting of employer contributions and the locking-in of employee contributions commences when an employee has been in the service of the employer for a continuous period of ten years, or has been a member of the same pension plan for ten years, and has attained the age of 45 years. The reference to pension plan membership for the ten-year period has been added to include so-called multi-employer plans under the Act. An employee may work for several employers while participating in one multi-employer pension plan at all times.

5. In order to prevent possible evasion through suspension of employment intended to interrupt the ten year qualification period, the definition of "service for a continuous period" provides that periods of temporary suspension will not interrupt the period of employment for the purposes of the Act.

6. Supplemental pension plans will be required to be registered. A supplemental pension plan is a plan established for employees who are entitled to become members only if they are members in another plan. In many of these plans the employer is not required to make contributions—they are sometimes referred to as employee-pay-all plans. If they are supplemental to a separate plan they must be registered notwithstanding that the employer is not required to make contributions.

7. Plans that do not require employer contributions (except the supplemental pension plans I have already described) will not be required to register. This exception is introduced to exempt employee-pay-all plans and union or fraternal plans controlled by union or fraternal membership.

8. The provisions for reciprocity and co-operation among the provinces of Canada have been broadened. The Bill provides that the Pension Commission may, subject to the approval of the Lieutenant Governor in Council, not only enter into agreements with other provinces for the reciprocal registration, audit and inspection of pension plans, but also delegate to other provinces such functions and powers under this Act as the Commission may determine. The purpose of this provision is to make it possible for every employer to register his pension plan in only one province and by so doing, qualify in all provinces.

It is probable that the rule will be that an employer must register in the province in which the majority of his employees report for work.

9. The Commission may, in addition, subject to approval of the Lieutenant Governor in Council, authorize a Canadian association of pension commissions to carry out such duties as the Commission may require. Uniformity must not only be achieved at the outset, it must be maintained. One of the functions of the proposed Canadian association of pension commissions would be to conduct inter-provincial consultations to maintain uniformity in the future.

10. The former provision for the establishment in 1970 and thereafter of an Advisory Review Committee is to be repealed. The functions of such a committee will, to a large extent, be assumed by the pension authorities in the various provinces who will confer among themselves through the proposed Canadian association.

11. A new provision is added to enable members of pension plans to designate beneficiaries who may receive benefits upon the employee's death.

12. The existing Act provides penalties which, upon reconsideration, have been found to be too severe. The Bill therefore drops the penalty of imprisonment but provides that an employer who is convicted of an offence must pay to the pension plan all amounts that he has wrongly failed to pay as required by the Bill. Our purpose is to protect the rights of plan members and this can be done most effectively by requiring financial compliance. Officers and directors of a corporation who acquiesce in an offence under the Act may be made personally liable for the default of the corporation.

13. The present Act unintentionally locks in employees' voluntary additional contributions. The Bill corrects this error. Employees are permitted to withdraw up to 25% of the commuted value of their deferred life annuity under a pension plan prior to attaining normal retirement age but apart from this exception employee required contributions made after January 1, 1965 are locked in. Voluntary additional contributions may be withdrawn at any time if a pension plan permits such withdrawal.

14. The statutory restrictions upon surrender or commutation do not apply after the death of an employee.

The Bill introduces a new provision permitting variation of the amount of a deferred life annuity by employee election. If a plan so provides, an employee may elect to receive a reduced annuity upon early retirement or an increased annuity if retirement is deferred. He may also elect optional annuities to sur-

vivors and he may elect to vary the term of the annuity payable to his beneficiaries after his death.

15. The formula for the benefits and contributions may be governed by regulations, in order that the obligations imposed by the Act shall not be avoided by an unreasonable type of plan.

16. Upon termination or winding-up of a pension plan, all vested and locked-in contributions to the plan must be used to provide the deferred life annuity to which every employee and former employee is entitled, as if the employees had left the service individually. This provision is necessary to prevent retroactive evasion of the provisions of the Act by winding-up of a pension plan.

17. A further rule affecting plans that are terminated will require the employer to pay to his pension plan all amounts that he has failed to pay as required by the solvency regulation up to the date of termination of the plan. The employer must be up-to-date and acting in conformity with the regulations. As Honourable Members know, plans have 25 or 15 years to make up unfunded deficiencies.

18. In order to provide needed flexibility, the commutation for cash of small annuities of less than \$10.00 a month is allowed and a lump sum payment or series of payments may be made in cases of mental or physical disability, as prescribed by regulations. Except in such circumstances, a retiring employee may not commute the pension in respect of service after January 1, 1965.

19. The Bill includes a new section to protect employees from any loss of existing pension rights as a result of the coming into force of the Canada Pension Plan. Pension plans may be amended to integrate with the Canada pension plan, but no such amendment shall have the effect of reducing pensions purchased by contributions in respect of service prior to January 1, 1966.

In conclusion, and to summarize what I have said, this Act remedies certain weaknesses and fills certain loopholes that have been found in the present Act.

1. It does not depart from the principles of the present Act;
2. It protects employees from loss of existing rights in private plans which are amended because of the Canada Pension Plan;
3. It is independent of the Canada Pension Plan and does not conflict with any federal pension legislation;
4. It has been drafted in co-operation with other provinces;
5. It does not require the re-registration of pension plans that already qualify for Ontario registration;
6. It further strengthens the retirement security of one million present members of Ontario pension plans and those that come after them;
7. This Act not only protects pension rights in this province, but is an important part of a larger edifice which will, we believe, ultimately cover pension plans across Canada with uniform rules.

CHAPTER 96

THE PENSION BENEFITS ACT, 1965

Assented to June 22nd, 1965

Session Prorogued June 22nd, 1965

Her majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

1.—(1) In this Act,

- (a) "Commission" means the Pension Commission of Ontario;
- (b) "designated province" means a province or territory of Canada that is designated by regulation as a province or territory in which there is in force legislation substantially similar to this Act;
- (c) "employee" means an individual who performs service in Ontario or in a designated province for a continuous period of not less than six months under a contract of service or of apprenticeship, and includes an officer or director of a corporation or of an unincorporated organization and an agent acting for his principal on a substantially full-time basis;
- (d) "employer" means, in relation to an employee, the person, partnership, firm, association, institution or other unincorporated organization or corporation, wherever incorporated, carrying on business or established in Ontario, from whom the employee receives his remuneration, and includes,
 - (i) the successors or assigns of the employer, and

(ii) Her Majesty in right of Ontario, an agent of Her Majesty, a municipality as defined in *The Department of Municipal Affairs Act*, and a metropolitan municipality and the local boards thereof;

(e) "life annuity" means an annuity that continues for the duration of the life of the annuitant, whether or not it is thereafter continued to some other person, and "deferred life annuity" means a life annuity that commences at retirement age under a pension plan, but in any event not later than age seventy years;

(f) "Minister" means the member of the Executive Council designated by the Lieutenant Governor in Council to administer this Act;

(g) "pension benefit" means the aggregate annual, monthly or other periodic amounts to which an employee will become entitled upon retirement or to which any other person is entitled by virtue of his death after retirement under a pension plan, and "pension benefit credit" means the value at a particular time of the pension benefits and any other benefits provided under the pension plan to which an employee has become entitled;

(h) "pension plan" means a superannuation or pension fund or plan organized and administered to provide a pension benefit for employees, and includes,

(i) a unit benefit plan under which pension benefits are determined with reference to remuneration of an employee for each year of service, or for a selected number of years of service.

(ii) a money purchase plan under which pension benefits are determined at the retirement of an employee with reference to the accumulated amount of the aggregate contributions paid by or for the credit of the employee,

(iii) a flat benefit plan under which the pension benefits are expressed either as a fixed amount in respect of each year of employment or as a fixed periodic amount, and

(iv) a deferred profit sharing pension plan other than a profit sharing plan as defined in sections 52 and 53a of *The Corporations Tax Act*;

(i) "qualification date" means, in respect of employment in Ontario, the 1st day of January, 1965, and, in respect of employment in a designated province, the date upon which, under the law of such province, a pension plan is required to maintain its qualification for registration;

(j) "registered pension plan" means a pension plan that is registered with and certified by the Commission as a plan organized and administered in accordance with this Act:

(k) "regulations" means the regulations made under this Act;

(l) "service for a continuous period" means service for a period of time without regard to periods of temporary suspension of employment;

(m) "Superintendent" means the Superintendent of Pensions;

(n) "supplemental pension plan" includes a pension plan established for employees whose membership in another pension plan is a condition precedent to membership in the supplemental pension plan;

(o) "voluntary additional contribution" means an additional contribution by an employee to or under a pension plan except a contribution the payment of which, under the terms, of the plan, imposes upon the employer an obligation to make concurrent additional contribution to or under the plan. 1962-63, c. 103, s. 1; 1964, c. 88, s. 1, *amended*.

(2) For the purposes of this Act, a person shall be deemed to be employed in the province in which the establishment of his employer to which he reports for work is situated, and, where the employee is not required to report for work at any establishment of his employer, he shall be deemed to be employed in the province in which the establishment of his employer from which his remuneration is paid is situated. *New*.

(3) In the event of conflict between any provision of this Act and any provision of any other Act, the provision of this Act prevails. 1962-63, c. 103, s. 12.

2.—(1) The Pension Commission of Ontario is continued and shall be composed of not fewer than five and not more than nine members as the Lieutenant Governor in Council from time to time determines. 1962-63, c. 103, s. 2 (1), *amended*.

(2) The Lieutenant Governor in Council shall appoint the chairman, the vice-chairman and the other members of the Commission, each of whom shall hold office for a term of three years, except that, of those first appointed, one-third, or as nearly as may be, shall be appointed for a term of one year, one-third, or as nearly as may be, for a term of two years, and the remainder for a term of three years.

(3) Every member of the Commission is eligible for reappointment upon the completion of his term of office. 1962-63, c. 103, s. 2 (2, 3).

3. In the event of the absence of the chairman and the vice-chairman, such member of the Commission as the members of the Commission designate for the purpose shall act as and have the powers of the chairman. 1962-63, c. 103, s. 3.

4. The Lieutenant Governor in Council may fill any vacancy that occurs from time to time in the membership of the Commission. 1962-63, c. 103, s. 4.

5. One-half or more of the members of the Commission constitute a quorum, whether or not a vacancy exists in the membership of the Commission. 1962-63, c. 103, s. 5.

6. The Commission may establish such administrative divisions as appear to be appropriate from time to time. 1962-63, c. 103, s. 8(2).

7.—(1) The Commission shall appoint the Superintendent of Pensions who shall be the chief administrative officer of the Commission. 1962-63, c. 103, s. 8(1).

(2) The Superintendent or his duly authorized representative may, at any reasonable time,

(a) inspect the books, files, documents and other records respecting a pension plan kept by an employer, an insurer, a trustee of the pension plan or any other person; and

(b) require any employer, insurer, trustee of a pension plan or other person to furnish, in a form acceptable to the Commission, such information as the Commission deems necessary for the purpose of ascertaining whether this Act and the regulations have been or are being complied with. 1962-63, c. 103, s. 22(4).

8.—(1) The Commission may appoint such officers, clerks, servants and other members of its staff as it deems appropriate. *New.*

(2) The Commission may, subject to the approval of the Lieutenant Governor in Council, establish job classifications, salary ranges and the terms and conditions of employment of the members of its staff.

(3) *The Public Service Superannuation Act* applies to the permanent members of the staff of the Commission and to those members of the Commission designated by the Lieutenant Governor in Council.

(4) Every person who is entrusted by the Commission with the custody or control of money in the course of his employment shall give security in the manner and form provided by *The Public Officers Act*. 1962-63, c. 103, s. 6.

9.—No member of the Commission and no employee thereof is personally liable for anything done by it or him in good faith under the authority of this Act or the regulations. 1962-63, c. 103, s. 23 (2).

10.—(1) It is the function of the Commission and it has power,

(a) to promote the establishment, extension and improvement of pension plans throughout Ontario;

(b) to accept for registration all pension plans required to be registered or filed for registration with the Commission under this Act, and to reject any pension plan that does not qualify for registration;

(c) to administer and enforce this Act, and to cancel pension plan certificates of registration issued in respect of pension plans that,

(i) fail to meet the tests for solvency prescribed by the regulations,

or

(ii) otherwise cease to qualify for registration under this Act;

(d) to conduct surveys and research programmes and to obtain statistics for the purposes of the Commission;

(e) to assess, collect and retain for the purposes of the Commission fees for the registration and annual supervision of pension plans;

(f) to perform such other functions and discharge such other duties as are assigned to it from time to time by the Lieutenant Governor in Council.

(2) The Commission may, subject to the approval of the Lieutenant Governor in Council,

(a) enter into agreements with the authorized representatives of a designated province or the Government of Canada to provide for the reciprocal registration, audit and inspection of pension plans and for the establishment of a Canadian association of pension commissions;

(b) authorize a Canadian association of pension commissions to carry out such duties on behalf of the Commission as the Commission may require;

(c) delegate to the pension commission or to the government of a designated province such functions and powers under this Act as the Commission may determine. 1962-63, c. 103, s. 7, *amended.*

11. The moneys required for the purposes of the Commission, in addition to the fees and charges assessed under clause *e* of subsection 1 of section 10 and the fines imposed under section 26, shall be paid out of the moneys appropriated therefore by the Legislature. 1962-63, c. 103, s. 9, *amended*.

12. The accounts and financial transactions of the Commission shall be examined annually by the Provincial Auditor. 1962-63, c. 103, s. 10.

13.—(1) The Commission shall make an annual report of the affairs of the Commission to the Minister. 1962-63, c. 103, s. 11 (1).

(2) The Minister shall submit the annual report to the Lieutenant Governor in Council and shall then lay the report before the Assembly if it is in session or, if not, at the next ensuing session. 1962-63, c. 103, s. 11 (3), *amended*.

14. No action lies against any person for withholding, deducting, paying or crediting any sum of money in compliance or intended compliance with this Act. 1962-63, c. 103, s. 22 (5).

15. Where this Act requires an amount to be deducted, withheld, paid or credited, an agreement by the person on whom that obligation is imposed not to deduct, withhold, pay or credit such amount is void. 1962-63, c. 103, s. 22 (6).

16. The Lieutenant Governor in Council may establish or designate an agency for the purposes, among others, of receiving, holding and disbursing pension benefit credits under this Act. 1962-63, c. 103, s. 13, *amended*.

17.—(1) In this section,

(a) "employee" means an employee or former employee who is a member of a pension plan; and

(b) "employer" includes the trustee or insurer under a pension plan.

(2) Where in accordance with the terms of a pension plan an employee has designated a person or persons to receive a benefit payable under the plan in the event of the employee's death.

(a) the employer's liability to provide the benefit is discharged upon payment to such person or persons of the amount of the benefit;

(b) such person or persons may upon the death of the employee enforce payment of the benefit, but the employer is entitled to set up any defence that he could have set up against the employee or his personal representatives.

(3) An employee may from time to time alter or revoke a designation made under a pension plan, but any such alteration or revocation may be made only in the manner set forth in the plan.

(4) This section does not apply to a designation of a beneficiary to which *The Insurance Act* applies. *New*.

18.—(1) Every employer of employees in Ontario covered by a pension plan established before the 1st day of January, 1965, shall, unless under the terms of the plan the employer is not required to make contributions to or under the plan,

(a) file a copy of such pension plan with the Commission for registration on or before the 1st day of January, 1965, or as soon thereafter as the Commission requires; and

(b) while such plan remains in force, maintain its qualification for registration as required by this Act.

(2) Every employer who establishes a pension plan for employees in Ontario on or after the 1st day of January, 1965, shall, unless under the terms of the plan the employer is not required to make contributions to or under the plan,

(a) file a copy of the pension plan with the Commission for registration within sixty days after the establishment of the plan; and

(b) while the plan is in force, maintain its qualification for registration as required by this Act.

(3) Notwithstanding subsections 1 and 2, a pension plan required to be registered shall be deemed to include a supplemental pension plan established by the employer under the terms of which the employer is not required to make contributions.

(4) Commencing in the year 1966, every employer of employees in Ontario covered by a pension plan shall file with the Commission annually an information return as prescribed by the regulations in respect of every pension plan administered by or on before of the employer or the employees. 1964, c. 88, s. 2, *part, amended*.

19. The Commission shall accept for registration and issue its certificate in respect of each pension plan filed for registration under section 18 that in the opinion of the Commission is a pension plan organized and administered in accordance with this Act. 1964, c. 88, s. 2, *part, amended*.

20. After a pension plan is filed with the Commission for registration, the Superintendent shall advise the Commission in writing of his opinion as to whether or not the plan is organized and administered in accordance with this Act, and no penalty shall be imposed upon an employer under this Act for failure to register a pension plan until the written opinion of the Superintendent has been received by the Commission and the Commission has notified the employer of its decision concerning registration of the plan by registered mail and sixty days have elapsed thereafter. 1962-63, c. 103, s. 16, *amended*.

21.—(1) A pension plan filed for registration in accordance with section 18 shall contractually provide that,

(a) a member of the plan who has been in the service of the employer for a continuous period of ten years, or has been a member of the plan for such period, whichever shall first occur, and who has attained the age of forty-five years, is entitled, upon termination of his employment prior to his attaining retirement age, or upon termination of his membership in the plan prior to his attaining retirement age, to a deferred life annuity commencing at his normal retirement age equal to the pension benefits (except pension benefits provided by voluntary additional contributions) provided in respect of service as an employee in Ontario or in a designated province,

(i) under the terms of the plan in respect of service on or after the qualification date,

(ii) by an amendment to the terms of the plan made on or after the qualification date, or

(iii) by the creation of a new pension plan on or after the qualification date;

(b) both the pension benefits provided under the terms of the plan and the deferred life annuity prescribed by this section are not capable of assignment or alienation and do not confer upon any employee, personal representative or dependant, or any other person, any right or interest in the pension benefits or the deferred life annuity capable of being assigned or otherwise alienated;

(c) upon termination of his employment or upon termination of his membership in the plan, a member of the plan who is entitled to a deferred life annuity under clause a is not entitled to withdraw any part of his contributions to or under the plan, except voluntary additional contributions, in respect of service in Ontario or in a designated province on or after the qualification date, and such contributions shall be applied under the terms of the plan toward the provision of the deferred life annuity required to be provided to the employee under clause a.

(2) Notwithstanding any provision of a pension plan.

(a) the deferred life annuity prescribed by subsection 1 is not capable of surrender or commutation during the lifetime of the employee and does not confer upon any employee, personal representative or dependant, or any other person, any right or interest in the deferred annuity capable of being surrendered or commuted during the lifetime of the employee;

(b) the pension benefits provided under the terms of the plan in respect of service after the qualification date are not, on or after the date of retirement of an employee, capable of surrender or commutation during his lifetime and do not confer upon any employee, personal representative or dependant, or any other person, any right or interest in such pension benefits capable of being surrendered or commuted during the lifetime of the employee.

(3) Notwithstanding subsections 1 and 2, a pension plan may provide for,

(a) vesting or locking in at an earlier age than forty-five years or upon service or membership in the plan for less than ten years, or for both; and

(b) payment to an employee of an amount equal to the commuted value of the deferred life annuity or pension benefit to which the employee is entitled if the amount thereof payable to the employee at normal retirement age is less than \$10 a month payable during his lifetime.

(4) Notwithstanding subsections 1 and 2, where a pension plan so provides, an employee may receive in partial discharge of his rights under the plan as a lump sum, upon or after termination of employment or membership in the plan prior to his attaining normal retirement age as defined by the plan, an amount that in total does not exceed 25 per cent of the commuted value of the deferred life annuity prescribed by subsection 1. 1964, c. 88, s. 4, *part, amended*.

(5) If a pension plan so provides, a person who is entitled to a deferred life annuity under subsection 1 may, before the commencement of payment of such life annuity, elect to receive,

(a) a deferred life annuity the amount of which is reduced or increased by reason of early or deferred retirement, by provision for the payment of an optional annuity to a survivor or to the estate of the employee, or by variation of the terms of payment of such annuity to any person after the employee's death; and

(b) a payment or series of payments by reason of a mental or physical disability as prescribed by the regulations, partly or wholly in lieu of the deferred life annuity described by subsection 1.

(6) If a pension plan so provides, an employee may, on or before attaining normal retirement age as defined by the plan, elect to receive an annuity the amount of which is varied by reference to benefits payable under the *Old Age Security Act* (Canada) or under any other pension plan administered by the Government of Canada or by the government of a province of Canada.

(7) Upon the termination or winding-up of a pension plan, all contributions by an employer and an employee made after the qualification date in respect of the deferred life annuity prescribed by subsection 1 shall be applied under the terms of the plan,

(a) in the case of a former employee, toward the provision of the deferred life annuity to which he was entitled at the date of termination of his employment; and

(b) in the case of an employee, toward the provision of the deferred life annuity to which he would be entitled if he ceased to be an employee upon the date of termination or winding-up of the plan.

(8) A pension plan filed for registration in accordance with section 18 shall provide for contributions and benefits calculated in accordance with a formula prescribed by the regulations. *New.*

22.—(1) A pension plan filed for registration in accordance with section 18 shall contractually provide for,

(a) funding, in accordance with the tests for solvency prescribed by the regulations, that is adequate to provide for payment of all pension benefits, deferred life annuities and other benefits required to be paid under the terms of the plan;

(b) a written explanation to each member of the plan of the terms and conditions of the plan and amendments thereto applicable to him, together with an explanation of the rights and duties of the employee with reference to the benefits available to him under the terms of the plan and such other information as may be prescribed by the regulations; and

(c) investment of pension fund moneys in the securities and loans prescribed by the regulations. 1962-63, c. 103, s. 19; 1964, c. 88, s. 5, *amended.*

(2) Upon the termination or winding-up of a pension plan filed for registration as required by section 18, the employer is liable to pay all amounts that would otherwise have been required to be paid to meet the tests for solvency prescribed by the regulations, up to the date of such termination or winding-up, to the insurer, administrator or trustee of the pension plan.

(3) No amendment of a pension plan consequent upon the coming into force of the *Canada Pension Plan* shall adversely affect the pension benefit credits of any member in respect of remuneration and service or membership in the plan prior to the 1st day of January, 1966. *New.*

23.—(1) Where the Commission refuses to accept for registration a pension plan filed for registration under this Act, or cancels a certificate of registration, the employer may, within sixty days of the day of mailing of a notification of refusal or cancellation of registration, serve on the Commission a notice of objection in duplicate in the prescribed form, setting out the reasons for the objection and all relevant facts. 1962-63, c. 103, s. 24 (1), *amended.*

(2) A notice of objection under this section shall be served by being sent by registered mail addressed to the Commission at Toronto.

(3) Upon receipt of a notice of objection, the Commission shall with all due despatch reconsider its opinion, and vary or confirm its opinion, and it shall thereupon notify the employer of its actions by registered mail. 1962-63, c. 103, s. 24 (2, 3).

24.—(1) Where an employer has served a notice of objection under section 23, he may appeal to the Court of Appeal for an order requiring the Commission to accept the pension plan for registration under this Act,

(a) within ninety days after the Commission has confirmed its opinion that the pension plan is not acceptable for registration; or

(b) after ninety days and before 180 days have elapsed after service of the notice of objection and the Commission has not notified the employer that it has confirmed or varied its opinion.

(2) An appeal to the Court shall be instituted by filing with the Registrar of the Court or by sending by registered mail addressed to him at Toronto three copies of a notice of appeal in such form as is determined by the rules of the Court.

(3) Upon receipt of the copies of the notice of appeal, the Registrar shall transmit two copies to the Superintendent.

(4) Immediately after receiving a copy of the notice of appeal, the Superintendent shall forward to the Registrar copies of all documents relevant to the appeal.

(5) An appeal may, in the discretion of the Court, be heard *in camera* or in public, unless the appellant requests that it be heard *in camera*, in which case it shall be so heard.

(6) The Court may dispose of an appeal by dismissing it, by referring the matters in issue back to the Commission for reconsideration, or by allowing the appeal.

(7) Where the Court allows an appeal under this section, the Commission shall accept the pension plan for registration in accordance with the direction of the Court, which may include conditions precedent to qualification for registration of the plan imposed upon the appellant. 1962-63, c. 103, ss. 25-28.

25. The Lieutenant Governor in Council may make regulations,

(a) respecting methods of computing pension benefit credits and pension benefits and the commuted value of a deferred life annuity;

(b) respecting the variation of pension benefits and deferred life annuities by reference to pensions payable under the *Old Age Security Act* (Canada) or under any other pension plan administered by the Government of Canada or by the government of a province of Canada;

(c) prescribing the classes of investments and loans, both qualitative and quantitative, in which pension fund moneys heretofore or hereafter accumulated may be invested, and governing the making of such investments and loans;

(d) prescribing tests and standards for solvency of pension plans;

(e) prescribing the conditions under which, upon termination of employment of an employee, upon termination of an employee's membership in a pension plan or upon the termination or winding-up of a pension plan, pension benefit credits may be held in trust by the administrator, insurer or trustee of the pension plan, or transferred to the administrator, insurer or trustee of another pension plan or to a registered retirement savings plan or to the agency described in section 16;

(f) designating employees or pension plans, or any class thereof, that are excepted from the application of this Act and the regulations;

(g) designating any province or territory of Canada as a province or territory, as the case may be, in which there is in force legislation substantially similar to this Act;

(h) prescribing mental or physical disability for the purpose of clause b of subsection 5 of section 21;

(i) providing for, regulating and governing the disposition of the assets of a pension plan that is discontinued, terminated or wound up;

(j) requiring the furnishing of information to the Commission in respect of pension plans;

(k) prescribing forms and providing for their use;

(l) prescribing fees for registration and the annual supervision of pension plans;

(m) prescribing approved contribution and benefit formulae in respect of pension plans required to be registered under this Act; and

(n) respecting any matter necessary or advisable to carry out effectively the intent and purpose of this Act. 1962-63, c. 103, s. 20; 1964, c. 88, s. 6, amended.

26.—(1) Every person who contravenes any provision of this Act or the regulations or who obstructs an officer or agent of the Commission in the performance of his duties is guilty of an offence and on summary conviction is liable to a fine of not less than \$200 and not more than \$1,000.

(2) Every employer who is convicted of an offence under subsection 1 shall pay to the insurer, trustee or administrator of the pension plan in respect of which the offence was committed all amounts that the employer has wrongly failed to pay as required by this Act and the regulations. 1962-63, c. 103, s. 22 (1, 2), *amended*.

(3) Where a corporation is guilty of an offence under this Act, an officer, director or agent of the corporation who directed, authorized, assented to, acquiesced in, or participated in, the commission of the offence is a party to and guilty of the offence and is liable on conviction to the punishment provided for the offence whether or not the corporation has been prosecuted or convicted. *New*.

(4) The fines recovered for offences against this Act shall be paid to the Commission. 1962-63, c. 103, s. 22(3), *amended*.

27. *The Pension Benefits Act, 1962-63 and The Pension Benefits Amendment Act, 1964* are repealed.

28. This Act comes into force on a day to be named by the Lieutenant Governor by his proclamation.

29. This Act may be cited as *The Pension Benefits Act, 1965*.

[From the Ontario Gazette]

PUBLICATIONS UNDER THE REGULATIONS ACT

August 7th, 1965

THE PENSION BENEFITS ACT, 1965

O. Reg. 188/65.

General.

Made—July 27th, 1965.

Filed—July 28th, 1965.

REGULATION MADE UNDER THE PENSION BENEFITS ACT, 1965

General

1. In this Regulation,

(a) "accountant" means a public accountant licensed under *The Public Accountancy Act*;

(b) "actuary" means a Fellow of the Canadian Institute of Actuaries;

(c) "experience deficiency" when applied to a pension plan, means any deficit, determined at the time of a review of the plan, that is attributable to factors other than,

(i) the existence of an initial unfunded liability, or

(ii) the failure of the employer to make any payment as required by the terms of the plan or by the Act of this Regulation;

(d) "fully funded" when applied to a pension plan, means a pension plan that at any particular time has assets that will provide for the payment of all pension and other benefits required to be paid under the terms of the plan in respect of service rendered by employees and former employees prior to that time;

(e) "government" means Her Majesty in right of Ontario, an agent of Her Majesty, a municipality as defined in *The Department of Municipal Affairs Act* and a metropolitan municipality and the local boards thereof;

(f) "initial unfunded liability" means the amount by which, on the 1st day of January, 1965, or the date on which the plan qualifies for registration, or subsequently as the result of an amendment, the assets are required to be augmented to ensure that the plan is fully funded;

(g) "provisionally funded" when applied to a pension plan, means a pension plan that at any particular time has not assets sufficient to make it fully funded but has made provision for special payments sufficient to liquidate all initial unfunded liabilities or experience deficiencies; and

(h) "special payment" means a payment or payments made to or under a pension plan for the purpose of liquidating an initial unfunded liability or experience deficiency in accordance with section 2.

2.—(1) An application for registration of a pension plan shall be in Form 1.

(2) Every pension plan submitted for registration shall include a provision for funding which shall set forth the obligation of the employer to contribute both

in respect of the current service cost of the plan and in respect of any initial unfunded liabilities and experience deficiencies.

(3) The employer shall pay currently into any plan or fund providing pensions for his employees,

(a) all current service costs, including any contributions made by employees;

(b) where the plan has an initial unfunded liability, special payments consisting of equal annual amounts sufficient to liquidate such initial unfunded liability over a term not exceeding,

(i) in the case of an initial unfunded liability existing on the 1st day of January, 1965, in any plan established before that date, twenty-five years from that date, and

(ii) in the case of an initial unfunded liability resulting from an amendment to a pension plan made on or after the 1st day of January, 1965, or resulting from the establishment of a pension plan on or after the 1st day of January, 1965, fifteen years from the date of such amendment or establishment;

(c) where a pension plan has an experience deficiency, special payments consisting of equal annual amounts sufficient to liquidate such experience deficiency over a term not exceeding five years from the date on which the experience deficiency was determined.

(4) The liquidation of initial unfunded liabilities or experience deficiencies may be accelerated at any time.

(5) Where an insured pension plan established before the 1st day of January, 1965 is funded by level annual premiums to retirement age for each individual member, it shall be deemed to meet the requirements of subclause i of clause b of subsection 3.

3.—(1) On or before the 1st day of January, 1966, in the case of pension plans registered on or before that date, or within sixty days after the date of establishment of the plan in other cases, the employer shall submit a report of the person authorized by section 5 certifying,

(a) the estimated cost of benefits in respect of service in the first year during which such plan is registered and the rule for computing such cost in subsequent years up to the date of the next report;

(b) the initial unfunded liability, if any, for benefits under the pension plan as at the date on which the plan qualified for registration; and

(c) the special payments required to liquidate such initial unfunded liability in accordance with section 2.

(2) Where an insured pension plan is funded by level annual premiums extending not beyond the retirement age for each individual member, the report may certify the adequacy of the premiums to provide for the payment of all benefits under the plan in lieu of the matters required to be certified under clauses a, b and c of subsection 1.

4.—(1) The employer in respect of a registered pension plan shall cause the plan to be reviewed by a person authorized by section 5 not more than five years after registration and at intervals of not more than five years thereafter and the person reviewing the plan shall prepare a report certifying,

(a) the estimated cost of benefits in respect of service in the next succeeding year and the rule for computing such cost in subsequent years up to the date of the next report;

(b) the surplus or the experience deficiency in the pension plan after making allowance for the present value of all special payments required to be made in the future by the employer as determined by previous reports; and

(c) the special payments which will liquidate any such experience deficiency over a term not exceeding five years.

(2) The employer shall file the report with the Commission upon its receipt.

(3) If the report of a person authorized by section 5 discloses a surplus in a pension plan, the amount of any future payments required to be made to the fund or plan may be reduced by the amount of such surplus.

5. The reports and certificates referred to in sections 3 and 4 shall be made by an actuary, except that reports and certificates in respect of,

(a) a pension plan under which all benefits are determined on a money purchase basis and purchased from an insurer on or before retirement;

(b) a pension plan underwritten by a contract or contracts with an insurance company, other than such a contract operating on the deposit administration or segregated fund principle;

(c) a pension plan underwritten by a contract or contracts issued under the *Government Annuities Act* (Canada); or

(d) a pension plan under which the solvency does not in the opinion of the Commission substantially depend on the probabilities of future death, retirement or termination of service,

may be made by an accountant or a qualified officer of the insurance company or of the trust company, or of the Annuities Branch, Department of Labour (Canada) administering the plan.

6. The annual information return required under subsection 4 of section 18 of the Act in respect of every registered pension plan shall include,

(a) a report on the financial operations of the pension plan for the fiscal year showing the aggregate of the amounts paid to the pension plan for current services and the aggregate of the special payments paid to the pension plan;

(b) in the case of a non-insured plan or a plan operating on the segregated fund principle, a report showing by categories the amounts of the loans and investments of the assets of the pension plan; and

(c) a statistical report setting forth the membership position of the plan.

7.—(1) Every pension plan shall be deemed to be solvent if it is fully funded or provisionally funded.

(2) A pension plan administered for employees of a government shall be deemed to be solvent if,

(a) each year the cost of current service benefits for that year is paid;

(b) interest is paid on the amount of any initial unfunded liability at the 1st day of January, 1965, at an annual rate calculated to prevent an increase in liability;

(c) any initial unfunded liability created by an amendment to the plan is liquidated by special payments over a term not exceeding fifteen years from the date of such amendment; and

(d) any experience deficiency is liquidated by special payments over a term not exceeding five years from the date on which such experience deficiency was revealed.

8. Where a registered pension plan is amended, the employer shall immediately file with the Commission a copy of the amendment and such additional information and reports as the Commission requires to determine the amount of initial unfunded liability created by the amendment and the special payments required to liquidate the initial unfunded liability.

9. Upon application for registration of a pension plan having the number of members shown in column 1 of the following Table, the employer shall pay the registration fee set opposite thereto in column 2:

Table of registration fees

Column 1	Column 2
Number of plan members	Registration fee
0-9	\$2.00
10-99	10.00
100 and over	50.00

10.—(1) Every pension plan filed with the Commission for registration shall be accompanied by a certified copy of the trust deed, insurance contract, by-law or other document under which such plan is constituted.

(2) The Commission may, at any time upon reasonable notice, require an employer to obtain and file such special reports as the Commission requires.

(3) Where the Commission does not accept a pension plan for registration the Commission shall state the reasons for rejection in the notice sent to the employer under section 20 of the Act.

11. Every pension plan shall define the benefits provided by the plan, the method of determination and the payment of benefits, conditions for qualification for membership in the plan and the financial arrangements made to ensure provisional or full funding of benefits under the plan.

12. Where a pension plan is discontinued, no part of the assets of the plan shall revert to the employer until provision has been made for all pensions and other benefits in respect of service up to the date of the discontinuance to members of the plan and for all benefits to pensioners, dependents and estates in accordance with the terms of the plan.

13.—(1) The commuted value of a deferred life annuity shall be calculated using a rate of interest and mortality table and in such manner as may be approved by the Commission.

(2) In the case of an insured pension plan of the individual policy type, the deferred life annuity referred to in clause *a* of subsection 1 of section 21 of the Act shall be equal to the paid-up annuity under the policy.

14.—Where a pension plan has provision in effect on the 1st day of January, 1965 for the payment of a supplemental or minimum make-up annuity that is not on the average a substantial portion of the total annuity of employees retiring under the plan, the supplemental or minimum make-up annuity may, with the approval of the Commission, be excluded in computing the pension benefit.

15.—(1) This section applies notwithstanding the provisions of any pension plan or any instrument governing the plan.

(2) The funds of a pension plan may be invested and loaned only in investments and loans in which a company may invest and lend under subsections 1, 2, 5, 6 and 10 of section 63 of the *Canadian and British Insurance Companies Act* (Canada), and the restrictions and limitations contained therein apply.

(3) Where a pension fund owns securities of a corporation and as a result of a *bona fide* arrangement for the reorganization or liquidation of the corporation or for the amalgamation of the corporation with another corporation, such securities are to be exchanged for bonds, debentures or other evidences of indebtedness, or shares not eligible as investments under subsection 2, the pension fund may accept and hold such bonds, debentures or other evidences of indebtedness or shares.

(4) The funds of a pension plan may be invested or loaned in investments or loans not authorized by subsection 2 or 3, including investments in real estate or leaseholds, subject to the following provisions:

1. Investments in real estate or leaseholds under this subsection shall be made in Canada and only for the production of income and may be made either alone or jointly with another plan and the fund or plan may hold, maintain, improve, develop, repair, lease, sell or otherwise deal with or dispose of such real estate or leaseholds, but the total investment of a fund under this subsection in any one parcel of real estate or in any one leasehold shall not exceed one per cent of the book value of the total assets of the fund.

2. This subsection shall be deemed not to enlarge the authority conferred by subsections 1 and 2 of section 63 of the *Canadian and British Insurance Companies Act* (Canada) to invest in mortgages or hypothecs and to lend on the security of real estate or leaseholds, and not to affect the operation of sub-paragraphs iii, iv and v of paragraph 1 of subsection 1 of the said section 63.

3. The total book value of the investments and loans made under this subsection and held by the fund, excluding those that are or at any time since acquisition have been eligible apart from this subsection, shall not exceed 7 per cent of the book value of the total assets of the fund.

(5) The funds of a pension plan shall not be lent to:

(a) the wife or a child of the employer or, where the employer is a corporation, a director or officer of the corporation or his wife or child;

(b) a corporation of which more than one-half of the shares of the capital stock are owned by the wife or a child of the employer, or any combination thereof or, where the employer is a corporation, by a director or officer of the employer corporation or his wife or child, or any combination thereof;

(c) an officer or employee of the fund or plan or an administrator or trustee of the fund or plan or an officer or employee of an administrator or trustee of the fund or plan or a union representing employees of the employer or an officer or employee of the union, or the wife or child of any of them; or

(d) the wife or child of an employee of the employer or an employee of the employer except on the security of a mortgage on residential real estate.

(6) The funds of a pension plan shall not be invested or loaned if the result of the investing or loaning would be that more than 10 per cent of the book value of the total assets of the fund are invested in the assets of or loaned to any one

corporation, partnership, association or person, including investment in shares, bonds, debentures or other evidences of indebtedness, loans by way of mortgage or otherwise and investment in real estate, plant or equipment occupied or used by the corporation, partnership, association or person.

(7) All investments and deposits of the funds of a pension plan and all loans made out of a pension fund shall be made in the name of the fund or plan, and no officer or employee of the fund or plan, no trustee or administrator or officer or employee thereof, no employer, officer or employee thereof, no association of employees and no union officer or employee thereof shall accept or be the beneficiary of, either directly or indirectly, any fee, brokerage, commission, gift or other consideration for or on account of any loan, deposit, purchase, sale, payment or exchange made by or on behalf of the pension fund.

(8) In addition to the investments and loans authorized by subsections 2 and 3, the funds of a pension plan may be invested in,

- (a) a pooled, segregated or mutual fund; or
- (b) the shares of a corporation,
 - (i) whose assets are at least 98 per cent cash, investments and loans,
 - (ii) that does not issue debt obligations, and
 - (iii) that obtains at least 98 per cent of its income from investments and loans,

if the pooled, segregated or mutual fund or the corporation is limited in its investments to those a pension plan may make under this section and is subject to the limitations and restrictions of this section.

(9) Where the funds of a pension plan are invested in accordance with subsection 8, subsection 6 does not apply to such funds.

(10) A pension fund or plan may take additional securities of any nature further to secure the repayment to the fund of any loan or investment, or further to secure the sufficiency of any of the securities in or upon which such fund or plan is authorized to invest or lend any of its funds.

(11) Where, on the date the fiscal year of a pension fund ends next following the 4th day of August, 1964, the loans and investments of a pension fund do not conform in whole or in part to the provisions of this Regulation, they shall be brought into conformity within five years of the end of such fiscal year.

16. A profit-sharing plan that has been accepted for registration by the Minister of National Revenue for Canada before the 1st day of January, 1965 under the *Income Tax Act* (Canada) and that provided at the time of such acceptance that each member may take his entire interest in the plan in a cash sum when he ceases to be an employee whether by retirement or other termination of employment may, with the approval of the Commission, be excepted from the Act and the regulations.

17. Ontario Regulations 201/64, 55/65 and 151/65 are revoked.

[Form 1]

THE PENSION BENEFITS ACT, 1965

The Pension Commission of Ontario

APPLICATION FOR REGISTRATION OF A PENSION PLAN

For Commission Use Only: C R.A.

In compliance with *The Pension Benefits Act, 1965, I/we*

(name of company, association or other employer)

hereby make application for registration of the pension plan, details of which have been entered on the forms which constitute parts of this application, and attach hereto the text of the said pension plan together with any amendments thereto, and hereby certify that the information given in all forms, texts, and amendments relating to this application is true and correct to the best of my/our knowledge and belief.

(signature)

(name (print))

(title or position)

Date-----, 19-----

For Commission Use Only

Remarks:

Plan Text

Amendments

Check enclosed

Amount \$-----

Receipt sent, No.-----

Checked

Accepted

[S. 2352, 89th Cong., 1st sess.]

A BILL To amend the Labor-Management Relations Act, 1947, as amended, so as to provide for the regulation of certain employees benefit funds

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title III of the Labor-Management Relations Act, 1947, as amended, is amended by adding at the end thereof the following new section:

"ADMINISTRATION OF EMPLOYEES BENEFIT FUNDS

"Sec. 306. (a) As used in this section and in section 302(c)(5), the term 'employees benefit fund' means any fund, whether established pursuant to a collective-bargaining agreement or unilaterally by one or more employers or by a labor organization, which is available for the payment either from principal or income, or both, to persons who are employed in an industry affecting commerce or who are members of a labor organization representing employees in an industry affecting commerce, or to members of the families, dependents, or beneficiaries of such persons, of one or more of the following benefits: Medical or hospital care, pensions on retirement or death of employees, compensation for injuries or illness resulting from occupational activity or insurance to provide any of the foregoing, or unemployment benefits or life insurance, disability and sickness insurance, or accident insurance, or pooled vacation, holiday, severance or similar benefits, or defraying the cost of apprenticeship training programs.

"(b) An employees benefit fund shall be established pursuant to a duly executed trust agreement which shall set forth the purpose or purposes for which the fund is established and the detailed basis on which payments are to be made into and out of the fund.

"(c) Moneys in an employees benefit fund shall be available for expenditure only for the sole and exclusive purpose of paying to employees or their families, dependents, or beneficiaries the benefits for which it was established, and for defraying the reasonable costs of administration of such fund. An employees benefit fund which is available for the purpose of providing pensions or annuities for employees shall not be used for the payment of any other benefits. None of the assets of an employees benefit fund shall be held, deposited, or invested outside the United States, except as may be permitted by regulations of the Secretary of Labor. Any such assets remaining upon dissolution or termination of the fund shall, after complete satisfaction of the rights of all beneficiaries to benefits accrued to the date of dissolution or termination, be distributed ratably to the beneficiaries thereof or, if the trust agreement so provides, to the contributors thereto.

"(d) In any case in which an employees benefit fund is established by collective-bargaining agreement, the labor organization and the employer or employers making such agreement shall be equally represented in the administration of such fund, together with such neutral persons as the representatives of the employer or employers and the labor organization may agree upon. No person appointed by an employer or group of employers to act as a representative in the joint administration of such a fund shall delegate or otherwise transfer his responsibilities to any person appointed by a labor organization to act as its representative in such joint administration or to any person affiliated with, employed by or otherwise subject to direction by such labor organization; and no person appointed by a labor organization to act as a representative in the joint administration of such a fund shall delegate or otherwise transfer his responsibilities to any person appointed by an employer or group of employers

to act as its representative in such joint administration or to any person affiliated with, employed by, or otherwise subject to direction by such employer or group of employers. In the event the employer and employee groups deadlock on the administration of such fund and there are no neutral persons empowered to break such deadlock, such agreement shall provide that the two groups shall agree on an impartial umpire to decide such dispute, or in event of their failure to agree within a reasonable length of time, an impartial umpire to decide such dispute shall, on petition of either group, be appointed by the district court of the United States for the district where the fund has its principal office.

"(e) The person or persons responsible for the administration of an employees benefit fund shall cause an independent audit to be made of the fund annually, and shall make the results thereof available for inspection by interested persons at the principal office of the fund and at such other places as may be designated in the agreement pursuant to which the fund is established.

"(f) No person who is an officer or employee of an employer or association of employers or a labor organization, which is a party to any agreement establishing or relating to an employees benefit fund, shall receive or accept, directly or indirectly, whether through a corporation or other entity owned or controlled in any substantial degree by such person or otherwise, any payment, loan, pledge, hypothecation, assignment, or other transfer out of the assets of such fund (other than benefits to which such person is entitled as an employee), except that if such person is an officer or employee of such fund, reasonable fees or expenses of attending meetings in connection with the business thereof may be paid from the fund to any such officer or employee attending such meetings in an official capacity. Nothing herein contained shall prohibit the purchase by an employees benefit fund, in the ordinary course of business, of the securities or indebtedness of any corporation or other business entity employing a substantial number of employees who are beneficiaries of such fund.

"(g) Suits by persons entitled, or who may become entitled, to benefits from employees benefit funds may be brought in any district court of the United States having jurisdiction of the parties, without respect to the amount in controversy and without regard to the citizenship of the parties (1) against any such funds to recover benefits required to be paid from an employees benefit funds pursuant to the terms of the agreement pursuant to which such fund is established or other constituent instrument; or (2) on behalf of and in the name of an employees benefit fund against any person who shall have transferred or received any of the assets of such fund in violation of any such agreement or of the requirements of this section.

"(h) Whenever the Secretary of Labor has reasonable cause to believe that an employees benefit fund is being or has been administered in violation of the requirements of this section, the Secretary of Labor may petition any district court of the United States having jurisdiction of the parties for an order (1) requiring return to such fund of assets transferred from such fund in violation of the requirements of this section, (2) requiring payment of benefits denied to any beneficiary in violation of the requirements of this section, and (3) restraining conduct in violation of the requirements of this section by any person performing duties in connection with the administration of such fund. Upon the filing of any such petition, the district court may, in its discretion, appoint a receiver to take possession of the assets of such fund and to administer them until such time as there no longer is probable cause to believe that those persons otherwise responsible for the administration of such fund will not conform to the requirements of this section.

"(i) The provisions of the Act entitled 'An Act to amend the Judicial Code and to define and limit the jurisdiction of courts sitting in equity, and for other purposes', approved March 23, 1932 (29 U.S.C. 101-115) shall not be applicable with respect to proceedings under this section."

Sec. 2. (a) Clause (5) of section 302(c) of such Act is amended to read as follows: "(5) with respect to money or other thing of value paid to an employees benefit fund which meets the requirements of section 306."

(b) Clause (6) of such section is repealed.

Sec. 3. The amendments made by this Act shall take effect one hundred and twenty days after the date of enactment of this Act.

[Press release, Tuesday, Aug. 3, 1965]

SENATOR JAVITS INTRODUCES BILL TO CURB BENEFIT FUND ABUSES, INCLUDING THOSE EXPOSED AT INVESTIGATION SUBCOMMITTEE HEARINGS

Senator Jacob K. Javits today, on behalf of himself and Senator Winston L. Prouty of Vermont introduced a bill to provide for more effective regulation of employee pension and welfare funds.

The bill would amend the Taft Hartley Act to:

1. Prohibit any officer of a firm or a union from receiving, directly or indirectly, any money other than normal pension benefits from an employee benefit fund;

2. Insure that all fund assets will ultimately be distributed to the beneficiaries of the fund and not diverted for any other purpose, or to the personal use of those in control of the fund and prohibit the transfer of fund assets outside the United States;

3. Extend existing Federal law and regulations so that they cover all employee benefit funds, whether or not they are established jointly by labor and management;

4. Authorize the Secretary of Labor to sue in Federal court to regain illegally diverted assets for the fund, to restrain such diversions or to compel payment of benefits, and to put the fund into receivership if necessary;

5. Allow individual beneficiaries to sue in Federal court to recover benefits or to protect or recover the fund's assets.

In remarks prepared for delivery in the Senate, Senator Javits said:

"The Senate Permanent Investigations Subcommittee has just concluded hearings on the administration of welfare and pension funds, and these hearings have disclosed shocking misappropriations of employee benefit fund assets—shocking not only because the result was to divert 4 million dollars in trust assets from their original purpose into private hands for use for other purposes, but even more shocking because this manipulation of trust assets could well have been accomplished without any violation of Federal law. In short, we have been treated to the spectacle of a union officer who discovered a loophole in the Taft-Hartley Act and exploited it so that the end result is that welfare benefits, originally funded out of union dues and employer contributions and intended for use solely to provide welfare benefits are diverted to other uses unlikely to be of any direct benefit to the intended beneficiaries.

"The hearings just concluded threw the spotlight of public scrutiny on a union officer who transferred several million dollars in trust fund assets arising out of a union welfare fund to a dummy corporation organized in Liberia and completely controlled by union officers who have the power to dissolve that corporation at any time and to distribute the assets to themselves. And all this, we are told by the Department of Justice and the Labor Department, is probably within the law.

"I can think of no more cruel hoax which could be perpetrated on an employee or union member than to make him believe that the money for which he is working is being deposited in a fund held in trust for his benefit and that of his family, only to discover, when he applies for benefits, that he has no realizable entitlement and that the funds have been diverted to other purposes. This apparently can happen under present Federal law.

"At present, the only Federal statute regulating welfare and pension funds (other than the reporting requirements of the Welfare and Pension Plans Disclosure Act) is Section 302 of the Taft-Hartley Act, essentially an anti-bribery statute. Currently, Section 302 makes it a crime for any employer to pay money to a union or union official and then makes an exception for payments to certain welfare or pension funds. The section also requires that the fund provide certain stated benefits and be jointly administered by labor and management.

"The fundamental weaknesses of Section 302, which have been amply demonstrated in the recent hearings, are:

1. That, being basically an anti-bribery statute, it covers only payments into the fund. What happens afterward is irrelevant. Consequently, Section 302 does not regulate what becomes of assets of a fund which is liquidated or terminated—the money may end up in Liberia, or a private bank account, or elsewhere.

"2. Section 302 does not cover conflicts of interest. There is no prohibition against padding the fund's payroll, nor against the trustee misappropriating the fund's assets.

"3. Section 302 presumes that 'joint administration' of the fund will insure proper management, while in actuality in some cases only one of the trustees runs the fund, with a 'proxy' from the other.

"4. Section 302 does not cover in any way those 'unilateral' funds established solely by management or by a union—and these funds comprise a majority of the welfare and pension funds now in existence.

"5. Finally, Section 302 does not provide an adequate procedural remedy for violations—it is a criminal statute which can never be a proper vehicle for regulation. Indeed, even when the criminal is apprehended, the assets themselves may be lost.

"The bill I propose would close these loopholes. It would create a new Section 306 of the Taft-Hartley Act, supplementing Section 302, which would define in detail how an employee benefit trust fund must be administered, and what must become of the money when it is terminated. Padded payrolls and other diversions of assets would be prohibited. Joint administration would be retained for joint labor-management funds, but the requirements of the statute would be extended to cover 'unilateral' funds as well. And the joint trustees would be prohibited from divesting themselves of responsibility by giving their proxies to an administrator who is only a dummy for one side or the other. No officer or employee of the employer or the union would be permitted to draw a salary from the fund.

"But perhaps most importantly, this bill would provide a battery of procedural avenues of enforcement. First, an individual beneficiary could sue in Federal district court to recover any benefit denied him in violation of the statute. Second, any beneficiary could sue on behalf of the fund to compel any person to return to the fund any assets wrongfully diverted. And third, the Secretary of Labor could bring suit on behalf of the fund or on behalf of a beneficiary to recover benefits, compel return of misappropriated funds, or restrain violations of the statute. And if the Secretary requests it and the court finds it appropriate, the district court could appoint a receiver to take possession of the assets and conserve and administer the fund until the violations of the statute have been remedied.

"There is nothing in this bill which would cause any difficulty to a union, a company, or a welfare or pension fund which is now being administered in accordance with the customary fiduciary standards which we have come to expect of trustees. Nor is this bill a trap for the unwary. This is a bill aimed solely at those unscrupulous persons who would deprive employees and union members of the benefits earned by long years of service."

[From the New York World-Telegram and The Sun, Aug. 5, 1965]

PLUG THE PENSION HOLES

Recent congressional hearings have revealed that there are holes as big as a barn door in the federal laws which are supposed to protect the pension rights of union members against abuse. They should be plugged up promptly.

The Taft-Hartley and Landrum-Griffin Acts both contained clauses designed to safeguard rank-and-file workers against looting of their pension and welfare plans.

But witnesses before a Senate subcommittee said a New York union official, George Barasch, maneuvered \$4 million out of the pension funds of two union locals and put the money into foreign-domiciled corporations which he controlled.

Barasch, the testimony revealed, also set up personal pensions for himself which will pay \$54,089 a year, and a corporation he heads used union funds to clean up \$353,801 on the stock market.

Worst of all, as Sen. Jacob Javits pointed out, all this may have been accomplished "without any violation of federal law."

Javits and other senators have introduced legislation to make sure neither a union nor management officer can cash in personally on a pension or welfare plan (except for normal benefits) and to prohibit transfer of assets outside the United States. They also seek other legal safeguards.

Congress originally gave unions the legal muscle which has enabled them to establish pension and welfare plans through collective bargaining. Now Congress has a responsibility to see that members are not cheated out of the benefits on which they rely.

FUNDING AND VESTING

Senator JAVITS. Now, when we speak of adequate "funding," we mean setting aside sufficient funds to pay the benefits provided in the plan. When we talk of "vesting," on the other hand, we ordinarily mean the establishment of a participant's interest in a fund which he will retain even if he loses his job.

It is easy enough to "fund" a plan with no vesting—as there are no vested liabilities, there is no need for funds to pay those liabilities. Thus, for example, if a fund promises to pay "such benefits as the trustees may decide from time to time to pay," the plan can never be "unfunded" because the trustees can always decide to cut benefits.

Conversely, a "vested interest" in an unfunded plan may be worth very little, because no matter how "vested" a pension right may be, it is worthless if the trust fund is depleted.

Either way—a vested interest in an unfunded plan, or a funded plan with no vested interests—an employee may learn after years of faithful service that his expected pension was a cruel hoax.

There is no easy solution, however. There is substantial disagreement as to acceptable minimum standards—indeed, the report of the President's Advisory Committee showed disagreement as to whether there should be any minimum standards at all.

Industry needs vary widely: vesting after 15 years may work well in an industry with a stable work force, while in certain high-labor-turnover trades such 15-year vesting may set the standard so high as to make pensions almost unattainable for most employees.

Conversely, funding of some pension plans may be worked out on a simple arithmetical basis, applying standard life expectancy tables and allowing 20 years or more to fund past credited service, while in other plans—particularly those where fixed pensions are coupled with such variable benefits as medical and dental treatment, survivorship benefits, et cetera—it may be much more difficult even to define what "adequate funding" really is.

I refuse to believe, however, that the problem is insoluble. Our Canadian neighbors in Ontario have established a statutory standard, and it seems to be working. Obviously, it can be done.

TRANSFERABILITY

As to transferability, we face a basic philosophical question—doesn't portability of pension rights conflict with the very reason why pension plans are established in the first place? I have heard it argued that employers establish pension plans precisely because they want to create an incentive for employees to stay. If pensions become portable, that underlying incentive may be destroyed, we are told.

There is another—and not really contradictory—view, however. What of the employee who leaves involuntarily, who is laid off for lack of work, or because of automation or a plant shutdown? He wants to stay, but his job is gone. Here there is a very strong case for pension portability, if only we can devise a way to accomplish it.

On a private basis, some remarkable advances have been made. Where there are established multiemployer bargaining units, some unions have negotiated single plans covering whole industries, so that employees continue to accrue pension rights as they move from employer to employer within the industry. In other industries, locals affiliated with some international unions have worked out reciprocal credit agreements between plans, so that a workman moving from one State to another can take his pension credits with him.

As yet, I know of no such reciprocal agreement extending beyond the limits of a single industry.

The problem of portability, moreover, is intimately related to funding and vesting. As long as plans have no minimum standards, it will be difficult indeed to devise any effective broad-scale portability scheme; for how can an employee with a vested interest in an inadequately funded plan convert that interest into an "equivalent" participation in another plan which has lots of money but no vested interests? At first he had an enforceable interest in nothing; and now we want to exchange that for unenforceable interest in something.

In short, until we have some standardization, at least of minimums, we may well be unable even to think about portability at all.

REINSURANCE

Reinsurance, like transferability, sounds fine all by itself, but it is part and parcel of the vesting-funding package. If we are to insure employees that their pension will be paid even if the employer's business terminates, then we must regulate the pension fund itself. And, if we regulate the fund itself, we must inevitably require some minimum standard of vesting, or else we may be insuring that the money will be there, without insuring that anyone will have a right to receive it.

Thus, once again, the cornerstones are funding and vesting.

OTHER PROBLEM AREAS

As to other problem areas, in addition to funding, vesting, portability, and reinsurance, there remains the broad category of issues surrounding pension fund administration: permissible types of investments; conflicts of interest by administrators and trustees; proper recordkeeping; informing participants of their rights and status under a plan; costs of administration, and so forth.

Even here, there are difficult problems, both practical and theoretical. To cite only one, it was suggested by the President's Advisory Committee last year that some limit might be imposed on the percentage of assets of a plan which could be invested in the securities of the employing corporation—or, for that matter, in the securities of any single issuer. I assume that the theory of these suggestions is that it is a good idea to diversify investments and at the same time avoid possible conflicts of interest. Yet, on the other hand, I have always sought to encourage profit-sharing plans, as one of the best ways of giving American workers a stake in the future of their businesses, and we are seeing a rapid expansion of profit-sharing plans—including profit-sharing retirement plans—which by their very nature involve full-scale investment in securities issued by the employer.

DEVISING LEGISLATION

This is a field in which no one is an all-around expert, but there are many who have a good deal of expertise. We need to hear from union leaders, employers, bankers, insurance men, pension administrators, actuaries, accountants, lawyers, teachers, government officials, and many others.

I am glad we are on the right track, and I will do my best to help find the facts, evaluate the problems, and devise legislation to meet the needs of the mushrooming private pension plan field.

For example, Madam Chairman, we have a bill pending now in Labor and Public Welfare to enable the employees of a plan to participate in the plan as beneficiaries. Now that means some check may have to be put on the number of employees the plan has. And, incidentally, I haven't even discussed the relationship of pensions to social security, which is critically important.

To conclude, Madam Chairman, I compliment the Chair in our hearings; second, I hope very much these hearings will lead to legislation; third, there is a precedent for legislation, which our Canadian brothers have now inaugurated; and fourth, I know of few problems in the field of labor which have been more overlooked, few problems which need the attention of Congress more, and I am honored and privileged, Madame Chairman, to be associated with you in this effort.

Representative GRIFFITHS. Thank you very much.

Senator JAVITS. Madam Chairman, I ask unanimous consent in the course of these hearings that in the name of any member, written questions may be propounded, that answers may be requested of the witnesses and that the questions and the answers may be made a part of the record of each witness' testimony.

Representative GRIFFITHS. I am happy to do that and I am sure everybody would be pleased to answer because we will allow plenty of time for them to get their answers in for the record.

Thank you very much.

Do I understand, gentlemen, you do not have a written statement?

Mr. IVERS. No, we do not.

Representative GRIFFITHS. Will you each identify yourself?

TESTIMONY OF JOHN G. MARSHALL, TRUSTEE, TEAMSTERS UNION, AFL-CIO, AND HENRY IVERS, TRUSTEE, WESTERN CONFERENCE OF TEAMSTERS PENSION TRUST FUND

Mr. MARSHALL. I am John G. Marshall of the Teamsters Union from Los Angeles.

Representative GRIFFITHS. You are a trustee of the fund?

Mr. MARSHALL. Yes; I am a trustee of the fund.

Representative GRIFFITHS. Thank you.

Mr. IVERS. My name is Henry T. Ivers. I am an attorney, a member of the firm of Lenihan & Ivers, Seattle, Wash., and chairman of the board of trustees of Western Conference of Teamsters Pension Trust.

Representative GRIFFITHS. Are you also an employer?

Mr. IVERS. I am an employer.

Representative GRIFFITHS. Are you an employee?

Mr. IVERS. No, I am not.

Representative GRIFFITHS. Are you an attorney for an employ

Mr. IVERS. I am an attorney for an employer.

Representative GRIFFITHS. Have you ever been an attorney for a labor union?

Mr. IVERS. No, I have not.

Representative GRIFFITHS. You have never handled any union business whatsoever?

Mr. IVERS. No, I have not.

Representative GRIFFITHS. How long have you been a trustee?

Mr. IVERS. Well, significantly our trust was adopted on the 26th day of April 1955, 11 years ago today.

Representative GRIFFITHS. Well, good. We will celebrate the occasion.

Were you then made a trustee?

Mr. IVERS. I was.

Representative GRIFFITHS. How did you become a trustee?

Mr. IVERS. By appointment at that time.

Representative GRIFFITHS. How many managements were involved in paying into this fund?

Mr. IVERS. Originally this plan was negotiated between the Teamsters Union and the Northwest Brewers Association which encompassed the breweries in Oregon and Washington. There were at that time six brewers and four labor unions.

Representative GRIFFITHS. Did each employer have a representative on the board of trustees?

Mr. IVERS. No; there were two employer trustees and two union trustees originally.

Representative GRIFFITHS. Who appointed you a trustee?

Mr. IVERS. The Northwest Brewers Association, which was the employer association.

Representative GRIFFITHS. Since you have been made a trustee, how many additional managements have come into this?

Mr. IVERS. On the board of trustees, as it is now constituted, there are 14 union trustees and 14 employer trustees.

Representative GRIFFITHS. And the 14 employer trustees speak for how many managements?

Mr. IVERS. 18,000.

Representative GRIFFITHS. Are you elected?

Mr. IVERS. Yes, we are elected.

Representative GRIFFITHS. When do you have the elections?

Mr. IVERS. The terms of all of the trustees are for 6 years with an election of one-half of the trustees every 3 years.

Representative GRIFFITHS. Does every management have a vote on the trustees?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Whether they employ 25 people or 25,000?

Mr. IVERS. Well, the voting is based upon 100 units of the employees. Every employer has one vote, plus a vote for every hundred employees.

Representative GRIFFITHS. How many votes are cast?

Mr. IVERS. I would think that the last election we held—I don't have the figure with me—but I think the multiples would be something in the nature of 30,000.

Representative GRIFFITHS. Now, I would like to ask you what rights does the management have in the trust fund?

Mr. IVERS. Well, the trust fund is set up in such a way that there is a unit vote on both sides. The 14 employer trustees have 1 vote, the 14 union trustees have 1 vote.

Representative GRIFFITHS. But what I mean is this: Supposing company A has 100 employees. They pay for 15 years into the trust fund, and then go broke. Does the management get its money back?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. Can the management under any circumstances get the money back?

Mr. IVERS. It cannot.

Representative GRIFFITHS. Has there ever been a reduction in the amount of money paid by the management into the trust fund?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. Has there ever been an increase in the pensions paid to employees?

Mr. IVERS. Well, the pension paid to the employee is based upon the contribution rate by the employer. We have at the present time several contribution rates: I think we have a few at 5 cents an hour, a few at 10 cents an hour or the equivalent, 15 cents an hour, 20 cents an hour and 25 cents an hour. The plan is designed on a 10-cent-per-hour unit basis, and fundamentally, on qualifying, it pays \$100 a month retirement benefit for 25 years of service; both past and future service.

Representative GRIFFITHS. Does it have to be continuous service?

Mr. IVERS. Well, it has to be continuous to the extent that there would be a break in service if an employee does not have 600 hours of contribution made on him in a 2-year period.

Representative GRIFFITHS. I see. So you could have worked for 15 years, been in an accident, been off for 2 years, worked for 15 more years, and not get a pension; is that right?

Mr. IVERS. No, ma'am, if you got into an accident and were disabled, we have a disability benefit and if you worked for 15 years, you would have a disability benefit.

Representative GRIFFITHS. Well, supposing you quit for a better job and were off 2 years and then came back and the management paid in 15 more years, do you get a pension? That is, 30 years of non-continuous service with a 2-year break. Do you get a pension?

Mr. IVERS. It does not work that way. The area that we cover is 13 States. The Teamsters Union cuts across practically every occupation and industry in that area. There is complete portability of benefits.

Representative GRIFFITHS. As long as you are a Teamster.

Mr. IVERS. As long as you are in Teamster-covered employment. But the spread of employment of the Teamsters Union in the West is such that the portability is almost complete.

Representative GRIFFITHS. Do all these employees know this?

Mr. IVERS. Oh, yes, indeed. We keep them informed.

Representative GRIFFITHS. How do you keep them informed?

Mr. IVERS. Well, we keep them informed with booklets, with annual financial reports. With every change in the plan they are informed.

Representative GRIFFITHS. Now, let us get back to the rights of the employer. If you have no rights under any circumstances ever to

recover any of the money that you have paid in, exactly what are your rights? Supposing you have paid on an employee and you think that he should collect and he does not collect. Do you have a right to sue the fund?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. What are your rights?

Mr. IVERS. The beneficiary would have a right to sue.

Representative GRIFFITHS. But you do not have that right?

Mr. IVERS. Not the employer.

Representative GRIFFITHS. What are your rights, the employer's rights?

Mr. IVERS. The employer's rights are to elect trustees to represent them and to help manage the plan, and that is all.

Representative GRIFFITHS. You are not paid anything as trustee, are you?

Mr. IVERS. Yes, I am.

Representative GRIFFITHS. You are. What is your salary?

Mr. IVERS. I am paid \$30 an hour for every hour that I put in as chairman of the board of trustees.

Representative GRIFFITHS. How much did you make last year?

Mr. IVERS. \$12,000. I am the only trustee, by the way, who is paid.

Representative GRIFFITHS. The rest of them are not paid?

Mr. IVERS. That is correct.

Representative GRIFFITHS. What I really do not understand is why management is willing to be a part of the board of trustees.

Mr. IVERS. Well, let me explain it this way: we started in the Pacific Northwest to negotiate fringe benefits in 1947. We negotiated a health and welfare plan in 1947, and I think it was the first one that was ever negotiated in the United States. I could be wrong about that. We negotiated then and have negotiated ever since. The employer and the union negotiate for a certain package costing so much money per hour per year, 2 years, or 3 years, depending upon the contract.

The employers that I represent, and in the area from which I come, have been most willing to set up fringe benefits using a part of this money which is negotiated. I might say, for example, that 2 years ago we negotiated a contract costing 30 cents an hour over a 3-year period, or 45 cents an hour over a 3-year period. Five cents of that fifteen cents each year was devoted to a fringe benefit, increase in health and welfare, increase in pension. The employer has a fixed cost of 45 cents an hour over a 3-year period; he is willing to contribute a part of that to fringe benefits.

Representative GRIFFITHS. Now, let me ask you, if the management has no rights in the fund, and you have explained that they have no rights, what are their trustees' responsibilities and to whom are they responsible? Are you criminally liable if anything happens to this fund, and who can sue you?

Mr. IVERS. Well, I doubt that there is a possibility of criminal liability where you have a unit vote on each side of the table. I do not think you could get 28 people to commit a crime together.

Representative GRIFFITHS. I understand. Now, you are from Seattle; is that right?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Could the State of Washington inquire into what you are doing?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Have they ever done so?

Mr. IVERS. Yes, they have. The insurance commissioner of the State of Washington has jurisdiction over the fund.

Representative GRIFFITHS. And he can inquire.

Mr. IVERS. And he does.

Representative GRIFFITHS. Do you have to make an annual report?

Mr. IVERS. We do.

Representative GRIFFITHS. Has he ever raised any objections to the report?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. Has he ever suggested that you are not doing it right?

Mr. IVERS. No, ma'am. As a matter of fact, the last investigation that was made they paid us a compliment on the manner in which we operate.

Representative GRIFFITHS. I still think that if I were the management, I would not care to participate.

Mr. IVERS. Well, this is really a fantastic situation. With 28 trustees, with quarterly meetings four times a year, we have had an attendance of 93 percent.

Representative GRIFFITHS. It is a paid vacation, is it not?

Mr. IVERS. No, indeed, ma'am.

Representative GRIFFITHS. You work?

Mr. IVERS. Yes, ma'am, you can be sure we work.

Representative GRIFFITHS. Anyhow you probably all have a good time, too.

Mr. IVERS. I would not deny that. [Laughter.]

Representative GRIFFITHS. Now, may I ask the first year that the fund was in effect how much money did you collect?

Mr. IVERS. The first year we collected \$1,176,801.

Representative GRIFFITHS. How much money did you pay out to the beneficiaries?

Mr. IVERS. Nothing for 2 years.

Representative GRIFFITHS. No payments for 2 years?

Mr. IVERS. Correct.

Representative GRIFFITHS. And the next year how much did you collect?

Mr. IVERS. \$10,058,533.

Representative GRIFFITHS. How much did you make the first year on the money? What was your rate of return?

Mr. IVERS. Well, only \$1,715 that year.

Representative GRIFFITHS. What did you do with the money? How could you only have made \$1,000 on a million?

Mr. IVERS. Well, it was not invested fast enough. It came in by the month.

Representative GRIFFITHS. Where is this plan located?

Mr. IVERS. In the State of Washington. The situs is the State of Washington.

Representative GRIFFITHS. Do you own your own building?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. Do you rent?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. How many thousand square feet of space?

Mr. IVERS. I have no notion. We have three offices, one in Seattle, one in San Francisco, and one in Los Angeles, and we have a representative in Denver who is maintained only for the purpose of giving information.

Representative GRIFFITHS. What were the operating costs of the fund the first year?

Mr. IVERS. The first year was \$11,768.

Representative GRIFFITHS. So on the first year you had to cut into the principal to pay the operating costs?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. All right. The second year, how much money did you take in?

Mr. IVERS. We took in, in employer contributions, \$10,058,533. The interest income was \$114,471.

Representative GRIFFITHS. What is the annual percentage return on the fund through the years?

Mr. IVERS. Well, in the year 1964 it was 5.32 percent, and last year it was about 5.25 percent—I think 5.23 percent.

Representative GRIFFITHS. How long did you have the fund before you began making more than 3 percent? Because you were not making anything close to that.

Mr. IVERS. We have never made as low as 3 percent.

Representative GRIFFITHS. Well, the first year you did not make anything.

Mr. IVERS. Well, the first contribution was made on the 15th of May. That \$1,176,000 came in, in a half year.

Representative GRIFFITHS. Now, when you began paying out, which was the first year that you ever paid out a pension?

Mr. IVERS. 1957.

Representative GRIFFITHS. How much did you pay out?

Mr. IVERS. \$1,316,475 of annuities were purchased.

May I explain?

Representative GRIFFITHS. Yes, please do.

Mr. IVERS. We are operating under a deposit administration contract with the Prudential Insurance Co. of America. The trustees do not make any payments, do not handle any funds, do not invest any money.

Representative GRIFFITHS. You buy insurance, is that it?

Mr. IVERS. No, we do not buy insurance. When we first originated this plan, we unanimously decided that we did not want to have the trustees handling any funds. We were given assistance by the Prudential Insurance Co. in developing this plan. When the plan was completely developed, we submitted it for bids to 13 insurance companies in the United States under the specifications of a deposit administration contract.

Representative GRIFFITHS. What were the specifications?

Mr. IVERS. Well, there were 22 specifications.

Representative GRIFFITHS. Will you supply them then for the record?

Mr. IVERS. No, I cannot. I am not an expert. I could tell you what some of them were.

Representative GRIFFITHS. All right, tell us what some of them were.

Mr. IVERS. First was the guaranteed interest rate.

Representative GRIFFITHS. What was the guaranteed interest rate to be?

Mr. IVERS. The highest bid we had at that time, 1955, was 2½ percent. Our present guaranteed interest rate is 4½ percent.

Representative GRIFFITHS. Do you resubmit it for bids annually?

Mr. IVERS. No, ma'am. That is not practical.

Representative GRIFFITHS. How do you do it then? How did you get it up to 4½ percent, when was that done?

Mr. IVERS. Well, the deposit administration contract is a method by which insurance companies undertake to guarantee an interest rate and to guarantee the cost of annuities. It requires a duplicate set of bookkeeping records. There is another type of contract known as the immediate participation contract in which you do not have any guarantees, either of the interest rate or of the cost of annuities.

The insurance company maintains a set of books on the immediate participation concept and another one on the guaranteed concept. They pay the guaranteed rate of interest at 4½ percent, but if they earn more than that, then they pay a dividend, and that is what brings our earnings last year up to 5.23 percent.

Representative GRIFFITHS. How much in money are you now making?

Mr. IVERS. In 1965 the employer contributions under our plan were \$65,260,204.

We received by mergers of other plans into our plan \$8,514,149.

Representative GRIFFITHS. What were those mergers?

Mr. IVERS. I will go back to that. We had interest income of \$10,016,399. We had a group annuity dividend of \$4,254,412. We had segregated fund stock dividend of \$429,404, and we had miscellaneous income of \$13,984 for a total of \$88,488,552.

Representative GRIFFITHS. What did you pay out?

Mr. IVERS. Our administrative expenses, legal fees, audit fees, actuarial fees, \$944,808. Our cost of benefits, \$36,683,146. Survivorship benefits \$727,813, deaths and termination benefits \$227,114. For a total of \$37,683,173.

Representative GRIFFITHS. Against \$88 million in earnings?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. So that you actually are not paying out as much money as you are taking in, right? Why do you not lower the contributions?

Mr. IVERS. Wait a minute, you misunderstand. We have an unfunded past service credit of a maximum of 18⅓ years for each employee. We must set up a reserve in order to pay benefits on the unfunded past service.

Representative GRIFFITHS. Well, how much does a reserve have to be?

Mr. IVERS. Well, under our present liabilities I would say a little over a half billion dollars.

Representative GRIFFITHS. How much money do you have in the fund?

Mr. IVERS. \$288 million. And we are building it up gradually until we will wipe it out. We are on an amortization basis right now of approximately 28 years.

Representative GRIFFITHS. From the day that you set up the fund, you must have figured it out on an actuarial basis as to how many people you were going to pay and how many people you were going to collect money on.

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Did you make an original calculation of more payments out to people than you have paid?

Mr. IVERS. No, I do not think so.

Representative GRIFFITHS. Did you anticipate the turnover that occurred correctly?

Mr. IVERS. Well, in the beginning, when we set up this plan, it was intended to be a Northwest plan which was going to cover the area of Washington, Oregon, northern Idaho; within a matter of 2 or 3 months after we started it, it was determined that we would put it on what was then known as the 11 Western States basis instead of just the Pacific Northwest. We had some knowledge of the anticipated 40,000 to 45,000 people who might potentially be covered under the plan as originally intended in Oregon, Washington, northern Idaho. We did not have information on the 350,000 people which it subsequently developed would be covered instead of 40,000 or 45,000 people.

Representative GRIFFITHS. May I ask you who decided that you needed the type of funding that you have? The Prudential Insurance Co.?

Mr. IVERS. No, not the company. I think Mr. Meyer Melnikoff, who was a vice president of the Prudential Insurance Co., was the most knowledgeable man in the area.

Representative GRIFFITHS. Would you not think it is self-serving?

Mr. IVERS. No, sir, it is a mutual company and they have no interest in making money. It is not a stockholding company.

Representative GRIFFITHS. Prudential Insurance Co. has no interest in making money?

Mr. IVERS. It is a mutual company, the money goes back to their policyholders and contract holders.

Representative GRIFFITHS. I will bet the policyholders want them to make money.

Senator JAVITS would like to ask a few questions.

Senator JAVITS. Thank you very much, Mrs. Griffiths. I shall be very brief. I must apologize to the Chair, but I have another meeting in education and I have to go and examine a witness there.

Mr. IVERS, I am interested in one thing about the Teamsters Union. Must you continue to be a member of the Teamsters Union in order to continue to qualify for benefits under the plan?

Mr. IVERS. You must be a member of a bargaining unit. Now you do not have to be a member of the Teamsters Union but you must be a member of a bargaining unit for whom the Teamsters Union bargains.

Senator JAVITS. That is, you may not be a member of the union but you must work in a shop where the Teamsters Union is the collective bargaining agent.

Mr. IVERS. That is correct.

Senator JAVITS. Must you always be paying dues to the Teamsters Union?

Mr. IVERS. Well, not necessarily; if you are not a member of the union, you do not have to pay dues to them.

Senator JAVITS. And you can qualify for benefits notwithstanding that you are not a member of the Teamsters Union.

Mr. IVERS. Yes, sir.

Senator JAVITS. And that you pay no union dues.

Mr. IVERS. I do not think this happens too often in the West because I think the Teamsters Union is pretty well organized. [Laughter.] But from a legal standpoint, you need only be a member of the bargaining unit.

Senator JAVITS. So that the only way you can be deprived of benefits is by losing your job in any establishment in which the Teamsters Union is the bargaining agent, is that correct?

Mr. IVERS. That is correct.

Senator JAVITS. That is the only way you can lose benefits.

Mr. IVERS. That is right.

Senator JAVITS. So that maintenance of membership in a union is not a qualification. You are very sure about that.

Mr. IVERS. Well, if you are going to move from job to job within the employment in which the Teamsters are the bargaining agents, I would say yes, you would have to stay with the Teamsters Union.

Senator JAVITS. Well, that contradicts your previous answer. You say all you have to do is to be employed in an establishment in which the Teamsters Union is the bargaining unit.

Mr. IVERS. Yes, that is right. But actually for portability of the benefits, if you are moving from job to job, I would say the membership in the Teamsters Union is quite important.

Senator JAVITS. Why?

Mr. IVERS. Because that is the way the plan was drawn.

Senator JAVITS. What does the plan say about disqualifying a person who moves from job to job and is not a union member?

Mr. IVERS. It does not say anything about that. That is just a practical result. There is nothing in the plan.

Senator JAVITS. Well, are you telling us that you cannot get a job in another establishment if you are not a Teamsters Union member?

Mr. IVERS. Well, yes, you could get a job in another establishment if the Teamsters Union was the bargaining unit and you moved in there without being a member of the Teamsters Union.

Senator JAVITS. Does that not contradict your previous answer?

Mr. IVERS. Well, I think as a practical matter, and this is from my personal experience, the Teamsters Union is pretty well organized in every plant in which they are the collective bargaining agent. I personally am not aware of any contract, although there may be some, where they are the bargaining agent, but they bargain for people who are not members of the union.

Senator JAVITS. Now, do you know anything about the rules and regulations of the Teamsters and how you might be ousted from membership or refused admittance to membership?

Mr. IVERS. No. If I had any knowledge of that kind, it would be purely hearsay.

Senator JAVITS. That is right. But that would have a very profound effect, would it not, upon the administration of this plan?

Mr. IVERS. Yes, sir.

Senator JAVITS. For the worker?

Mr. IVERS. Yes, it certainly could have.

Senator JAVITS. Now, we notice at the bottom of this memorandum that we have, analyzing your plan briefly, the name of a man named Hughes.

Mr. IVERS. John C. Hughes.

Senator JAVITS. John C. Hughes. Who is he?

Mr. IVERS. He is the administrator.

Senator JAVITS. What does that mean?

Mr. IVERS. Well, these administrative offices that we have in Seattle, San Francisco, and Los Angeles require the services of an expert, and Mr. Hughes is an expert technician in this field. He was formerly a member of the staff of the Seattle First National Bank in Seattle, Wash., assistant to the economic vice president of the bank, and we hired him from them. He has become one of the outstanding professional administrators in this field.

Senator JAVITS. Does he get a salary?

Mr. IVERS. Yes, he gets a salary, but he also operates the administrative office as his own organization.

Senator JAVITS. I do not understand what that means.

Mr. IVERS. Well, I assume that in order to understand it, we would have to have a little explanation of the background.

As I told you, in 1947 we started negotiating fringe benefits for employees. That was when we negotiated health and welfare plans. The Teamsters Union set up offices for the purpose of administering these health and welfare plans, and one of them was set up in the city of Seattle. When the time came that we negotiated the pension plan, we had no place else to go for administration except to this office which, at that time, was under the control of the union itself. We used that office for the purpose of administering the pension trust. By the time the pension got on its own feet, we decided that we had to break these offices away from the domination of the union.

Mr. Hughes had been employed in the meantime as the administrator of the pension fund.

Senator JAVITS. By the union.

Mr. IVERS. No, by the trustees. We insisted that the office be dissociated from the union control, and so he took it over personally, and took over the assets from the Joint Council of Teamsters and paid them the amount of money that they had invested in equipment and matters of that kind. Now he receives a salary of \$12,000 a year from the pension trust and any other compensation he is paid he gets from the administration of that office.

Senator JAVITS. Which is from the union.

Mr. IVERS. No, no.

Senator JAVITS. You say the administration of that office. I do not understand what that means.

Mr. IVERS. It is both a pension and a health and welfare administrative office.

Senator JAVITS. I know, but who pays for that? Who pays for the administration of the health and welfare?

Mr. IVERS. It comes out of the trust fund.

Senator JAVITS. Of the health and welfare office.

Mr. IVERS. Health and welfare and pension.

Senator JAVITS. You say the pension fund pays him \$12,000.

Mr. IVERS. That is for overall administration, not for the local administration.

Senator JAVITS. I understand. Now, the health and welfare fund pays him how much?

Mr. IVERS. I do not know.

Senator JAVITS. Who pays the health and welfare cost? Do the employers pay it?

Mr. IVERS. Well, the employers pay into the trust fund similar to the pension fund.

Senator JAVITS. For those purposes similar to the pension trust?

Mr. IVERS. That is correct.

Senator JAVITS. Do you know how much in the aggregate Mr. Hughes gets a year from everybody?

Mr. IVERS. No, I do not.

Senator JAVITS. Now, in the pension trust fund, who makes the eligibility determination? That is, who determines that an employee is or is not eligible to receive his pension?

Mr. IVERS. That is under the terms of the pension plan itself.

Senator JAVITS. Made by whom—that is what we are trying to find out. Who makes them?

Mr. IVERS. Well, the trustees adopted the plan and from time to time have amended the plan.

Senator JAVITS. As a practical matter, I am sure there are cases in which someone has to decide whether a man is eligible or whether he is not eligible.

Mr. IVERS. Well, that is one of the reasons we have the administrative offices. When a man applies for a pension, we have to get all of the evidence necessary to determine how much his pension is to be, how many years of eligibility he has, and what the contribution rates are on him. The administrative offices perform that service. They then transmit that information to the Prudential Insurance Co. Prudential checks it out, and if their records and the administrative office records do not agree, they send it back for correction and eventually then when the matter is determined, the Prudential issues an annuity contract to the retired workmen and from that time on it is a contractual relationship between Prudential Insurance Co. and the beneficiary.

Senator JAVITS. What appeal does the individual beneficiary have if he is dissatisfied? What can he do?

Mr. IVERS. He can go to court.

Senator JAVITS. He can sue.

Mr. IVERS. Yes.

Senator JAVITS. The trustees do not pass on this matter.

Mr. IVERS. Oh, yes, we do. If we get a case that is a hardship case or something unusual, yes, it goes to the trustees. They make a decision.

Senator JAVITS. Now, actuarially what percentage of your membership on the average did you figure would qualify for a pension?

Mr. IVERS. I cannot answer that question because I am not an actuary, but we have assumed that under the operation that we now have that something in excess of 50,000 will qualify for pensions.

Senator JAVITS. So that one-sixth of the total membership will qualify, is that right?

Mr. IVERS. Yes.

Senator JAVITS. You said about 300,000.

Mr. IVERS. 350,000.

Senator JAVITS. And you figure one-sixth will qualify?

Mr. IVERS. A little better than that.

Senator JAVITS. All right. Now, pursuing Mrs. Griffiths' question, has your experience to date borne out that estimate?

Mr. IVERS. We are not old enough.

Senator JAVITS. You are not old enough to tell?

Mr. IVERS. No.

Senator JAVITS. But your estimate is that one-sixth of the total for whom there are contributions will get benefits. Will that one-sixth get the contributions which were paid in for the other five-sixths as well as the contributions paid in for them?

Mr. IVERS. That is the only way the plan could be supported. Your death and attrition rates are what support the plan. You could not pay the benefits that we pay if a hundred percent of the people were going to qualify for it because there just is not enough money. You would certainly have to get a much, much higher contribution rate.

Senator JAVITS. Now, you gave us a figure of almost a million dollars for administration.

Mr. IVERS. \$955,000.

Senator JAVITS. Is that it? Are there any indirect, hidden commissions, percentages or anything else that you can think of that would increase the net cost to this total fund of administering and running it?

Mr. IVERS. No, sir. Actually the administrative office cost is nine-tenths of 1 percent. The other costs which include legal fees, actuarial fees, collection fees on delinquencies, is three-tenths of 1 percent, or a total of 1.2 percent.

The insurance company has a cost of approximately eight-tenths of 1 percent.

Senator JAVITS. That is the 1.2 percent you mentioned relates to the total cash flow, does it not?

Mr. IVERS. Yes. Our total expense of operation is under 3 percent including the insurance company's expense.

Senator JAVITS. Under 3 percent of the gross cash income?

Mr. IVERS. Yes.

Senator JAVITS. Thank you. That is all I have to say, Madam Chairman.

Representative GRIFFITHS. I would like to go back now to the company, XYZ Co., that pays into the fund for 15 years, goes broke, and the company does not get any money back. Now, supposing that the employees on whom they paid had worked 15 years, all of them had worked 15 years, but were 64 years old. Do they have any rights under the fund?

Mr. IVERS. Oh, yes.

Representative GRIFFITHS. What are their rights?

Mr. IVERS. At 52 years of age, with 15 years of service, there is a 50-percent vesting and that vesting increases at 5 percent each year until 62 when it is fully vested.

Representative GRIFFITHS. Do you pay only the worker or do you pay the worker's widow.

Mr. IVERS. There is a spouse option which gives the worker the right to take a lesser retirement for his life and his wife would have a retirement for her life on the basis that the life expectancy of the woman is greater by 4 years than the life expectancy of the man.

Representative GRIFFITHS. I am real happy to hear you say spouse. The Teamsters do unionize some women, do they not?

Mr. IVERS. Yes; they do.

Representative GRIFFITHS. Do the husbands get some money?

Mr. IVERS. Yes, ma'am; they do.

Representative GRIFFITHS. Well, congratulations. It is the only plan I have ever heard of where the husband gets anything. [Laughter.]

I do not seem to be able to convince anybody that this makes a woman's life less valuable. I would like to get either the amount I am paying into the fund reduced or to get the same rights as everybody else has.

Now, are the business agents permitted to participate in this fund?

Mr. IVERS. Yes, ma'am. Employees of the union are eligible to be covered.

Representative GRIFFITHS. Who pays for them?

Mr. IVERS. The union does.

Representatives GRIFFITHS. Out of dues?

Mr. MARSHALL. Out of dues; yes.

Representative GRIFFITHS. And do they have a different pension right than any other employee or do they have exactly the same?

Mr. MARSHALL. Exactly the same under this fund.

Representative GRIFFITHS. I see. Do they have other pension rights?

Mr. MARSHALL. They have another pension fund.

Representative GRIFFITHS. Would you explain that fund to me?

Mr. MARSHALL. Well, it is a fund set up by the international union based on years of service. It pays 1.56 percent of their salary up to \$20,000, times the years of service. It pays that amount for 5 years and at the end of 5 years the pension is cut in half.

Representative GRIFFITHS. Would you tell me how much money there is in that fund? Does every union member pay into that fund or only the officials of the union?

Mr. MARSHALL. The officials of the union pay nothing. It is taken out of the per capita tax paid to the international union.

Representative GRIFFITHS. Is this paid by union members?

Mr. MARSHALL. It comes out of the dues money, yes.

Representative GRIFFITHS. But the officials of the union pay nothing into that fund.

Mr. MARSHALL. That is right.

Representative GRIFFITHS. Did the union members understand that officials were to get pensions from dues?

Mr. MARSHALL. Well, the pension fund was set up in 1962, and at that time it was indicated that a portion of the per capita tax, 22 cents

per member per month, would be set aside for pension, for union employees.

Representative GRIFFITHS. Union employees. Do the union members get any pension from that fund?

Mr. MARSHALL. No.

Representative GRIFFITHS. Just the employees?

Mr. MARSHALL. Just the employees of the union.

Representative GRIFFITHS. How long do you have to be an employee of the union to get a pension?

Mr. MARSHALL. Twenty years.

Representative GRIFFITHS. Is there an age requirement?

Mr. MARSHALL. Twenty years and age 57.

Representative GRIFFITHS. If you have the 20 years and are retired before age 57, at 57 can you get some money out of it?

Mr. MARSHALL. Not before you reach 57.

Representative GRIFFITHS. But at 57 could you?

Mr. MARSHALL. At 57 you could; yes.

Representative GRIFFITHS. How much money is there in that fund; do you know?

Mr. MARSHALL. No; we have never received a report of it.

Representative GRIFFITHS. Would you supply an answer for the record?

Mr. MARSHALL. I would not be able to.

Representative GRIFFITHS. The fund is not within your control?

Mr. MARSHALL. No; it is handled by the international union.

Representative GRIFFITHS. Who heads that international union. Hoffa?

Mr. MARSHALL. There are three trustees, Hoffa, English, and Gibbons.

Representative GRIFFITHS. Is Mr. Gibbons from St. Louis?

Mr. MARSHALL. St. Louis; that is right.

Senator JAVITS. Would the chairman yield?

Representative GRIFFITHS. In a moment. May we ask you for a report on that fund?

Senator JAVITS. Do I understand somebody to say that there are workers for the union, union officials, union employees, who participate in the fund with which Mr. Ivers is concerned?

Mr. IVERS. Yes, there are.

Senator JAVITS. Who are the union employees who participate in the fund of which you are a trustee?

Mr. IVERS. They are any employee of the union who is eligible to be covered under this plan.

Representative GRIFFITHS. But not an employee of the fund.

Mr. IVERS. Yes; employees of the fund are eligible to be covered.

Representative GRIFFITHS. You mean to tell me you are paying pensions to the employees of funds?

Mr. IVERS. We are.

Representative GRIFFITHS. Do you not consider that a conflict of interest?

Mr. IVERS. No, Ma'am.

Representative GRIFFITHS. Well, I do.

Senator JAVITS. You are also paying to employees of the unions, the unions which are the bargaining agents for those particular employers?

Mr. IVERS. Yes.

Senator JAVITS. Well now, are you familiar with the decision in the case in California of *Kroger v. Blassie*?

Mr. IVERS. Yes, sir, I am. It was reversed by the circuit court of appeals.

Senator JAVITS. I see.

Mr. IVERS. And it was not California but St. Louis.

Senator JAVITS. It has been reversed by the circuit court?

Mr. IVERS. Yes.

Senator JAVITS. Has it been appealed?

Mr. IVERS. I think certiorari was refused.

Senator JAVITS. Thus, there is a determination that you may do this?

Mr. IVERS. Yes.

Senator JAVITS. Union employees do not work for the employers who pay into the fund but they are beneficiaries under the plan.

Mr. IVERS. Yes; but the union pays the same contribution rates on its employees as the employer pays on the employer's.

Senator JAVITS. The union pays into the fund?

Mr. IVERS. Yes, sir.

Senator JAVITS. Exactly the same as the employer pays?

Mr. IVERS. Yes.

Representative GRIFFITHS. And the employees draw on exactly the same basis?

Mr. IVERS. Exactly.

Representative GRIFFITHS. Are only Teamster-organized people in this fund?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Management—for instance you—cannot draw a pension from this fund?

Mr. IVERS. No, I cannot.

Representative GRIFFITHS. Only the Teamster-organized people, is that right?

Mr. IVERS. That is correct.

Representative GRIFFITHS. How can you move your rights in the fund from one job to another?

Mr. IVERS. As long as you are with a covered employer you are covered.

Representative GRIFFITHS. Any place within a certain area?

Mr. IVERS. Within 13 States.

Representative GRIFFITHS. If a Teamster moved from your fund to Detroit, could he transfer his rights?

Mr. IVERS. Well, at our last meeting we authorized a reciprocity agreement with the Central-Southwest and Southeast Teamsters pension plan. If they assent to the agreement that we have authorized to be signed, there will be portability between the Midwest and the Far West.

Representative GRIFFITHS. Did you tell me that contributions to this fund from the employer had ever increased?

Mr. IVERS. Yes.

Representative GRIFFITHS. They have.

Mr. IVERS. Yes.

Representative GRIFFITHS. How did you determine the annual contributions—purely by negotiation?

Mr. IVERS. Yes.

Representative GRIFFITHS. But on what basis did you determine that you needed more money?

Mr. IVERS. We do not determine that we need more money. If the employer contribution is increased on an employee, then his retirement benefit increases.

Representative GRIFFITHS. Well, then the reason that you demanded that the contribution increase was to increase the beneficiary rights, is that it?

Mr. IVERS. Certainly. But I never demanded that they be increased.

Representative GRIFFITHS. Well, the Teamsters did this, right?

Mr. IVERS. No. That term "demand" is not a proper term. It is negotiated. Sure, they come in to the bargaining table with "demands"; usually they are a foot long but they do not get them all. But I will say that the employers that I am familiar with have been most anxious to increase fringe benefits rather than increase wages.

Representative GRIFFITHS. How many people have been paid from the fund in total?

Mr. IVERS. It is only a guess. About 12,000—it is about 15,000 now.

Representative GRIFFITHS. What rights do the Teamsters have in employment? Supposing someone is 60 years old; he could not qualify for a pension. Do you have any opportunity to keep him from being employed?

Mr. MARSHALL. No.

Representative GRIFFITHS. Do you, in your judgment, feel that this plan has resulted in the turning away of older people from employment?

Mr. MARSHALL. No, because when a man goes to work, his age has no effect on the contribution.

Representative GRIFFITHS. Because the benefit right has been set?

Mr. MARSHALL. That is right.

Representative GRIFFITHS. What proportion of the pension obligations of the plan is funded and what is the amount of the unfunded liability?

Mr. IVERS. Well, the liability is in excess of a half billion dollars against which we have around \$280 million.

If I may explain this—

Representative GRIFFITHS. All right.

Mr. IVERS. When this plan was first drafted, it was drafted on a unit of 10 cents per hour contribution rate; 6-plus cents per hour goes toward the funding of future benefits, and 3-plus cents goes toward the funding of past service unfunded benefits. And the same proportion is maintained at a 15-cents-an-hour contribution or a 20-cents-an-hour contribution. Except that at 20 cents an hour we have a survivorship benefit. For a man who dies leaving children under 18 years of age, there is \$100 a month survivorship benefit available to his widow and children. So when we reach the 20 cents contribution rate, we have changed the benefit plan.

Representative GRIFFITHS. What are the conditions on which the plan vests?

Mr. IVERS. Fifteen years of service and 52 years of age. Then it vests 50 percent; and then 5 percent a year from age 52 to age 62 where it vests 100 percent.

Representative GRIFFITHS. What percent of the workers leaving the plan last year had vested rights?

Mr. IVERS. I do not have that information.

Representative GRIFFITHS. Can you secure that information? I would assume you could.

Mr. IVERS. I do not think so.

Representative GRIFFITHS. Yes, you can. Will you supply it for the record? That information is available to you.

Mr. IVERS. No, it is not available for this reason: If contribution rates are not made for 600 hours—2-year period, you have a termination. We do not have the records on people who have not reached the point where they are making a claim. It is not feasible to secure these records ahead of time.

Representative GRIFFITHS. Well now, you can tell how many people worked 15 years and are 52; you know that, do you not, and if they left the employment? I would think that would not be very difficult to find out. You must have those figures. They have a vested right, do they not?

Mr. IVERS. Yes, but their vested right does not become obvious until they make a claim.

Representative GRIFFITHS. How many people, in your judgment, have rights that have never made claims?

Mr. IVERS. I do not know. If they do not file claims, it is not because they are uninformed.

Mr. MARSHALL. Madam Chairman, I think I can answer that. I think most local unions keep a record of the people who have a vested right, and as the time to make a claim approaches, they inform them that now is the time to make a claim, either a cash claim or a pension claim.

Representative GRIFFITHS. I see. But I should think that your records would show without any question how many have left the employment who have a vested right.

Mr. IVERS. Well, they are moving around; they are so portable that there is no way of answering that question.

Representative GRIFFITHS. Can a vested right be lost by a member's subsequent behavior?

Mr. IVERS. No, ma'am.

Representative GRIFFITHS. It cannot.

Mr. IVERS. Behavior has nothing to do with it. It is a contractual right.

Representative GRIFFITHS. He does not have to pay dues. He does not have to be a member or anything else. Once the right is vested, he can collect.

Mr. IVERS. That is right.

Representative GRIFFITHS. Does a member have a loan or withdrawal privileges. Can you borrow against your pensions?

Mr. IVERS. No.

Representative GRIFFITHS. You cannot withdraw?

Mr. IVERS. If a man terminates, he has a right to recover as a termination benefit 30 percent of the amount that was paid in on his behalf.

Representative GRIFFITHS. Under what circumstances?

Mr. IVERS. If he has a 2-year period in which contributions are not made on his behalf for at least 600 hours, he is terminated. If he is 52 years of age and he has had 15 years of service, he has a 50 percent vested benefit at age 65. If he is older, it is increased. But he may, if he decides to do so, take a cash termination benefit of 30 percent.

Representative GRIFFITHS. Thirty percent of the money paid in.

Mr. IVERS. Of the contributions made on his behalf.

Representative GRIFFITHS. So that the employee might have a right to collect on the firm that went bankrupt where the management has not any rights at all.

Mr. IVERS. That is right. That is right because it is a vested benefit.

Representative GRIFFITHS. What are the age, length of service, and monthly benefit vested for workers acquiring rights to benefits during the last 5 years, can you supply that for the record?

Mr. IVERS. Yes, I have exhibits here which I would be glad to put into the record which show a 10-year history and a current history.

Representative GRIFFITHS. Without objection, we will put them in, if you will supply them.

Mr. IVERS. First of all, I think you should have a copy of the pension trust and of the pension plan.

Representative GRIFFITHS. We would be happy to have it.

Mr. IVERS. I have here a 10-year history of the operation of the plan, and I have here the last administrator's report as of April 15, and I have here a table of statistics which covers the entire operation of the plan up to date.

(The documents referred to follow :)

AGREEMENT AND DECLARATION OF TRUST OF THE WESTERN CONFERENCE OF
TEAMSTERS PENSION TRUST FUND AS CONSTITUTED NOVEMBER 1, 1965

This Agreement and Declaration of Trust made this 26th day of April, 1965, by and between the undersigned Union Trustees and Employer Trustees, who together with the successor Trustees and additional Trustees designated in the manner hereinafter provided are hereinafter collectively referred to as Trustees.

Whereas certain local unions affiliated with the Western Conference of Teamsters, Chauffeurs, Warehousemen and Helpers of America, have now and will hereafter have in effect Agreements with certain employers requiring payments by the employers into a trust fund for the purpose of providing and maintaining retirement, death, and termination benefits for certain employees of the employers and their beneficiaries,

Whereas, each such local union, hereinafter called Union, and each such employer, hereinafter called Employer, shall, upon acceptance by the Trustees, be deemed a party to this Agreement and Declaration of Trust, and

Whereas, to effect the aforesaid purpose it is desired to establish and maintain a trust fund which will conform to the applicable requirements of the Labor Management Relations Act of 1947, as amended, and qualify as a "qualified trust" and as an "exempt trust" pursuant to 1954 Internal Revenue Code, sections 401, 501 (a) and other pertinent provisions thereof.

Now therefore, in consideration of the premises and in order to establish and provide for the maintenance of the aforesaid trust fund, to be known as the Western Conference of Teamsters Pension Trust Fund (hereinafter referred to as the "Trust Fund"), it is understood and agreed as follows :

ARTICLE I—DEFINITIONS

Section 1.—Union

The term *Union* as used herein shall include any local union of the Western Conference of Teamsters affiliated with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, which, at the time of reference, has a Pension Agreement in effect with an Employer and has agreed in writing to be bound by the terms and provision of this Agreement and Declaration of Trust.

Section 2.—Employer

The term *Employer* as used herein shall include any association, individual, partnership, or corporation which, at the time of reference, has agreed to pay Employer Contributions to the Trust Fund or who has made or is making Employer Contributions to the Trust Fund.

Section 3.—Employee

The term *Employee* as used herein shall mean any person on whose account an Employer is, at the time of reference, making Employer Contributions into the Trust Fund, or for whom an Employer previously did make such Contributions and who is, at the time of reference, still eligible for benefits to be provided by the Trust Fund.

Section 4.—Trustee

The term *Trustee* as used herein shall include any person designated as a Trustee pursuant to Section 2. or Section 6. of Article II of this Agreement and Declaration of Trust.

Section 5.—Union Trustee

The term *Union Trustee* as used here in shall mean any Trustee designated solely by the Unions or on behalf of the Unions by any other Union Trustee or Trustees.

Section 6.—Employer Trustee

The term *Employer Trustee* as used herein shall mean any Trustee designated solely by the Employers or on behalf of the Employers by any other Employer Trustee or Trustees.

Section 7.—Agreement and Declaration of Trust

The term *Agreement and Declaration of Trust* as used herein shall mean this instrument including all amendments and modifications hereto.

Section 8.—Trust Fund

The term *Trust Fund* as used herein shall mean The Western Conference of Teamsters Pension Trust Fund created and established in Article III herein.

Section 9.—Employer Contributions

The term *Employer Contributions* as used herein shall mean payments made to the Trust Fund by an association, individual, partnership, or corporation on behalf of Employees.

Section 10.—Pension Agreement

The term *Pension Agreement* shall mean any agreement made by any association, individual, partnership, or corporation which provides among other things for Employer Contributions to the Trust Fund. A Pension Agreement shall be considered as being in effect on any date if it provides for Employer Contributions to be made to the Trust Fund with respect to employment on such date.

ARTICLE II—TRUSTEES

Section 1.—Number of Trustees

The Trustees under this Agreement and Declaration of Trust, who shall be the Trustees of the Trust Fund created and established hereunder, shall be an even number not less than four, and not more than twenty-eight; one-half to be Union Trustees and one-half to be Employer Trustees. Of the Union Trustees holding office at any time, not more than four shall represent the Northwest Area, not more than four shall represent the Northern California Area, not more than four shall represent the Southwest Area, and not more than two shall

represent the Rocky Mountain Area, as such Areas are defined from time to time by the Trustees. The Employer Trustees shall similarly represent the four specified Areas.

Section 2.—Election of Trustees

The Trustees shall hold an election for each Area at triennial intervals. In each Area other than the Rocky Mountain Area the first election shall provide for electing two Union Trustees and two Employer Trustees for six-year terms, and two Union Trustees and two Employer Trustees for three-year terms. At each triennial election thereafter in such Area, two Union Trustees and two Employer Trustees shall be elected for six-year terms. In the Rocky Mountain Area, the first election shall provide for electing one Union Trustee and one Employer Trustee for six-year terms, and one Union Trustee and one Employer Trustee for three-year terms. At each triennial election thereafter in the Rocky Mountain Area, one Union Trustee and one Employer Trustee shall be elected for six-year terms. The terms of office of the Trustees initially elected in any Area shall begin on a date selected by the Trustees holding office immediately prior to such election but in no case more than 60 days after such election, and all subsequent terms shall begin on anniversaries of such date.

The nomination and election of Union Trustees shall be subject to the following:

(a) Each Joint Council chartered by the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America (hereinafter referred to as a Joint Council), which includes a Union, as defined herein, among its constituent local unions, may adopt, by vote of its constituent local unions, the procedures for nominating and voting for Union Trustees in its Area which procedures shall upon adoption be certified to the Trustees.

(b) Each of the following numbered Joint Councils shall elect one Union Trustee without reference to any other Joint Council: 7, 28, 37, 38, 42 and 71. Of the remaining eight Union Trustees, two shall be determined by election in each Area.

(c) In any Area election, nomination shall be made upon invitation to each Joint Council in the Area extended by the incumbent Union Trustees not less than 90 days in advance of the date of election, through the certified public accountant or accounting firm employed for the election. Each Joint Council in the Area may nominate two candidates for each vacancy to be filled by such election and such nominations shall be certified to the Trustees. No nomination shall be accepted by the Union Trustees less than 45 days in advance of the date of the election to which it pertains.

(d) In any Area election, the incumbent Union Trustees shall distribute, not less than 30 days in advance of the date of election to all Joint Councils in the Area, through the certified public accountant or accounting firm employed for the election, ballots containing the names of the candidates who have been properly nominated. Each Joint Council shall be entitled to cast a number of votes equal to the product of (i) the number of members of its constituent local unions, and (ii) the number of vacancies to be filled; the votes of each Joint Council may be cast for one candidate or divided among any candidates on such basis as it may determine; and the votes of each Joint Council shall be certified to the Trustees.

(e) Certification as provided above shall be made by the President and Secretary of each Joint Council and shall include a sworn statement that the procedures previously certified to the Trustees had been followed.

(f) The nomination and election of Union Trustees shall be conducted by a certified public accountant or accounting firm employed by the Trustees under the supervision of the incumbent Union Trustees. The expenses of such election shall be a proper charge against the Trust Fund.

The Employer Trustee or Trustees elected to represent any Area shall be elected according to the following procedures:

(a) Nomination shall be by petition of Employers within the Area, upon invitation to each Employer extended by the Employer Trustees not less than 90 days in advance of the date of election. Each candidate for election shall be sponsored by a group of not less than ten individual Employers within the Area with a total of at least 500 employees covered under the plan, or by an association used for collective bargaining purposes representing such a group of Employers. No petition shall be accepted by the Employer Trustees less than 45 days in advance of the date of the election to which it pertains.

A group, as defined above, on whose behalf a petition is made shall be limited to one nominee in any one Area unless there are two vacancies in the Area. If

there are two vacancies in the Area and the group includes 20 or more Employers within the Area employing a total of 1,000 or more employees covered under the Plan, the group shall be limited to two nominees.

The minimum number of candidates for an Area shall be equal to the number of Employer Trustees for such Area whose terms are expiring. If fewer than the minimum number of candidates are presented to the Employer Trustees or if fewer than the minimum number of candidates qualify in accordance with this Section, the Employer Trustees whose terms are not expiring shall nominate one or two candidates but not fewer than are necessary to bring the total number up to the minimum number.

(b) For purposes of any election, an Employer shall be eligible to vote or sign a petition only if he has a Pension Agreement in effect on the June 30 prior to the date of the election. An Employer may delegate to an Association acting as his bargaining representative the right to sign a petition for him.

(c) Regardless of any other provisions of this Agreement and Declaration of Trust, no union or Union may participate in any way in the nomination or election of any Employer Trustee or any Employer Trustees, even though such union or Union is an Employer as said term is elsewhere used in this Agreement and Declaration of Trust.

(d) If only the minimum number of candidates required for an Area are nominated, no election shall be held in that area. The Employer Trustees at the next succeeding meeting shall by motion declare the nominees of that Area elected.

(e) If more than the minimum number of candidates required for an Area are nominated, the Employer Trustees shall distribute, not less than 30 days in advance of the date of election for any Area, to all eligible Employers in such Area, ballots containing the names of the candidates who have become qualified in accordance with Section (a) above. For each office to be filled, an eligible Employer reporting unit will have one vote for each reporting unit, and an additional vote for each one hundred employees on whose account Employer Contributions were made by such reporting unit during the authorized payment period ending on the June 30 prior to the date of the election.

In an election in which one Employer Trustee is to be elected, each eligible Employer may vote for one candidate, and the candidate securing the largest number of votes shall be elected. In an election in which two Employer Trustees are to be elected, each eligible Employer may vote for two candidates, and the two candidates securing the largest number of votes shall be elected. In case of ties, the Employer Trustees whose terms are not expiring shall cast a single deciding vote. The expenses of such election shall be a proper charge against the Trust Fund, and the Trustees shall have the right to employ such clerical assistance as they deem necessary.

The ballots will be returned to the Employer Trustees and only those ballots will be considered which are properly signed and which are postmarked on or before the date of election.

Section 3.—Acceptance of Trust by Trustees

A Trustee named or referred to in the foregoing Section, who shall be a natural person, upon signing this Agreement and Declaration of Trust, or upon written acceptance filed with the other Trustees in the case of any successor or additional Trustee, shall be deemed to accept the trust created and established by this Agreement and Declaration of Trust and consent to act as Trustee and agree to administer the Trust Fund as provided herein.

Section 4.—Trustee's Term of Office

Each Trustee shall continue to serve as such until the end of his term, or until his prior death, incapacity, resignation or removal as provided herein.

Section 5.—Resignation of Trustee

A Trustee may resign and remain fully discharged from all future duty or responsibility hereunder by giving notice in writing to the remaining Trustees, which notice shall state the date such resignation shall take effect and such resignation shall take effect on the said date unless a successor Trustee shall have been appointed at an earlier date, in which event such resignation shall take effect as of the date of appointment of his successor.

Section 6.—Successor Trustees

(a) In the event any Union Trustee shall die, become incapable of acting, resign, or be removed, a successor Union Trustee to fill the unexpired term shall

be designated by the Joint Council appropriate to the local union of which the former Union Trustee was a member. Upon the filing with the remaining Trustees of the acceptance of the Trusteeship by the designated successor Trustee, such designation shall be effective and binding in all respects.

(b) In the event any Employer Trustee shall die, become incapable of acting, resign, or be removed, a successor Employer Trustee shall be designated by the remaining Employer Trustees to fill the unexpired term. Upon the filing with the remaining Trustees of the acceptance of the Trusteeship by the designated successor Trustee, such designation shall be effective and binding in all respects.

(c) It is the intention hereof that the Trust Fund shall at all times be administered by an equal number of Union Trustees and Employer Trustees but in the event of a vacancy or vacancies, until the designation of a successor Trustee or Trustees as hereinabove provided, the remaining Trustees shall have the power to act.

(d) Any successor Trustee shall, immediately upon his acceptance of the Trusteeship in writing filed with the Trustees, become vested with all the property, rights, powers and duties of a Trustee hereunder. The insurance company and all of the persons connected with the administration of the Trust Fund shall be immediately notified.

Section 7.—Removal of Trustees

Any Union Trustee may be removed by action of the Joint Council appropriate to the local union of which he was a member. Such action of any Joint Council shall be certified to the Trustees by the President and Secretary of such Joint Council.

Any Employer Trustee may be removed at any time by means of a petition calling for his removal signed by Employers employing at least 50% of the covered Employees in the Area which he represents.

The Trustees may remove any Trustee who has missed three successive regular meetings.

A removed Trustee shall be fully discharged from all future duty or responsibility herein.

Section 8.—Compensation of Trustees

The Trustees shall serve without compensation from the Trust Fund, except that the Chairman may be compensated for services required of him by the Trustees in the management of the administrative affairs of the Trust and for attendance at all meetings of the Trustees on a per hour or per diem basis as fixed by the Trustees, and the Chairman and other Trustees may be reimbursed for their expenses in connection with meetings of the Trustees in an amount equal to round trip first-class air fare, including jet surcharge, from their principal place of business, plus a per diem reimbursement for out-of-pocket expenses of \$25.00 a day.

ARTICLE III—CREATION, PURPOSE, AND APPLICATION OF THE TRUST FUND

Section 1.—Creation of Trust

The Trust Fund hereby created and established shall comprise the entire assets hereof including those derived from Employer Contributions, amounts receivable as Employer Contributions but unpaid, together with all contracts (including dividends, interest, refunds, or other sums payable to the Trustees on account of such contracts), all investments made and held by the Trustees, all income therefrom, and any other property received and held by the Trustees by reason of their acceptance of this Agreement and Declaration of Trust. Amounts receivable shall be considered as receivable upon completion of the hours of employment by an Employee and shall be due and payable at the time and place specified by the Trustees.

The Trustees are hereby designated as the person to receive Employer Contributions and the Trustees are vested with all right, title and interest in and to the Trust Fund for the uses, purposes and duties set forth in this Agreement and Declaration of Trust.

Section 2.—Purpose of Trust

The Trust Fund is created, established and maintained, and the Trustees agree to receive the Trust Fund, hold and administer it, for the purpose of providing, through the medium of a group annuity contract or contracts, retirement, death, and termination benefits for the Employees and their families and dependents and for no other purpose.

Section 3.—Pension Plan and Group Annuity Contract

The Trustees are hereby empowered, authorized and directed:

(a) To establish a plan, to be known as The Western Conference of Teamsters Pension Plan, and referred to herein as the Plan, which shall define the retirement, death, and termination benefits to be provided by the Employer Contributions, the conditions of eligibility for such benefits, the terms of payment, and such other items as the Trustees shall deem it necessary to include. The aforesaid terms of the Plan shall be determined by the Trustees in their sole discretion on the basis of actuarial principles, and shall be subject to change by the Trustees retroactively or otherwise from time to time; provided, however, that the intent of the Agreement and Declaration of Trust is that at all times the Trust Fund will conform to the applicable requirements of the Labor Management Relations Act of 1947, as amended and qualify as a "qualified Trust" and as an "exempt Trust" pursuant to sections 401 and 501(a) and any other relevant sections of the 1954 Internal Revenue Code or any successors thereto and that Employer Contributions made by Employers to the Trust Fund will be deductible as an item of expense of such Employers for income tax purposes.

(b) To enter into a group annuity contract with a reputable insurance company licensed to do business in every State in which any Employees are employed, for the purpose of providing for the purchase of annuities and the payment of death and termination benefits granted under the terms of the Plan.

Section 4.—Application of the Fund

To effect the aforesaid, the Trustees shall have the power to use and apply the Trust Fund for the following purposes:

(a) To pay or provide for the payment of the amounts determined by the Trustees as reasonable fees for the services of any person and organizations retained for collecting Employer Contributions and administering the affairs of the Trust Fund.

(b) To pay or provide for the payment of all reasonable and necessary expenses, costs, and fees, other than those covered in Subsection (a) above, incurred by the Trustees in connection with the maintenance of this Trust Fund, including the employment of such actuarial, legal, and expert assistance, as the Trustees in their discretion deem necessary or appropriate in the performance of their duties; EXCEPTING, HOWEVER, no part of the Trust Fund shall be used for any expenses, costs or fees incurred or sustained in establishing this Trust Fund or the creation of this Agreement and Declaration of Trust.

(c) To pay or provide for the payment of all real and personal property taxes, income taxes and other taxes or assessments of any and all kinds levied or assessed under existing or future laws upon or in respect to the Trust Fund or any money or property forming a part thereof.

(d) To maintain a reserve for expected administrative expenses reasonably anticipated to be incurred during a period not exceeding three months.

(e) To make deposits and payments pursuant to the group annuity contract referred to in Section 3(b) of this Article to provide the retirement, death, and termination benefits contemplated herein.

All funds received by the Trustees hereunder as a part of the Trust Fund shall be deposited in such Federal Deposit Insurance Corporation-insured bank or banks as the Trustees may designate for that purpose. The Trustees may delegate to two Trustees, one of whom shall be a Union Trustee and one an Employer Trustee, the sole power to make all withdrawals of such funds of such bank accounts.

Section 5.—Limitation of Rights to Trust Fund

The following limitations shall apply to the rights or interests in, or use of, the Trust Fund:

(a) Neither the Unions, Employers, Employees, nor any other person, association, or corporation shall have any right, title, or interest in or to the Trust Fund.

(b) Anything contained in this Agreement and Declaration of Trust to the contrary notwithstanding, no part of the corpus or income of the Trust Fund shall be used for or diverted to purposes other than for the exclusive benefit of Employees, retired Employees, or their families and dependents.

(c) No money, property, equity, or interest of any nature whatsoever in the Trust Fund, in the group annuity contract, or in any benefits or monies payable therefrom, shall be subject in any manner by any Employee, retired Employee, or beneficiary or person claiming through any of them, to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, garnishment, lien, or charge, and any attempt to cause the same to be subject thereto shall be null and void.

ARTICLE IV—COLLECTION OF EMPLOYER CONTRIBUTIONS

The Trustees shall require immediate contributions to the Trust Fund by Employers in accordance with any Pension Agreement. The Trustees shall have the power to demand, collect, and receive Employer Contributions for the purposes specified herein, and upon delinquency in payment of Employer Contributions may (but are not obligated to) require the delinquent Employer to pay a reasonable attorney's fee and all other costs incurred by the Trust Fund in the collection of the delinquent payment. The Trustees shall not be required to institute legal action to collect delinquent Employer Contributions payable in accordance with a Pension Agreement.

In order to carry out and effectuate the purpose hereof, the Trustees shall have the power to specify the time, manner, and place of payment of Employer Contributions to the Trust Fund and shall notify each Employer in writing of these requirements.

ARTICLE V—ADMINISTRATION OF THE TRUST FUND

Section 1.—General

The administration of the Trust Fund shall be vested wholly in the Trustees and for such administration the Trustees shall, consistent with the purposes of this Trust Fund, have the power and it shall be their duty to:

(a) Administer the Trust Fund by retaining and/or employing for that purpose a person and organizations and such person and organizations shall be deemed the agent of the Trustees and shall have the authority to delegate some of its functions to other persons or organizations upon approval by the Trustees.

(b) Make such uniform rules and regulations as are consistent with and necessary for effectuating the provisions of this Agreement and Declaration of Trust.

(c) Exercise all rights or privileges granted to the contract holder by the provisions of the group annuity contract issued to the Trustees as provided herein or allowed by the insurance company issuing such contract, and they may agree with such insurance company to any alteration, modification, amendment or cancellation of such contract and may take any action respecting such contract for the benefits provided thereunder which they in their discretion may deem necessary or advisable and such insurance company shall not be required to inquire into the authority of the Trustees with regard to any dealings in connection with such contract.

(d) Construe the provisions of this Agreement and Declaration of Trust and the Pension Plan and the terms used therein, and any construction adopted by the Trustees in good faith shall be binding upon the Unions, the Employers, the Employees, and their beneficiaries.

(e) In addition to such other powers as are set forth herein or conferred by law:

(1) Sell, exchange, lease, convey or dispose of any property at any time forming a part of the Trust Fund or the whole thereof upon such terms as they may deem proper and to effect and deliver any and all instruments of conveyance and transfer in connection therewith.

(2) Enter into any and all contracts and agreements for carrying out the terms of this Agreement and Declaration of Trust and for the administration of the Trust Fund and to do all acts as they in their discretion may deem necessary or advisable and such contracts, agreements and acts shall be binding and conclusive on the Unions, Employers, Employees and their beneficiaries.

(3) Do all acts whether or not expressly authorized herein which the Trustees may deem necessary or proper for the protection of the Trust Fund held hereunder and their judgment shall be final.

(f) Promulgate such requirements for the admission of additional Unions and Employers in this Agreement and Declaration of Trust and in the Pension Plan and such other rules and regulations as may in their discretion be deemed proper and necessary for the sound and efficient administration of the Trust Fund provided that such requirements, rules and regulations are not inconsistent with this Agreement and Declaration of Trust.

(g) Keep true and accurate books of accounts and records of all their transactions which shall be open to the inspection of any Trustee at all times and which shall be audited at least annually by a certified public accountant selected

by the Trustees. Such audits shall be available at all times for inspection by any Union or any Employer at the principal office of the Trust Fund.

(h) Administer the Trust Fund in conformity with this Agreement and Declaration of Trust as from time to time amended, and with the requirements of the Labor Management Relations Act of 1947 as amended, and in conformity with all applicable laws.

The Trustees may delegate any of their ministerial powers or duties hereunder to any of their agents or employees.

Section 2.—Execution of Instruments

Any instrument in writing may be executed on behalf of the Trustees by the signatures of the two Trustees who are designated the Chairman and the Secretary, one of whom shall be a Union Trustee and one an Employer Trustee, or by a person designated by the Trustees for such purpose, and all persons, partnerships, corporations and associations may rely thereon that such instrument has been duly authorized.

Section 3.—Voting by Trustees

Any action to be taken by the Trustees pursuant to this Agreement and Declaration of Trust shall be by unanimous vote of the Trustees present at a meeting of the Trustees, or by unanimous vote of all Trustees in writing without a meeting. There shall be but two votes; the Union Trustees shall have one vote among them and the Employer Trustees shall have one vote among them. The Union Trustees shall establish requirements to decide their vote and the Employer Trustees shall establish requirements to decide their vote. The Trustees jointly shall establish procedural rules governing, among other things, the calling and conduct of meetings, the constitution of a quorum, and the existence of a deadlock. In the event that an even number of Union or Employer Trustees are unable to determine upon the casting of their vote on a question, the number of both the Union Trustees and Employer Trustees shall be increased to an odd number within five days, and the question under consideration shall be held in abeyance during such five-day period.

In the event of a deadlock, questions shall be submitted for decision to an impartial umpire selected by the Trustees. In the event of their inability to agree upon such impartial umpire, the Union Trustees of Employer Trustees, or, in their failure to act, any Trustee shall petition the District Court of the United States where the Trust Fund has its principal office to appoint an impartial umpire.

The decision of such impartial umpire shall be final and binding and shall be adopted by the Trustees and deemed to be the vote of the Trustees. The cost and expense incidental to any proceedings needed to break a deadlock shall be borne by the Trust Fund.

Any impartial umpire chosen or designated to break a deadlock shall be required to enter his decision within the time fixed by the Trustees. The scope of any arbitration proceeding before such impartial umpire shall be limited to the provisions of this Agreement and Declaration of Trust and the Pension Plan, and shall not involve Pension Agreements or collective bargaining agreements between a Union and an Employer, nor shall such impartial umpire have power or authority to change or modify any provisions of such Pension Agreements or collective bargaining agreements, the Pension Plan, or this Agreement and Declaration of Trust.

ARTICLE VI—ADMINISTRATION OF THE PLAN

The Trustees shall have the following powers and duties with regard to the administration of the Plan:

(a) To develop procedures to be followed by Employers in reporting contributions made in behalf of Employees.

(b) To develop procedures for the establishment of credited service of Employees, including the means of affording Employees and Employers the opportunity to object thereto, and to establish such facts conclusively.

(c) To prescribe rules and procedures governing the application by Employees and beneficiaries for benefits, and the furnishing of any evidence necessary to establish the rights of Employees and beneficiaries to such benefits.

(d) To make determinations which shall be final and binding upon all parties as to the rights of any Employee and any beneficiary to benefits, including any rights any individual may have to request a hearing with respect to any such determination.

(e) To obtain and evaluate all statistical and actuarial data which may be reasonably required with respect to the administration of the Plan.

(f) To make reciprocal agreements with the Trustees of other plans established by unions and employers, to provide for the reciprocal transfer of credited service between such plans and this Plan in the case of employees transferring their employment to or from such employers.

(g) To make such other rules and regulations as may be necessary for the administration of the Plan and not inconsistent with the purposes of the trust.

ARTICLE VII—LIMITATION OF LIABILITY

Section 1.—Liability of Trustees

Neither the Trustees nor any Trustee shall be liable for any error of judgment or for any loss arising out of any act or omission in the administration of the Trust Fund, nor shall they or he be personally liable for any liability or debt of the Trust Fund contracted or incurred by them or him, nor for the nonfulfillment of any contract, nor shall they or he be liable for the improper application of any part of the Trust Fund, nor for any other liability arising in connection with the administration or the existence of the Trust Fund; PROVIDED HOWEVER, nothing herein shall exempt the Trustees or any Trustee for any liability, obligation or debt arising out of their or his acts or omissions done or suffered in bad faith or through gross negligence or willful misconduct.

The Trustees and each Trustee shall be fully protected in acting upon any instrument, certificate or paper believed by them to be genuine and to be signed or presented by the proper person or persons and shall be under no duty to make any investigation nor inquiry as to any statement contained in any such record but may accept the same as conclusive evidence of the truth and accuracy of the statements therein contained.

Section 2.—Liability of Unions, Employers, Trustees, and Insurance Company

Nothing in this Agreement and Declaration of Trust shall be construed as making a Union or an Employer liable for the payments required to be made by any other Employer and each Employer's liability shall be limited solely to the payment of the amount designated by his Pension Agreement. Neither the Unions, Employers, nor Trustees shall be liable for the payment of any benefits to be provided by the Pension Plan. The insurance company issuing the group annuity contract shall have the sole liability for the payment of the benefits which are provided by the Pension Plan and purchased from the insurance company under the terms of such group annuity contract.

Section 3.—Employers Not Liable for Benefits

None of the Employers shall be liable for the failure of the Trustees to secure the benefits contemplated herein or in the Pension Plan for any Employee or beneficiary or for any default or neglect of the Trustees.

Section 4.—Liability of Insurance Company

Nothing in this Agreement and Declaration of Trust shall be construed as making the insurance company, directly or indirectly, a party hereto or as imposing upon the insurance company any obligation or obligations but rather any obligation or obligations of the insurance company shall be contained in the group annuity contract. The insurance company without inquiring or determining whether any act of the Trustees is in accordance with this Agreement and Declaration of Trust, may take or allow or omit to take or allow any action solely upon the faith of any application made or instrument executed by the Trustees or by a person designated by the Trustees for that purpose.

ARTICLE VIII—MISCELLANEOUS PROVISIONS

Section 1.—Employer's Obligation to Furnish Information

Each Employer shall promptly furnish to the Trustees on demand any and all records of his Employees concerning the classification of such Employees, their names, Social Security numbers, amount of wages paid and hours worked and any other payroll records and information that the Trustees may require in connection with the administration of the Trust Fund and for no other purpose. Each Employer shall also submit in writing to the Trustees at such regular periodic intervals and in such form as the Trustees may establish such of the above data as may be requested by the Trustees. The Trustees or their authorized representatives may examine the payroll books and records of each Employer when-

ever such examination is deemed necessary or advisable by the Trustees in connection with the proper administration of the Trust.

Section 2.—Dealings with Trustees

No person, partnership, corporation or association dealing with the Trustees shall be obliged to see to the application of any funds or property of the Trust Fund, or to see that the terms of this Agreement and Declaration of Trust have been complied with, or be obliged to inquire into the necessity or expedience of any act of the Trustees; and every instrument effected by the Trustees, whether executed by all of them or in the manner specified in Article V, Section 2, shall be conclusive in favor of any person, partnership, corporation or association relying thereon that:

(a) At the time of delivery of said instrument, this Agreement and Declaration of Trust was in full force and effect, and

(b) Said instrument was effected in accordance with the terms and conditions of this Agreement and Declaration of Trust, and

(c) The Trustees were duly authorized and empowered to execute such instrument.

Section 3.—Employee Booklets

The Trustees shall provide, or cause to be provided, and deliver to each Employer for transmission to each of his Employees a booklet setting forth in summary form a statement of the essential features of the Plan.

Section 4.—Notices

Notice given to a Trustee, Union, Employer, or any other person shall, unless otherwise specified herein, be sufficient if in writing and delivered to or sent by postpaid first class mail or prepaid telegram to the last address as filed with the Trustees. Except as herein otherwise provided, the delivery of any statement or document required hereunder to be made to a Trustee, Union, or Employer shall be sufficient if delivered in person or if sent by postpaid first class mail to his or its last address as filed with the Trustees.

Section 5.—Trustees' Discretion

Any question arising in connection with the discharge of this Agreement and Declaration of Trust not herein specifically provided for shall be left to the sole discretion of the Trustees and their independent judgment and acting under such advice as to them seems necessary or proper.

Section 6.—Advice of Counsel

The Trustees may, when necessary, employ legal counsel upon a legal question arising out of the administration of this Agreement and Declaration of Trust, and shall be held completely harmless and fully protected in acting and relying upon the advice of such counsel.

Section 7.—Legal Action by Trustees

The Trustees may seek judicial protection by any action or proceeding they may deem necessary to settle their accounts, or to obtain a judicial determination or declaratory judgment as to any question of construction of the Agreement and Declaration of Trust or instruction as to any action thereunder. Any such determination shall be binding upon all parties to or claiming under this Agreement and Declaration of Trust.

Section 8.—Costs of Suit

The costs and expenses of any action, suit, or proceeding brought by or against the Trustees or any of them (including counsel fees) shall be paid from the Trust Fund, except in relation to matters as to which it shall be adjudged in such action, suit, or proceeding that such Trustee was acting in bad faith or was grossly negligent in the performance of his duties hereunder.

Section 9.—Fidelity Bonds

Each employee employed by the Trustees who may be engaged in handling of monies of the Trust Fund shall be bonded for such sum as the Trustees from time to time shall determine by a duly authorized surety company. The cost of premiums for such bonds shall be paid out of the Trust Fund.

Section 10.—Severability

If any provision of this Agreement and Declaration of Trust is held to be invalid, such invalid portion shall be of no force and effect, but the validity of

the balance of this Agreement and Declaration of Trust shall be not affected thereby.

ARTICLE IX—MODIFICATIONS

This Agreement and Declaration of Trust may be modified in any respect from time to time by the Trustees, except that no modification shall divert the Trust Fund as constituted immediately prior thereto or any part thereof to a purpose other than as set forth herein, nor shall there be any modification as the result of which there would be an unequal number of Union Trustees and Employer Trustees.

Any proposed modification shall be submitted to each of the Trustees in writing 10 days before the date of the meeting at which the modification will be considered. A copy of such modification, upon passage by Trustees, shall be forwarded to each Union, to each Employer, and to the insurance company.

ARTICLE X—ADMISSION OF UNIONS AND EMPLOYERS

Any local union shall become a Union hereunder by entering into an agreement with an employer by which the employer agrees to make or in fact makes Employer Contributions to the Trust Fund and, in addition, by meeting any other requirements established by the Trustees.

Any employer shall become an Employer hereunder by agreeing to pay Employer Contributions to the Trust Fund or in fact making Employer Contributions to the Trust Fund and, in addition, by meeting any other requirements established by the Trustees.

Without limiting the generality of the foregoing, the Trustees may in their discretion determine the recognition to be given under the Plan to employment rendered prior to admission by Employees of the newly-admitted Employer.

The admission of any local union as a Union hereunder, or any employer as an Employer hereunder, shall become effective upon acceptance by the Trustees of such local union or employer.

Where a local union and an employer have, prior to admission and acceptance by the Trustees, been parties to or participants in any other pension or retirement trust or plan, the Trustees may in addition require as a condition of acceptance that all or a portion of the assets of such pension or retirement trust or plan be paid to the Trustees to become a part of the Trust Fund to be held for the general purposes thereof as set forth in Article III hereof.

ARTICLE XI—TERMINATION OF TRUST

This Agreement and Declaration of Trust shall remain in effect until terminated by action of the Trustees. In the event of termination, the Trustees shall:

(a) Make provision out of the Trust Fund for the payment of expenses incurred up to the date of termination of the Trust and the expenses incident to such termination.

(b) Pay to the insurance company the balance, if any, of the assets of the Trust Fund remaining in the hands of the Trustees, for application under the group annuity contract.

(c) Arrange for a final audit and report of their transactions and accounts, for the purpose of terminating their Trusteeship.

(d) Make any determinations permitted under the group annuity contract which they deem necessary or desirable in the allocation of any funds then held under the group annuity contract.

ARTICLE XII—SITUS AND CONSTRUCTION OF TRUST

This trust is accepted by the Trustees in the State of Washington and all questions pertaining to its validity, construction and administration shall be determined in accordance with the laws of that State.

In Witness Whereof, the Trustees have affixed their signatures as of the day and year first above written, at Seattle, Washington.

Trustees of the Western Conference of Teamsters Pension Trust Fund

Union Trustees

(signed) GEO. CAVANO
(signed) W. L. WILLIAMS

Employer Trustees

(signed) HENRY T. IVERS
(signed) ARTHUR D. AYRAULT

THE WESTERN CONFERENCE OF TEAMSTERS PENSION PLAN AS CONSTITUTED
NOVEMBER 1, 1965

ARTICLE I—DEFINITIONS

Section 1.—Trust Agreement

The term Trust Agreement shall mean the Agreement and Declaration of Trust establishing The Western Conference of Teamsters Pension Trust Fund, entered into as of April 26, 1955 as that instrument may from time to time be amended.

Section 2.—Trust Fund

The term Trust Fund or Fund shall mean The Western Conference of Teamsters Pension Trust Fund.

Section 3.—Trustees

The term Trustees shall mean the Employer Trustees and Union Trustees collectively as appointed or elected under the Trust Agreement and as constituted from time to time in accordance with the provisions of the Trust Agreement.

Section 4.—Union

The term Union shall mean any local union of The Western Conference of Teamsters, affiliated with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America which, at the time of reference, has a Pension Agreement in effect with an Employer and has agreed to be bound by the terms and provisions of the Trust Agreement.

Section 5.—Covered Employer

The term Covered Employer shall mean an association, individual, partnership, or corporation which at the time of reference, has agreed to be bound by the terms and provisions of the Trust Agreement and is obligated to make Employer Contributions to the Trust Fund in accordance with a Pension Agreement. An employer shall be considered to become a Covered Employer at the beginning of the first Covered Hour in his employment of an employee.

Section 6.—Employee

The term Employee shall mean an individual who is in Covered Employment at the time of reference or an individual who has been so engaged and whose Service has not been broken at the time of reference.

Section 7.—Pension Agreement

The term Pension Agreement shall mean any agreement under the terms of which an Employer agrees to make Employer Contributions to the Trust Fund, including any extension, renewal or replacement thereof.

Section 8.—Covered Employment

The term Covered Employment shall mean any employment in a capacity for which Employer Contributions are payable to the Trust Fund in accordance with a Pension Agreement.

Section 9.—Employer Contributions on Account of an Employee

The term Employer Contributions made on account of an Employee shall mean the Employer Contributions made by reference to the Employee's Covered Employment.

Section 10.—Covered Hour

The term Covered Hour shall mean an hour of employment of an Employee with respect to which an Employer Contribution is paid on his account into the Trust Fund.

Section 11.—Surviving Child of the Employee

The term Surviving Child of the Employee shall mean a child who was dependent on the Employee on the date of the Employee's death and who either (a) has not, at the time of reference, attained age 18 or (b) became disabled before attaining age 18 and is, at the time of reference, receiving benefits under the Federal Social Security Act because of such disability.

Section 12.—Surviving Spouse of the Employee

The term Surviving Spouse of the Employee shall mean a person who was the Employee's spouse at the time of his death and for a period of at least one year prior thereto and who has not, at the time of reference, attained age 62.

ARTICLE II—NORMAL RETIREMENT BENEFIT

Section 1.—Normal Rate of Retirement Benefit

An Employee's Normal Rate of Retirement Benefit on any date shall be the product of

- (a) his Basic Retirement Credit and
- (b) his Contribution Ratio on that date.

His Basic Retirement Credit shall be the sum of his Basic Future Service Credit and his Basic Past Service Credit, if any, as defined in Sections 2, and 3, of this Article, but not more than \$100.00. His Contribution Ratio is defined in Section 4. of this Article.

Section 2.—Basic Future Service Credit

An Employee shall accrue Basic Future Service Credit as Employer Contributions are made on his account. The amount of his Basic Future Service Credit shall be equal to \$2.13 per 1,000 Covered Hours (\$.00213 per Covered Hour).

Section 3.—Basic Past Service Credit

An Employee shall be entitled to Basic Past Service Credit if he has Past Employment. The amount of an Employee's Basic Past Service Credit shall be equal to \$4.00 times the number of years (each completed month to count as one-twelfth of a year) of his Past Employment, not counting any such employment before January 1, 1937 or after April 30, 1965, but shall not exceed \$73.33. His Past Employment is defined in Section 5, of this Article.

Section 4.—Contribution Ratio

An Employee's Final Pension Agreement on any date shall be the Pension Agreement under which he worked during the period, consisting of the calendar year which includes such date and the two preceding calendar years, for all or the largest number of his Covered Hours in such period, provided he had at least 600 Covered Hours in such period. His Benefit Contribution Rate on any date shall be the hourly rate most recently applicable on or before such date under his Final Pension Agreement, but in no event less than the average hourly rate determined with respect to all his Covered Hours to such date.

If on any date an Employee has less than 600 Covered Hours in the period, consisting of the calendar year which includes such date and the two preceding calendar years, his Benefit Contribution Rate shall be that determined in accordance with the preceding paragraph as of the most recent December 31 such that he had at least 600 Covered Hours in the period consisting of the calendar year in which such December 31 occurs and the two preceding calendar years.

An Employee's Contribution Ratio shall be determined from his Benefit Contribution Rate as follows:

- (a) If his Benefit Contribution Rate does not exceed fifteen cents, his Contribution Ratio shall be the ratio of his Benefit Contribution Rate to ten cents.
- (b) If his Benefit Contribution Rate exceeds fifteen cents but does not exceed twenty cents, his Contribution Ratio shall be the sum of (i) 1.500 and (ii) the ratio of 60% of the excess of his Benefit Contribution Rate over fifteen cents to ten cents.
- (c) If his Benefit Contribution Rate exceeds twenty cents, his Contribution Ratio shall be the sum of (i) 1.800 and (ii) the ratio of 83% of the excess of his Benefit Contribution Rate over twenty cents to ten cents.

Section 5.—Past Employment

The term Past Employment shall include Continuous Past Employment and Special Past Employment.

An Employee shall have Continuous Past Employment for all unbroken Employment with an Employer before his first Covered Hour (a) if he is in Covered Employment with such Employer on the date it becomes a Covered Employer with respect to the collective bargaining unit (or other unit approved by the Trustee) of which he is then a member, or (b) if he is in Employment on May 1, 1955, with such Employer and if, prior to May 1, 1965, or the Employee's retirement under this Plan, whichever first occurs, such Employer becomes a Covered

Employer with respect to the collective bargaining unit (or other unit approved by the Trustees) of which he was a member on May 1, 1955, provided such date of his first Covered Hour.

An Employee shall have Special Past Employment for all unbroken Employment before his first Covered Hour, other than Continuous Past Employment, in a capacity covered by a collective bargaining agreement with a Union either at the time the Employment was rendered or at any later date prior to May 1, 1965, or the Employee's retirement under this Plan, whichever first occurs, not counting any such Employment before the later to occur of (a) the 35th anniversary of his date of birth, and (b) January 1, 1937, except that only for the purpose of satisfying the service requirement for a Disability Retirement Benefit or a Survivor Benefit, any such Employment before the 35th anniversary of the date of his birth but after January 1, 1937 may be counted.

ARTICLE III—ELIGIBILITY FOR AGE RETIREMENT BENEFITS

Section 1.—Conditions

An Employee who is not receiving Disability Retirement Benefit payments and

(a) whose Age Retirement Benefit would be at least \$10.

(b) who has had a total of at least 600 Covered Hours in a period of two consecutive calendar years, and

(c) who has either

(i) reached his 65th birthday (62nd birthday in the case of a female in Covered Employment on or before January 1, 1962 and born before 1915), or

(ii) reached his 60th birthday, has had at least 15 years of Unbroken Service, and has had Employer Contributions made on his account for a total of at least 3,000 Covered Hours,

shall be eligible to retire under the Plan and receive an Age Retirement Benefit beginning as of the first day of any month which is at least two years after the date of his first Covered Hour. Furthermore, an Employee who has not previously retired shall be automatically retired under the Plan by the Trustees as of the first day of the month coinciding with or next following the last to occur of (i) the date two years after the date of his first Covered Hour, (ii) his 70th birthday, and (iii) the date he first fulfills all the conditions for retirement.

Section 2.—Entitlement

An Employee who meets the conditions for retirement set forth in Section 1. of this Article shall, upon approval by the Trustees of an application submitted to the Trustees in form satisfactory to the Trustees, become entitled to an Age Retirement Benefit.

Section 3.—Effective Date

The effective date of the Age Retirement Benefit for any Employee shall be (a) in the case of automatic retirement—the date of his retirement by the Trustees, and (b) for other retirement—the first day of the month coinciding with or next following the date of his retirement from Employment which is not more than three months prior to the date of receipt of his application by the Trustees.

ARTICLE IV—AMOUNT AND PAYMENT OF AGE RETIREMENT BENEFITS

Section 1.—Retirement at or after Age 65

If the effective date of his Age Retirement Benefit is on or after his 65th birthday, and if no Option has become effective as described in Article V, an Employee's Age Retirement Benefit shall be equal to his Normal Rate of Retirement Benefit on such effective date. The first payment of such benefit shall be payable to him as of the effective date of his Age Retirement Benefit. Subsequent payments shall be payable to him as of the first day of each calendar month thereafter throughout his remaining lifetime, subject to the conditions of Article IX, and terminating with the last payment before his death. Each such payment will be raised to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

Section 2.—Retirement before Age 65

If the effective date of his Age Retirement Benefit is before his 65th birthday, and if no Option has become effective as described in Article V, an Employee's

Age Retirement Benefit shall be equal to his Normal Rate of Retirement Benefit on such effective date reduced.

(a) by $\frac{1}{10}$ of one per cent for each full month between such effective date and the first of the month coinciding with or next following his 65th birthday if such Employee meets condition (c) (i) of Section 1. of Article III or if, in the 16 calendar quarters immediately preceding the calendar quarter in which such effective date occurs, Employer Contributions were made on his account for a total of at least 3,000 Covered Hours, otherwise

(b) by $\frac{1}{10}$ of one percent for each such full month.

The first payment of such benefit shall be payable to him as of the effective date of his Age Retirement Benefit. Subsequent payments shall be payable to him as of the first day of each calendar month thereafter throughout his remaining lifetime, subject to the conditions of Article IX, and terminating with the last payment before his death. Each payment will be raised to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

Section 3.—Death after Age Retirement

If the death of an Employee occurs after he has begun to receive Age Retirement payments, and reduced payments are not to be continued to his Spouse under an Option described in Article V, the excess, if any, of the amount, as described in Article VI, which would have been payable to his beneficiary if his death had occurred immediately before the effective date of his Age Retirement Benefit over the sum of the payments made to the Employee shall be paid to the Employee's beneficiary in cash.

If the death of an Employee's Spouse occurs after such Spouse has begun to receive payments under an Option described in Article V, the excess, if any, of the amount, as described in Article VI, which would have been payable to the Employee's beneficiary if his death had occurred immediately before the effective date of his Age Retirement Benefit over the sum of the payments made to the Employee and his Spouse shall be paid to the Employee's beneficiary in cash.

ARTICLE V—OPTIONS

Section 1.—Social Security Adjustment Option

If the Employee has not made an election in accordance with Section 2. of this Article, he may elect, on or before the date of receipt by the Trustees of his application for an Age Retirement Benefit, the Social Security Adjustment Option. Under this Option, which becomes effective on the effective date of his Age Retirement Benefit, the Age Retirement Benefit otherwise payable to him shall be adjusted so that the amount payable before his 65th birthday is increased and the amount payable on and after his 65th birthday reduced. Such adjusted amounts shall be determined in accordance with uniform rules established by the Trustees.

Section 2.—Benefit to Spouse Option

If the Employee has not made an election in accordance with Section 1. of this Article, he may elect, on or before the date of receipt by the Trustees of his application for an Age Retirement Benefit, the Benefit to Spouse Option. This Option becomes effective two years after the effective date of his Age Retirement Benefit if both the Employee and the Spouse designated at the time of such election are then living. If the Option becomes effective, the Age Retirement Benefit otherwise payable thereafter shall be reduced so as to provide for continuation of 66 $\frac{2}{3}$ % of such reduced benefit to the Spouse during the Spouse's remaining lifetime, if such Spouse survives the Employee. Such reduced benefit shall be determined in accordance with uniform rules established by the Trustees.

Section 3.—Other Options

The Trustees may permit the election of other Options, subject to uniform rules established by the Trustees, by an Employee who has not made an election in accordance with Section 1. or Section 2. of this Article.

ARTICLE VI—DEATH BENEFITS

Section 1.—Eligibility for Death Benefit

If the death of an Employee or Former Employee

- (a) who has had at least fifteen years of Unbroken Service, and
- (b) on whose account Employer Contributions have been made for a total of at least 3,000 Covered Hours

occurs (1) before he receives any retirement payments, or (2) after his Service is broken and while he remains eligible for a Cash Termination Benefit, then upon receipt by the Trustees of due proof of his death and determination by the Trustees that he has a beneficiary, there shall be paid to such beneficiary a death benefit determined in accordance with Section 2. of this Article.

Section 2.—Amount of Death Benefit

The amount of the death benefit payable to the beneficiary of an Employee or Former Employee who met the conditions set forth in Section 1. of this Article shall be equal to the lesser of

- (a) 30% of the total amount of Employer Contributions made on his account, and
- (b) \$900 multiplied by his Contribution Ratio.

ARTICLE VII—DISABILITY RETIREMENT BENEFITS

Section 1.—Conditions

An Employee shall be eligible for a Disability Retirement Benefit, subject to the limitations of Section 6., if

- (a) he has not reached his 65th birthday, or retired under Article III,
- (b) he has had at least 15 years of Unbroken Service,
- (c) he has been covered under the Plan for at least 2 years,
- (d) he is disabled and is receiving Disability Insurance Benefits under the Federal Social Security Act, and
- (e) Employer Contributions have been made on his account for a total of at least 3,000 Covered Hours in the 16 calendar quarters immediately preceding the calendar quarter during which he first satisfies all of conditions (a), (b), (c), and (d) above.

Section 2.—Amount

If an Employee is not receiving, or has not received, benefits under any workmen's compensation law, occupational disease law, or similar legislation, or the maritime doctrine of maintenance, wages and cure, hereinafter called Compensation Benefits, the amount of his Disability Retirement Benefit shall be his Normal Rate of Retirement Benefit, but not less than the product of \$50 and his Contribution Ratio.

If an Employee is receiving, or has received, Compensation Benefits, the amount of his Disability Retirement Benefit shall be 50% of the amount which would have applied if he had not received Compensation Benefits. If, however, an Employee can demonstrate, to the satisfaction of the Trustees, that, as of any date on which a Disability Retirement Benefit payment is due, the sum of

- (a) the total Disability Retirement Benefit payments made to him and
- (b) 50% of the total Compensation Benefits paid to him

does not exceed

(c) the total Disability Retirement Benefit payments which would have been made to him if he had not received Compensation Benefits, then the amount of his Disability Retirement Benefit payment as of that date shall be the amount which would have applied if he had not received Compensation Benefits.

In any case, the Disability Retirement Benefit shall be raised to the next higher multiple of \$0.50 unless it is already an integral multiple of \$0.50.

Section 3.—Entitlement

An Employee who meets the conditions for a Disability Retirement Benefit set forth in Section 1. of this Article shall, upon approval by the Trustees of an application submitted to the Trustees in form satisfactory to the Trustees, become entitled to a Disability Retirement Benefit.

Section 4.—Effective Date

The effective date of the Disability Retirement Benefit for any Employee shall be the first day of the month coinciding with or next following the date he first satisfies all the conditions for a Disability Retirement Benefit but not before the date twelve months prior to the date of receipt by the Trustees of his application, nor, in the case of an Employee born after 1911, before January 1, 1962.

Section 5.—Payment

- (a) To the Employee

The first payment of an Employee's Disability Retirement Benefit shall be payable to the Employee as of the effective date of his Disability Retirement

Benefit. Subsequent payments shall be payable to him as of the first day of each calendar month thereafter throughout his remaining lifetime if, prior to the attainment of age 65, he remains entitled to Disability Insurance Benefits under the Federal Social Security Act. He shall be ineligible for further Disability Retirement Benefit payments under the Plan as of the first day of the calendar month coinciding with or next following the date, prior to the attainment of his 65th birthday, he ceases to be entitled to Disability Insurance Benefits under the Federal Social Security Act.

(b) To the Employee's Beneficiary

If the death of an Employee occurs after he has begun to receive Disability Retirement Benefit payments, but before the sum of such payments equals or exceeds the amount which would have been payable to his beneficiary, as described in Article VI, if his death had occurred immediately before the effective date of his Disability Retirement Benefit, the excess of such amount over the sum of the payments made to the Employee shall be paid to the Employee's beneficiary.

Section 6.—Exclusions and Non-Duplication of Benefits

An Employee shall not be eligible for a Disability Retirement Benefit in any case where the disability is caused or contributed to by

- (a) war, declared or undeclared, or any act of war; or
- (b) any attempt at suicide, whether the Employee is sane or insane; or
- (c) habitual drunkenness or addiction to narcotics.

Furthermore, an Employee shall not be eligible for Disability Retirement Benefit payments for any period during which the Employee is confined in a penal institution or other house of correction as a result of conviction for a criminal or other public offense, or while confined in a State institution for the mentally ill, provided that the Trustees, by Regulation or resolution, may provide that the Disability Retirement Benefit payments to which an Employee would otherwise be entitled may be paid to such Employee's dependent or dependents during such confinement in such State institution for the mentally ill, or while confined in such penal institution or other house of correction.

If any Employee becomes eligible for a Disability Retirement Benefit under this Article VII, payments shall be made as provided in this Article in lieu of any other payments under the Plan, except as provided in Section 7 of this Article.

Section 7.—Ineligibility Prior to the Attainment of Age 65

If an Employee who has become eligible to receive a Disability Retirement Benefit under the Plan thereafter becomes ineligible, prior to the attainment of Age 65, for Disability Retirement Benefit payments, his benefits shall be computed as otherwise provided in the Plan except that his death benefit shall be reduced by the sum of all Disability Retirement Benefit payments received.

ARTICLE VIII—TERMINATION BENEFITS

Section 1.—Eligibility for Termination Benefit

At the time an Employee's Service is broken, his rights shall be determined as specified in (a) and (b) below. The Termination Benefits provided in this Article shall be in full settlement of all his rights and interests under the Plan for Service before such break in Service.

(a) If, at the time of the break in Service, he has had a total of at least 15 years of Unbroken Service and has had Employer Contributions made on his account for a total of at least 3,000 Covered Hours, he shall be eligible for a Cash Termination Benefit.

(b) If he has met the conditions set forth in subsection (a) for a Cash Termination Benefit, has attained his 52nd birthday, and has not elected to receive his Cash Termination Benefit, he shall be designated as a Former Employee and shall be eligible for a Vested Retirement Benefit as hereinafter described in this Article. A Former Employee may at any time prior to the effective date of his Vested Retirement Benefit elect to receive his Cash Termination Benefit, and upon payment thereof to him he shall cease to be a Former Employee and shall no longer be eligible for a Vested Retirement Benefit.

Section 2.—Entitlement

An individual who meets the conditions for a Termination Benefit set forth in Section 1. of this Article shall, upon approval by the Trustees of an application

submitted to the Trustees in form satisfactory to the Trustees, become entitled, subject to the conditions of Article X, Section 6, to such Termination Benefit.

Section 3.—Cash Termination Benefit

An individual's Cash Termination Benefit at any time shall be equal to the amount of the death benefit which would be payable to his beneficiary if he were to die at that time.

Section 4.—Vested Retirement Benefit

A Former Employee's Vested Retirement Benefit shall consist of a retirement benefit with payments as provided in Article IV, subject to the modifications described in (a), (b), (c) and (d) below, except that if the Former Employee furnishes, in a form satisfactory to the Trustees, evidence that his break in Service occurred as a result of promotion or of termination of his employment, the modification described in (b) shall not apply.

(a) The Former Employee's Benefit Contribution Rate shall be the average hourly rate determined with respect to all his Covered Hours.

(b) The Former Employee's Basic Past Service Credit shall be multiplied by the ratio (not to exceed 1) of his Covered Hours to the product (not to exceed 30,000) of 1,500 and the excess, if any, of his year of birth over 1895.

(c) The Former Employee's monthly benefit shall be a percentage of that computed based on the modifications described in (a) and (b) above. Such percentage shall be determined according to his age attained at the time his Service is broken as follows :

Age attained at time service is broken : Percentage	Age attained at time service is broken— Continued	Percentage
52----- 50	57----- 75	
53----- 55	58----- 80	
54----- 60	59----- 85	
55----- 65	60 or over----- 100	
56----- 70		

(d) If the effective date of his Vested Retirement Benefit is before his 65th birthday, the monthly benefit shall be reduced by $\frac{1}{10}$ of one per cent for each full month between such effective date and the first of the month coinciding with or next following his 65th birthday.

The effective date of the Vested Retirement Benefit for any Former Employee shall be the first day of the month coinciding with or next following :

(i) the later of his 60th birthday and the date of receipt by the Trustees of his application for a Vested Retirement Benefit if such application is received before his 65th birthday ;

(ii) the later of his 65th birthday and the date twelve months prior to the date of receipt of such application if such application is received on or after his 65th birthday.

ARTICLE IX—REEMPLOYMENT OF RETIRED EMPLOYEE

If a Retired Employee, or a Former Employee receiving payments under a Vested Retirement Benefit is not in retirement in a calendar month, as determined by the Trustees in accordance with rules uniformly applicable to all individuals similarly situated, he shall not be entitled to any retirement benefit payment for the third succeeding calendar month unless he has attained his 70th birthday before the first day of such third succeeding calendar month. The Trustees may establish rules for the reporting by a Retired Employee or a Former Employee of his return to Covered Employment, including such penalties for non-reporting as they deem appropriate. If any such Retired Employee or Former Employee, after receiving retirement payments, is not in retirement for a period of at least 12 full consecutive calendar months, then upon his subsequent retirement from Employment his retirement payments shall be recomputed by the Trustees on a basis consistent with that described in Articles IV, VI, VII and VIII considering all Service before the first of the month following his 70th birthday.

ARTICLE X—ADMINISTRATION OF THE PLAN

Section 1.—Administration by Trustees

The Trustees shall administer the Plan by retaining and/or employing for that purpose a person and organizations and such person and organizations shall be

deemed the Agent of the Trustees and shall have the authority to delegate some of its functions to other persons or organizations upon approval by the Trustees. The Trustees shall make such rules and prescribe such procedures for the administration of the Plan as they shall deem necessary and reasonable. The decisions of the Trustees in all matters pertaining to the administration of the Plan shall be final.

Section 2.—Rights Granted by Plan

The only right, interest, or title to any benefit under the Trust Agreement, the Plan, or the Trust Fund which any person shall have is that which shall have been specifically granted pursuant to the terms of the Plan.

Section 3.—Beneficiary

Unless there is a beneficiary or beneficiaries designated in accordance with the next following paragraph, the beneficiary or beneficiaries of an Employee or Former Employee shall be the survivor or survivors in the first surviving class among the following: (a) spouse, (b) children, (c) parents, (d) brothers and sisters. If there are two or more survivors in such surviving class, they shall share equally in any amount payable to the beneficiary. If there is no survivor in any of the foregoing classes, such amount shall be payable to the Employee's legal heirs, whose identity and respective shares shall be determined by the Trustees in accordance with the laws of succession of the State of Washington in effect on the date of his death. If no one who qualifies to take under any of the foregoing provisions can be found by the Trustees within five years of the time such amount first becomes payable, then said amount shall remain in the Trust Fund to be used for the general purposes thereof.

Each Employee or Former Employee may, on or after September 1, 1964, in accordance with rules established by the Trustees, designate a beneficiary or beneficiaries among his family and dependents and may change his beneficiary or beneficiaries among his family and dependents from time to time thereafter. Any such designation or change may be made only on a form furnished by the Trustees and shall be subject to any requirements of the insurance company under whose contract the benefits are to be paid.

Section 4.—Assignment—Claims of Creditors

No benefit under the Plan shall, subject to any applicable laws, be subject to assignment or the claims of any creditors.

Section 5.—Information to be Furnished

The Trustees shall have the right to require, as a condition precedent to the payment of any benefit under the Plan, all information which they reasonably deem necessary, including records of employment, proofs of dates of birth and death, evidence of existence, etc., and no benefit dependent in any way upon such information shall be payable unless and until the information so required shall be furnished. Such evidence shall be furnished by the Unions, Employers, and any person to whom a benefit is or may be payable.

Section 6.—Delayed Claims

A Former Employee shall not be entitled to a Vested Retirement Benefit unless application therefor is made on or after his 60th birthday not before his 70th birthday, nor to a Cash Termination Benefit unless application therefor is made before his 70th birthday. An individual, other than a Former Employee, shall not be entitled to a Cash Termination Benefit unless application therefor is made within five years after the date as of which his Service is broken. No death benefit shall be payable on account of any individual unless claim therefor is made within five years after the date of his death. No Survivor Benefit shall be payable to any person unless application therefor is made within five years after the date such person first satisfies the conditions for eligibility. The Trustees may, in any case where the circumstances appear to warrant such action, liberalize the foregoing conditions.

Section 7.—Small Amounts

The Trustees may make arrangements for the payment of small retirement benefits, otherwise payable monthly, in less frequent payments of larger amount or in a single sum.

Section 8.—Incompetence

In the event that the Trustees determine that a person to whom a benefit payment is due under the Plan is physically or mentally unable to give a valid

receipt for such payment, such payment may, unless claim shall have been made therefor by a legally appointed guardian, committee, or other legal representative, be paid to any person or institution then in the judgment of the Trustees providing for the care and maintenance of the person to whom the payment is due.

Section 9.—Unpaid Payments

If any payment due an Employee or Former Employee remains unpaid at his death, such payment will be made to his beneficiary.

Section 10.—Severability

If any provision of this Plan is held invalid, such invalid portion shall be of no force and effect, but the validity of the balance of this Plan shall not be affected thereby.

ARTICLE XI—FUNDING OF BENEFITS

Section 1.—Contributions

No contributions shall be required under the Plan of any Employees. All benefits shall be provided solely out of the Trust Fund created by Employer Contributions.

Section 2.—Benefits

All retirement, death and termination benefits under the Plan shall be payable under a group annuity contract entered into by the Trustees with an insurance company. All Employer Contributions, after payment of the expenses of the Trustees in administering the Plan, shall be paid to the insurance company under the group annuity contract to be used for providing the benefits granted under the Plan, and no person shall have any claim for benefits against any Union, any Employer, or the Trustees. Anything in the Plan to the contrary notwithstanding, no benefits shall be payable except those which can be provided under the group annuity contract by the funds paid to the insurance company by the Trustees.

ARTICLE XII—SURVIVOR BENEFITS

Section 1.—Eligibility

If the date of an Employee's death meets the conditions of Section 2. of this Article, then any Surviving Child of the Employee on the date of such death shall become qualified for a Survivor Benefit on such date and shall remain qualified as long as he continues to satisfy the definition of a Surviving Child of the Employee. While a Surviving Child of the Employee is qualified for a Survivor Benefit, the person determined by the Trustees to have such Surviving Child in his care shall be eligible for a Survivor Benefit on behalf of such Surviving Child. In making such determination, the Trustees will assume, unless evidence to the contrary is submitted to them, that all Surviving Children of the Employee are in the care of the person who was the Employee's spouse on the date of his death.

If the date of an Employee's death meets the conditions of Section 2. of this Article and if the Employee had, on the date of his death, at least 15 years of Unbroken Service, then the Surviving Spouse of the Employee, if there be such, on the date of such death shall be eligible for a Survivor Benefit during that part of the period commencing on such date and terminating on the date the Surviving Spouse attains age 62 during which no Surviving Child of the Employee is qualified for a Survivor Benefit.

Section 2.—Conditions

To meet the conditions referred to in Section 1. of this Article, the Employee's death must occur on or after November 1, 1963. In addition, the circumstances described in either (a) or (b) below must apply.

(a) The Employee's death occurs before the effective date of any retirement benefit payable to him under the Plan, and Employer Contributions have been made on the Employee's account for a total of at least 3,000 Covered Hours in the 16 calendar quarters immediately preceding the calendar quarter in which the most recent Covered Hour occurs.

(b) The Employee's death occurs on or after the effective date of an Age or Disability Retirement Benefit payable to him under the Plan but before his 65th birthday.

Section 3.—Entitlement

A person eligible for a Survivor Benefit shall, upon approval by the Trustees of an application submitted to the Trustees in form satisfactory to the Trustees, become entitled to a Survivor Benefit.

Section 4.—Effective Date

The effective date of a Survivor Benefit for any person shall be the first day of the month coinciding with or next following the date such person first satisfies the conditions for eligibility but not before the date twelve months prior to the date of receipt by the Trustees of his application.

Section 5.—Payment

The first payment of a Survivor Benefit to any person shall be payable as of the effective date of the benefit for such person. Subsequent payments shall be payable to such person as of the first day of each calendar month on which he remains eligible.

Section 6.—Amount

The total Survivor Benefit payable as of any date on behalf of all the Surviving Children of the Employee shall be two times the Employee's Unit Survivor Benefit as defined in Section 7. of this Article.

The Survivor Benefit payable as of any date on behalf of a Surviving Child of the Employee shall be obtained by dividing (a) the total Survivor Benefit payable as of such date on behalf of all Surviving Children of the Employee by (b) the number of Surviving Children of the Employee on whose behalf a Survivor Benefit is payable as of such date.

The Survivor Benefit payable as of any date to the Surviving Spouse of the Employee shall be the Employee's Unit Survivor Benefit as defined in Section 7, of this Article.

The total Survivor Benefit payable to any person as of any date will be increased to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

If the total Survivor Benefit payable to any person as of any date is less than \$10.00, a quarterly amount will be payable in lieu of such Survivor Benefit. Each such quarterly amount shall be three times the corresponding Survivor Benefit (exclusive of any addition made to raise it to an integral multiple of \$0.50). Each resulting quarterly amount will be raised to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

Section 7.—Unit Survivor Benefit

An Employee's Unit Survivor Benefit shall be determined as shown in (a) and (b) below from his Contribution Ratio as of the earlier of the date of his death and the effective date of any retirement benefit payable to him under the Plan.

(a) If his Contribution Ratio as of such date does not exceed 1.800, his Unit Survivor Benefit shall be one-sixth of the product of (i) \$1,000 and (ii) the excess, if any, over 1.500 of such Contribution Ratio.

(b) If his Contribution Ratio as of such date exceeds 1.800, his Unit Survivor Benefit shall be the sum of (i) \$50.00 and (ii) the product of \$27.70 and the excess over 1.800 of such Contribution Ratio.

ARTICLE XIII—AMENDMENT AND TERMINATION OF THE PLAN

Section 1.—Amendment of the Plan

The Trustees may at any time or times modify, alter or amend the Plan in any respect, retroactively or otherwise; provided, however, that the intent of the Plan is that at all times the Trust Fund will conform to the applicable requirements of the Labor Management Relations Act of 1947, as amended, and qualify as a "qualified Trust" and as an "exempt Trust" pursuant to sections 401 and 501(a) and any other relevant sections of the 1954 Internal Revenue Code or any successors thereto, and that Employer Contributions made by Employers to the Trust Fund will be deductible as an item of expense of such Employers for income tax purposes. No modification, alteration or amendment shall adversely affect any retirement benefit being paid to any Retired Employee, Spouse or Former Employee, nor any Survivor Benefit, some portion of which is being paid.

Section 2.—Termination of the Plan

The Trustees may at any time terminate the Plan. In the event of such termination, available funds shall be allocated in the following order of priority:

(a) to complete the purchase, where necessary, of retirement benefits, including any Spouses Benefits, where payment of such benefits has begun, and of Survivor Benefits, arising from the death of any then deceased

Employee, where payment of some portion of such Survivor Benefits has begun;

(b) to provide benefits for those Employees who have reached their respective 65th birthdays and are eligible to retire and receive a retirement benefit;

(c) to provide benefits for those Former Employees who have reached their respective 65th birthdays and for whom no benefits have previously been purchased;

(d) to provide benefits for those Employees and Former Employees who have 15 years of Unbroken Service but have not reached their respective 65th birthdays; and

(e) to provide benefits for other Employees and Former Employees.

The amount of death and retirement benefits for each such person shall be computed on a basis determined by the Trustees to be consistent with that set forth in Sections 1. and 3. of Article IV and Articles VI and VIII, but recognizing the termination of the Plan and the funds then available, and such amounts when determined shall remain fixed regardless of the status of any person's Service thereafter. No Cash Termination Benefits shall be payable on or after the date of termination of the Plan.

REGULATIONS

1. Employer

The term Employer shall mean an association, individual, partnership, or corporation, including any wholly-owned subsidiary, any affiliate, any predecessor or any successor.

2. Employment

An individual shall be considered in Employment with an Employer while carried on the records of an Employer as an Employee in active employment or

(a) on temporary lay-off, or

(b) on approved leave of absence, or

(c) on disability absence on account of illness or injury, or

(d) on military absence for service with the Armed Forces of the United States or the Dominion of Canada but only if he subsequently returns within six months of the date of his discharge to active employment with an Employer who becomes a Covered Employer under the Plan before May 1, 1965, or the Employee's retirement under the Plan, whichever first occurs.

3. Breaks in Past Employment

An individual shall be considered to have a break in Continuous Past Employment with an Employer at the end of any calendar year which ends at least two years after his date of hire with such Employer if in the two calendar years ending with such calendar year he has had a total of less than 600 hours of active employment with such Employer, considering for this purpose any full calendar month of approved leave of absence, disability absence or military absence as 50 hours of active employment with the Employer. An individual shall be considered to have a break in Special Past Employment if he is without such employment for a period in excess of ten months for reasons other than disability or military service. An individual shall be considered to have a break in Past Employment when he has a break in his Continuous Past Employment unless at such time he does not have a break in his Special Past Employment.

4. Credit for Past Employment

Credit for Past Employment will be allowed only upon submission of proof of such employment which is acceptable under the rules established for that purpose. The burden of submitting such proof shall rest upon the Employee. The Trustees may, in their sole discretion, determine that all or part of the expenses of obtaining and submitting such proof shall be borne by the Employee. Among the proofs of Past Employment which may be considered acceptable are:

(a) Certification by the Employer to which such employment was rendered.

(b) Proof of membership on a dues-paying basis in a Union, which shall be presumed to be proof of employment covered by a collective bargaining agreement with a Union for the period of such membership. (No period of membership prior to any interruption of the payment of dues for more than ten months for any reason other than disability or military service shall be counted.)

(c) Proof of employment by government records (such as records of the Federal Security Agency).

5. *Service*

An individual's Service shall include his Past Employment and his Covered Employment.

6. *Breaks in Service*

Before an individual's first Covered Hour, he shall be considered to have a break in Service when he has a break in Past Employment.

After an individual's first Covered Hour he shall be considered to have a break in Service at the end of any calendar year which ends at least two years after the date of his first Covered Hour and before his retirement under the Plan if in the two calendar years ending with such calendar year he has had less than 600 Covered Hours, considering for this purpose as 50 Covered Hours any full calendar month of disability absence or military absence; except that an individual shall not be considered to have a break in Service on or after the date on which he first becomes eligible for an Age Retirement Benefit. Also, an individual shall not be considered to have a break in Service if he has less than 600 Covered Hours in a period of two calendar years solely by reason of his employment as a member of a collective bargaining unit for which the collective bargaining representative is a local union affiliated with the Western Conference of Teamsters, if such unit has never been covered by the Plan, or ceases to be covered before he entered such employment, and if he reports the facts of such employment in any calendar year to the Trustees within 90 days after the end of such year and if the period of such Employment is followed without a break in Service for any other reason by a period of two calendar years during which he has a total of at least 600 Covered Hours.

7. *Length of Unbroken Service*

The length of an individual's Unbroken Service shall be equal to the number of years and months of his Past Employment, if any, plus the number of years and months, commencing on the date on which Employer Contributions are first made on his account, during which his Service continues unbroken.

8. *In Retirement from Service*

An individual shall be considered in retirement from Service after he has met the conditions for voluntary retirement described in Article III of the Plan in any month in which he has a total of less than 50 hours of employment, including both Covered Employment and any other hours of employment while a member of a collective bargaining unit for which the collective bargaining representative is a local union affiliated with the Western Conference of Teamsters. Any such individual who has attained his 70th birthday or an individual who has met the conditions for automatic retirement described in Article III of the Plan shall be considered in retirement from Service regardless of employment after his 70th birthday.

9. *Disability*

For the purpose only of preventing a break in Service, an individual shall be considered disabled if, as a result of medically determinable physical or mental impairment, he is wholly prevented from engaging in any substantial gainful activity. A determination of disability for the purposes of the Federal Social Security Act shall be considered as conclusive proof of disability under the Plan, provided that no Employee shall be entitled to a Disability Retirement Benefit unless he meets all of the conditions of Article VII.

10. *Liberalized Application of Rules*

It is hereby declared as the policy of the Trustees that consideration will be given in any individual case or cases to extenuating circumstances not recited above, such as strikes, lockouts, reduced business activity, etc., for the purpose of liberalizing the conditions which must be met by individuals in order to have their employment and Service remain unbroken or to be considered as in retirement from Service, or to be considered as disabled. Any such liberalization shall be on a basis uniformly applicable to all individuals similarly situated.

11. *Determination of Covered Hours*

Any Employer Contribution made on account of an Employee which is computed on a basis other than by reference to hours of Covered Employment shall, for all purposes of the Plan, be deemed to be equivalent to a number of Covered Hours as determined by the Trustees. For example, a Contribution com-

puted on a flat daily, weekly, or monthly basis shall be deemed to be equivalent to 8, 40, or 173 Covered Hours, respectively.

12. Receipt by the Trustees

A document shall be considered to have been received by the Trustees on the day it is received at the place of business of one of the organizations retained and/or employed by the Trustees for the purpose of administering the Plan.

UNIFORM RULES TO BE USED IN CONNECTION WITH THE OPTIONS DESCRIBED IN ARTICLE V

Section 1. Social Security Adjustment Option

(1) If an Employee elects the Social Security Adjustment Option, as provided in Section 1, of Article V of the Plan, the Age Retirement Benefit which would have been payable to him if he had not elected the option shall be adjusted as follows:

(a) The amount payable to him as of the first of each month before his 65th birthday shall be increased by the appropriate amount from the table below.

(b) The amount payable to him as of the first of each month on and after his 65th birthday shall be \$110 less than the amount payable prior to his 65th birthday.

TABLE

Age in completed years and quarters thereof on effective date of option :	Amount of increase	Age in completed years and quarters thereof on effective date of option :	Amount of increase
60.....	\$73. 00	62½.....	\$89. 50
60¼.....	74. 50	62¾.....	91. 50
60½.....	76. 00	63.....	93. 50
60¾.....	77. 50	64¼.....	95. 50
61.....	79. 50	63½.....	97. 50
61¼.....	81. 00	63¾.....	99. 50
61½.....	82. 50	64.....	102. 00
61¾.....	84. 00	63¾.....	104. 00
62.....	86. 00	64½.....	106. 50
62¼.....	87. 50	64¾.....	109. 00

(2) If an Employee furnishes to the Trustees a written estimate, prepared by the Social Security Administration, of the Primary Social Security Benefit which would be payable to him from age 65 provided he had no earnings after the effective date of his Age Retirement Benefit, the amounts payable before and after his 65th birthday, in lieu of the amounts determined in (1) above, shall be determined by the Trustees on a basis consistent with that used in constructing the table in (1) above.

(3) If the adjusted amount payable on and after the Employee's 65th birthday, determined as described in (1) or (2) above, is less than \$10 per month, a benefit of \$10 per month shall be payable to him on and after his 65th birthday and the benefit payable to him prior to his 65th birthday shall be reduced—such reduction being on a basis consistent with that used in constructing the table in (1) above.

Section 2. Benefit to Spouse Option:

(1) If an Employee elects the Benefit to Spouse Option, as provided in Section 2, of Article V of the Plan, the reduced amounts payable on and after the effective date of the Option shall be the monthly amounts determined so that the value on such date of such amounts shall be equal to the value on the same date of the Age Retirement Benefit (exclusive of any addition made to raise it to an integral multiple of \$0.50) which would have been payable to the Employee if he had not elected the Option. This determination shall be based on the 1950 Group Annuity Valuation Table with interest at 3½% assuming all Employees to be males. Each resulting monthly amount will be raised to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

(2) If any monthly amount determined as described in (1) above is less than \$10, a quarterly amount will be payable in lieu of such monthly amount. Each

such quarterly amount shall be three times the corresponding monthly amount (exclusive of any addition made to raise it to an integral multiple of \$0.50). Each resulting quarterly amount will be raised to the next higher multiple of \$0.50, unless it is already an integral multiple of \$0.50.

Examples.—Percent of level benefit which Employee will receive after option becomes effective (2 years after effective date of retirement). 66⅔% of reduced amount payable to Employee to be continued to Spouse.

	Attained age of employee on effective date of retirement—		
	60	65	68
Employee is 5 years older than spouse.....	77.6	74.7	73.1
Employee is same age as spouse.....	81.4	79.3	78.3
Employee is 5 years younger than spouse.....	85.3	84.1	83.3

WESTERN CONFERENCE OF TEAMSTERS PENSION TRUST,
Seattle, Wash., July 12, 1965.

BOARD OF TRUSTEES,
Western Conference of Teamsters Pension Trust Fund.

SRES: May, 1965, signified the tenth anniversary of the Western Conference of Teamsters Pension Trust Fund. Looking back, the time seems short, and the accomplishments usual. However, in the early stages of the Plan even the most optimistic fell far short in their predictions as to the size and benefits of the Plan. I think everyone who has in any way been connected with the program can be justifiably proud of its operation and the security it provides to its beneficiaries.

In developing this plan to the position that it is today, many individuals have spent many hours in studying the pension needs of the employee members, developing the desired plan, and maintaining the operational requirements that such a plan demands.

In commemoration of this anniversary, and to the people that have contributed their time and effort, we are submitting this report summarizing the activities of the initial ten years. Included are brief comments on the history of the plan, the significant plan changes and improvements, individuals and groups that have participated in the "inter-workings" of the Trust, statistical information on the growth of the Plan and some future projections.

JOHN C. HUGHES, *Administrator.*

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HISTORY

A pension trust was established in accordance with the labor agreement effective May 15, 1955, between the Northwest Brewers Association and local unions affiliated with Joint Councils 28 and 37 who are a part of the International Brotherhood of Teamsters. The original Trustees were two from unions and two from the Northwest Brewers Association. The Union Trustees were W. L. Williams (alternate Trustee for Frank W. Brewster) and George Cavano, and the Employer Trustees were Henry T. Ivers and Arthur D. Ayrault.

The attorneys for the employers and the unions, together with the help of the pension consultant and the broker of the Western Conference of Teamsters, assisted these Trustees in drafting a trust agreement and the best pension plan possible. The first official meeting was held in Seattle, Washington, on April 7, 1955. At this meeting, Henry Ivers was elected Chairman and George Cavano, Secretary. The Prudential Insurance Company of America was selected as the carrier from the several bids that were received.

From the pension plan idea that was conceived as a result of these negotiations, it was later decided that the program should be expanded to allow any employer with a contract with any local within the Western Conference of Teamsters to cover their Teamster employees. The Trust was amended to allow for this change, and the Trust name was changed from Northwest Area Teamsters Pension Trust Fund to the Western Conference of Teamsters Pension Trust Fund.

In order to have representation from other areas, the Board was expanded to fourteen, seven Union Trustees, and seven Employer Trustees. On May 31, 1956, this Board held its first meeting under the new trust name. The Board was further expanded to twenty-eight on June 1, 1958.

The financial growth of the fund has been astounding. Employer contributions were slightly over \$1 million during 1955, the first year of the plan. In 1964, the tenth year of the plan, contributions exceeded \$56 million, bringing the accumulated total of contributions for the initial ten years of the plan to nearly \$310 million. It is anticipated that the employers will contribute \$70 million to the Trust in 1965. It is conceivable that within five years, contributions could well exceed \$100 million per year.

During the initial year of the program, 1955, the Trust received contributions on behalf of approximately 22,000 employees by about 1,500 employers. During the tenth year of the Plan, over 15,000 employers contributed on behalf of almost 300,000 employees. In 1955, all contributions were at the \$.05 and \$.10 rate whereas during recent years, the majority of the contributions were made at rates in excess of \$.10 and of those a large part were at \$.15, \$.17½ or \$.20 per hour.

Trust income from interest and dividends has become an increasingly more important factor of total funds received by the Trust. It has steadily increased to where, it now constitutes nearly 13 percent of total funds received by the Fund. As Trust reserves continue to grow, this will become an even more important source of Trust revenue. A new source of financial return is the Prudential "Segregated Fund" to which the Trust started contributing a year ago last May. This is a new insurance company concept and allows policyholders to pay a portion of contributions into a common stock fund managed by the carrier. This allows the Trust to share in the benefits of the national economy's growth and to some extent offset any inflationary trends through capital appreciation of common stock values.

Area administrative expenses have increased in dollar amount as the Trust has grown, but at a somewhat decreasing rate when compared to contributions. This expense was 1 percent of contributions, or greater, for the first six years of the Plan. During the last four years, these expenses have been running about .9%. Other administrative expenses have increased materially as the Trustees employed various experts to assist them in their decisions, but during the last few years have appeared to reach a fairly constant level in comparison to contributions. Benefits and administrative services have increased in about the same proportion as the Fund, thus the close correlation between the two items.

During the ten years the Trust has purchased approximately \$125 million of retirement annuities for over 11,000 employees and has provided lump sum dollar benefits for deaths and terminations of nearly \$500,000 for over 1,500 employees. There was approximately \$220 million remaining in Trust Fund reserves at the end of 1964 to provide benefits for the active lives for which contributions are presently being received or have been received.

It is interesting to note that for each age retirement, a considerable amount more has been paid out to purchase annuities for these individuals than they have actually had paid into the Plan on their behalf. The spread, however, between the amounts paid in and the amounts paid out for each individual is decreasing. For example, the average amount paid in for each retired life in 1957 was \$230, and in 1964 the average was \$1,300, or an increase of nearly six times. The cost of the average annuity purchased in 1957 was \$4,800 as compared to \$15,000 in 1964, or an increase of slightly over three times. Of course, the Plan has been changed materially since its inception.

SIGNIFICANT PLAN CHANGES

No history of the Western Conference of Teamsters Pension Trust would be complete without at least a summation of the various important benefit changes made over the years by the Trustees. Pension trusts are unique in that almost

without exception any change is a liberalization of restrictions, or an increase in benefit levels. This trust is no exception, the Trustees at all times studying the plan in an attempt to have it better meet the needs of the beneficiaries of the Trust consistent with sound financial and social objectives. To assist them, they have utilized outstanding advisors in each of their respective fields, recognizing that with caution the need for retrenchment is minimized.

The Plan, as originally conceived (and retained to this date), provided benefits in direct proportion to the individual's contribution rate and monies received on his behalf, plus a compensating factor for his age and past employment record. This design allowed flexibility in receiving various separate groups at different contribution rates and starting dates. Although this unique flexibility complicates the program, the merit of the design is demonstrated by the dramatic growth of the Trust.

The Plan provides a person cannot retire under the Plan for 24 months after he was first covered, therefore, the first retirements were in June, 1957. During that year, the average retirement was \$37.16 per month, although the maximum benefits were \$50.00 and \$75.00 for persons under the \$.05 and \$.10 plan respectively. Although the Plan has undergone many changes that have added or increased other than age retirements, the average age retirement for those retiring last year with 25 or more years service was \$147.00 per month and \$167.00 per month of those with contribution rates of \$.15 and \$.17½ per hour.

In the ten intervening years, the Plan evolved in basic benefits as follows:

May 1955.—Originally retirement age 65, maximum benefit at \$.10 contribution rate, \$75.00 per month. Quota rating used to reduce past service benefits for those not working full time during period covered under the Plan. Death and termination benefits 30% of employer contribution with certain restriction. Past service only given for employment with first covered employer.

June 1956.—Changed eligibility for retirement prior to age 70 from requirement that continuous service must begin prior to age 60, and must have at least 15 years of continuous service, to requirement that retiree must have a minimum benefit of only \$10 per month.

January 1957.—Past service benefit increased by 50% for all years after employee's age 45. Special past employment allowed for work for any Teamster employer after age 45.

January 1960.—The following changes were made:

(1) The benefit rates were increased by 10% for all employees retiring January 1, 1960, or later. In addition, the regular retirement benefits of all those who were retired before that date were increased by 10% at a cost of \$1,381,482.

(2) A disability retirement benefit providing a normal monthly benefit of \$50 and closely tied in with Social Security Disability Benefits was added to the plan; and

(3) Women were given the opportunity of retiring at Age 62 (with a reduced benefit).

May 1960.—Revised quota table to reduce the number of future service hours necessary to qualify for full past service.

January 1962.—Revamped complete plan as follows:

(1) For employees retiring January 1, 1962, or later, benefits were liberalized by providing: (a) prompt recognition of increased rates of employer contributions, (b) a higher annual rate of credit for service (\$6 per year for a 15¢ employee), (c) credit for all years of service prior to the employee's date of coverage, (elimination of quota table for age retirement), and (d) an increased maximum pension (\$150 per month for a 15¢ employee).

(2) The disability retirement benefit formula was revised to provide greater benefits.

(3) Regular retirement benefits for employees retired before January 1, 1962 were increased by 21 percent, and the new disability retirement benefit formula was applied to all disability retirees starting January 1, 1962 at a cost of \$6,372,900.

(4) Employees who qualify were given the opportunity of retiring at Age 60 (with a reduced benefit).

(5) Instead of a flat amount payable for life, an employee may, at the time of retirement, elect either (a) a reduced pension in order to provide for a continuation of ½ of the reduced pension to his spouse after his death, or (b) an adjusted pension whereby Plan benefits plus Social Security benefits will provide a level income for life.

January 1963.—Special Past Service credit was liberalized to give a year of credit for each year worked as a Teamster after age 40 (previously only after age 45).

October 1963.—

(1) A new type of benefit was added. Called a Survivor Benefit, it provides a monthly income for the employee's children until they reach age 18, and then a lesser amount for his wife, until she reaches age 62. The Survivor Benefit is in addition to any Death Benefit which may be payable, and is provided for the families of both active and retired eligible employees whose contribution rate is more than 15 cents.

(2) Increased maximum pension for employees retiring at a contribution rate in excess of \$.15 per hour (\$180.00 per month for employees retiring at \$.20 per hour).

July 1964.—Liberalized disability benefits to provide partial payments to disabled employees receiving benefits under a State workmen's compensation law.

October 1964.—Liberalized "break-in service restriction" for Special Past Service by reducing the number of months of Teamster employment to two in any year rather than six months.

April 1965.—Eliminated quota table application for vested retirements if employee is promoted or his employment terminated.

TRUSTEES

Initially, the Trust, under the name of Northwest Area Teamsters Pension Trust Fund, had four Trustees. Shortly after inception, the Trust was changed and given its present name, after which the Board was enlarged to fourteen Trustees on May 31, 1956. On January 1, 1958, the Trust provisions were further amended to allow twenty-eight members on the Board, and it was enlarged to this number at that time. The Board consists of fourteen Union Trustees, of which six represent joint councils within the Western Conference and eight represent their individual areas. The Employer Trustees also have fourteen members on the Board, and are all elected by contributing employers on an area basis. Each of the Northwest, Northern California, and Southwest areas are represented by four Employer Trustees and four Union Trustees. The Rocky Mountain area is represented by two Trustees from each side.

The Trustees have gone to great lengths to design election procedures that will provide Trustees who will best represent the employer and employee members of the Plan. They have continued to obtain the best of consulting advisors possible. Prior to extensive Plan changes in 1962, in order to draft a Plan that would most fit the needs of the employees under the Plan, they held extensive educational seminars. These were given by their pension consultant, the actuarial consultant, and the insurance carrier over a one year period.

Henry T. Ivers was elected as the original Chairman and has been serving in this capacity ever since. The present Secretary, John M. Annand, was elected in 1956 after the original expansion of the Board and also has continued to serve in that position to this date. A list of the Trustees that are presently on the Board and of those Trustees who have served in the past are as follows:

BOARD OF TRUSTEES, 1965

Employer trustees:

Henry T. Ivers (Chairman), Northwest area, initially elected 1955.
 Wilford C. Long, Northwest area, initially elected 1958
 Joseph M. McMenamin, Northwest area, initially elected 1958.
 Charles Gimblett, Northwest area, initially elected 1961.
 Richard Zeller, Northern California area, initially elected 1956.
 Raymond A. Smardon, Northern California area, initially elected 1958.
 William C. Storie, Northern California area, initially elected 1958.
 John W. Bristow, Northern California area, initially elected 1960.
 Gordon Bell, Southern California area, initially elected 1956.
 Robert K. Fox, Southern California area, initially elected 1958.
 Herschel A. Phillips, Southern California area, initially elected 1958.
 William Spalding, Southern California area, initially elected 1964.
 Norman Pixler, Rocky Mountain area, initially elected 1956.
 James G. Howell, Rocky Mountain area, initially elected 1958.

Union trustees :

George Cavano, Northwest area, initially elected, 1955.
 Frank W. Brewster, Northwest area, initially elected, 1956.
 Jack Estabrook, Northwest area, initially elected, 1958.
 Charles Jewell, Northwest area, initially elected, 1961.
 Joseph J. Diviny, Northern California area, initially elected, 1956.
 Peter A. Andrade, Northern California area, initially elected, 1958.
 Wendell Kiser, Northern California area, initially elected, 1958.
 Wendell Phillips, Northern California area, initially elected, 1961.
 John M. Annand (Secretary), Southern California area, initially elected, 1956.
 B. M. Waggoner, Southwest area, initially elected, 1958.
 John G. Marshall, Southern California area, initially elected, 1961.
 Larry M. Smith, Southern California area, initially elected, 1961.
 Charles Lindsay, Rocky Mountain area, initially elected, 1963.
 Clarence Lott, Rocky Mountain area, initially elected, 1964.

Others who served as trustees :

Arthur D. Ayrault, 1955-1958.
 S. N. Beard, Jr., 1956-1958.
 J. D. Rice,¹ 1956-1964.
 J. Paul St. Sure, 1957-1960.
 Burke J. Geraghty, 1958-1961.
 Arlo Poe, 1962-1963.
 William L. Williams, 1955-1961.
 Joseph M. Dillon, 1956-1961.
 E. D. Woodard,¹ 1956-1963.
 Frank T. Baldwin, 1958-1964.
 Ted Merrill, 1958-1961.
 Mark S. Whiting, 1956-1961.

CONSULTANTS, ADVISERS AND ADMINISTRATORS

Ultimate responsibility for the Pension Trust and Plan rests with the Trustees, but during this past ten years, they have utilized a substantial staff of experts as advisers. In addition, the everyday ministerial duties are performed by a sizable administrative staff. The following is a listing of those advisers and administrators, but no attempt has been made to make it all inclusive.

Pension consultant : Sanford M. Bernbaum, C.L.U., served 1955 to date.
 Insurance broker : George C. Newell Company, served 1955 to 1959.
 Actuarial consultant : Milliman and Robertson, served 1959 to date.
 Legal advisers : Pillsbury, Madison & Sutro, served 1959 to date.
 Certified public accountant : Friedman, Lobe & Block, served 1956 to date.

Management consultants :

Booz, Allen & Hamilton, served 1958 to 1959.
 Lybrand, Ross Bros. & Montgomery, served 1959 to 1961.

Delinquency collections :

Vance, Davies, Roberts & Bettis, served 1960 to date.
 Loveless, Clarke & Epstein, served 1960 to date.
 Edward N. Jackson, served 1960 to 1964.
 Harry M. Williams, served 1960 to date.
 David Welch Company, served 1964 to date.

Underwriter : Prudential Insurance Company of America, served 1955 to date.

Prudential staff who are working intimately with Pension Trustees include the following (no attempt has been made to include titles or positions) : Meyer Melnikoff, Newark ; Raymond Bender, Newark ; Walter Reynolds, Los Angeles ; A. J. DiStasi, Los Angeles ; Norm Burns, Los Angeles ; C. T. Eckman, Los Angeles ; D. E. Husband, Los Angeles.

Other Prudential personnel who have assisted from time to time include, among others : Messrs. Kenneth C. Foster, Charles Laing, Harry Volk, Edward Day, Edward Neumann, Harry Blagden, Fred Schnell, Ed Koski, Malcolm McKinnon, John Edwards, Lloyd Shaffer, Pete Baughman, Robert Oley, Gerald Rocas.

¹ Deceased during term of office.

Administration: The Plan has an Administrator and area Deputy Administrators for each of the four administrative regions. They are—

John C. Hughes, Administrator, appointed 1956.
 K. W. Carlson, Deputy, Northern California, appointed 1956.
 Charles O. Cross, Deputy, Southern California, appointed 1956.
 Richard Hepner, Deputy, Northwest, appointed 1958.
 Robert F. May, Deputy, Rocky Mountain, appointed 1956.
 V. E. Mahrt, Assistant to Administrator, appointed 1963.

Other administrative personnel who are serving or have served include: Walter Briem, Administrator, 1955 (deceased); Stewart Krieger, Deputy, Northwest Area, 1956 to 1958; William Gilson, Assistant to Deputy, Southwest Area, 1956-1962 (deceased); John M. Fitzmaurice, Assistant to Deputy, Northern California Area; Paul Delmar, Assistant to Deputy, Southwest Area; Robert Gies, Assistant Deputy, Northwest Area, and many others.

Financial résumé for the 10 years ended Dec. 31, 1964

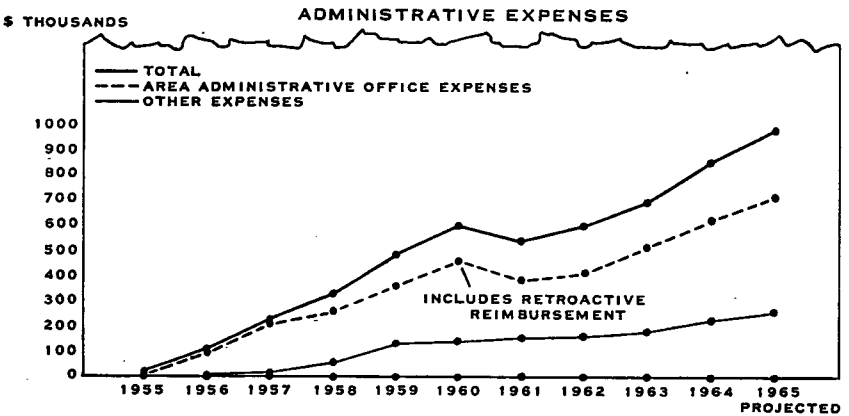
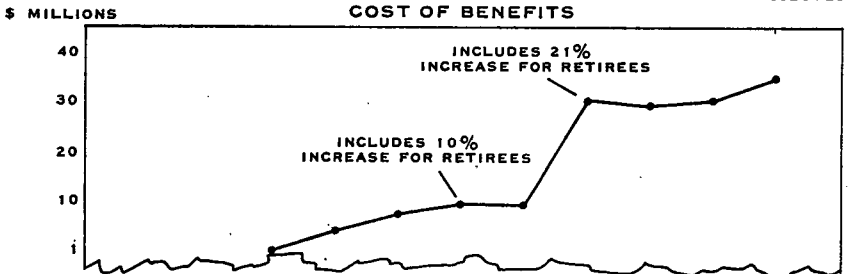
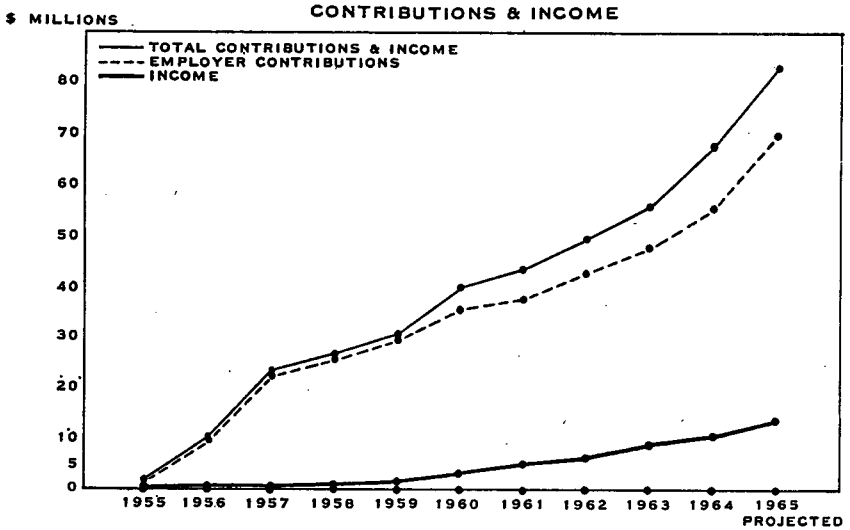
Funds provided by:	
Employer contributions-----	\$308, 926, 024
Interest income-----	32, 508, 661
Group annuity dividend-----	7, 033, 892
Other-----	127, 318
Total-----	348, 595, 895
Used as follows:	
Administrative and general expenses-----	4, 420, 620
Retirement annuities purchased-----	124, 688, 943
Cost of death and termination benefits-----	465, 510
Subtotal-----	129, 575, 073
Accumulated fund reserves-----	219, 020, 822
Fund reserve is represented by:	
Cash-----	25, 607
Contributions due from employers-----	5, 067, 238
Deposits with insurance carrier:	
Funds on guaranteed interest-----	208, 748, 929
Segregated investment fund, cost basis (market value \$8,911,576.53)-----	8, 831, 519
Other assets-----	10, 861
Total assets-----	222, 684, 154
Less liabilities (accrued cost of benefits and other payables)-----	3, 663, 332
Fund reserve as of Dec. 31, 1964 for future benefits-----	219, 020, 822

NOTES

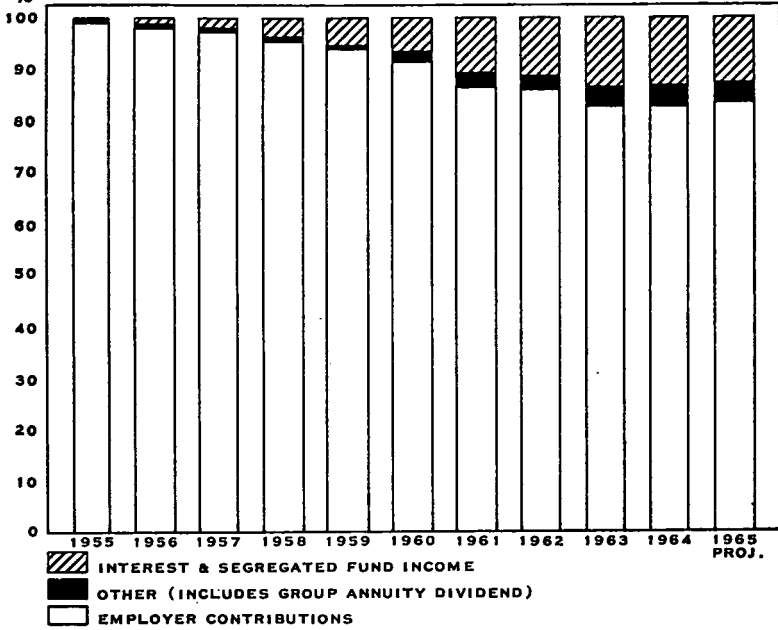
(1) The above amounts are a summarized accumulation taken from each of the annual reports issued by Friedman, Lobe & Block during the past 10 years.

(2) The trust employs the accrual basis of accounting except for delinquent employer contributions and dividends under a group annuity contract, which are not recorded until received because the amounts have not been determinable in advance of collection. The fund reserve at Dec. 31, 1964 is understated by these amounts due the trust.

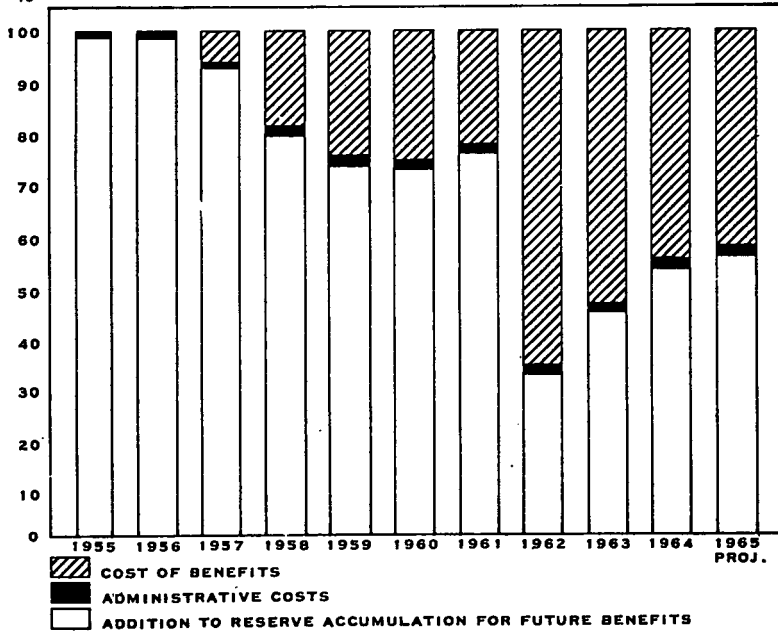
TRUST FUND FINANCIAL TRANSACTIONS



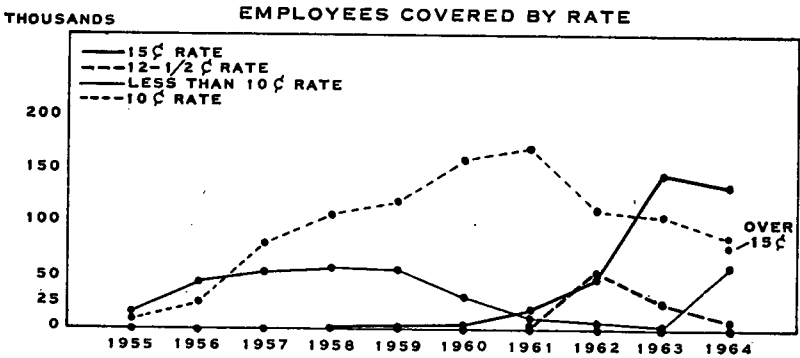
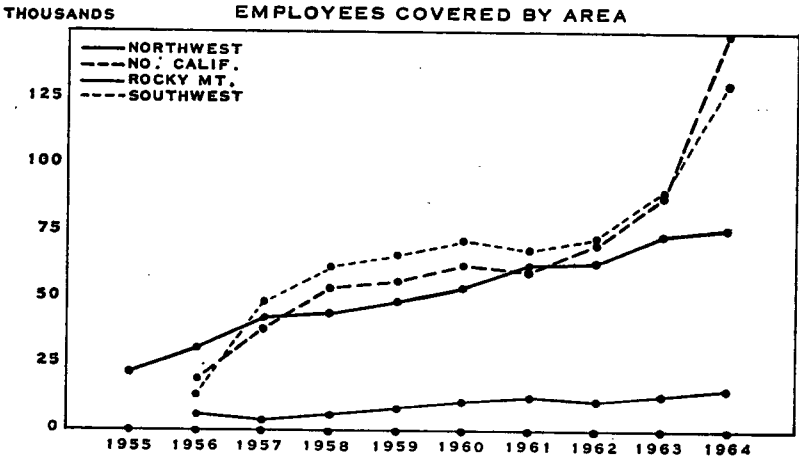
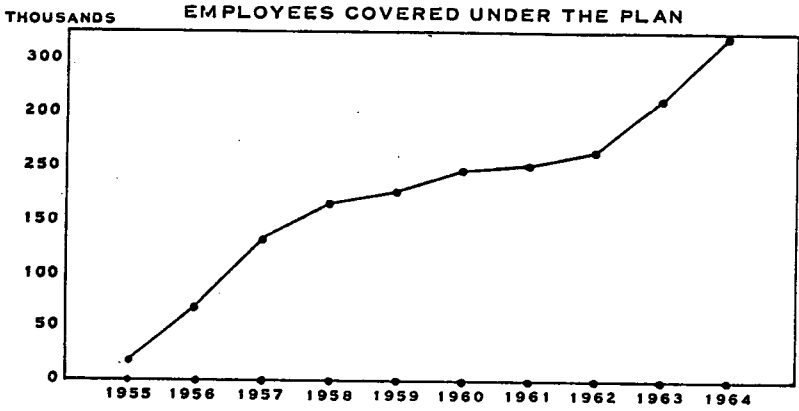
RATIO ANALYSIS OF FINANCIAL TRANSACTIONS FUNDS PROVIDED



USED AS FOLLOWS

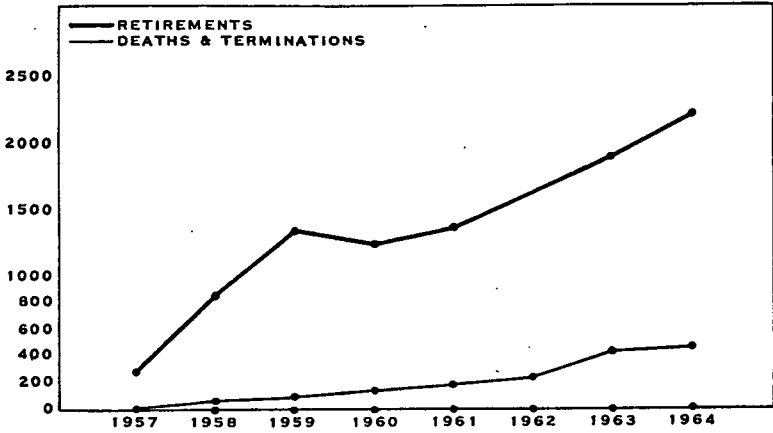


PRIVATE PENSION PLANS

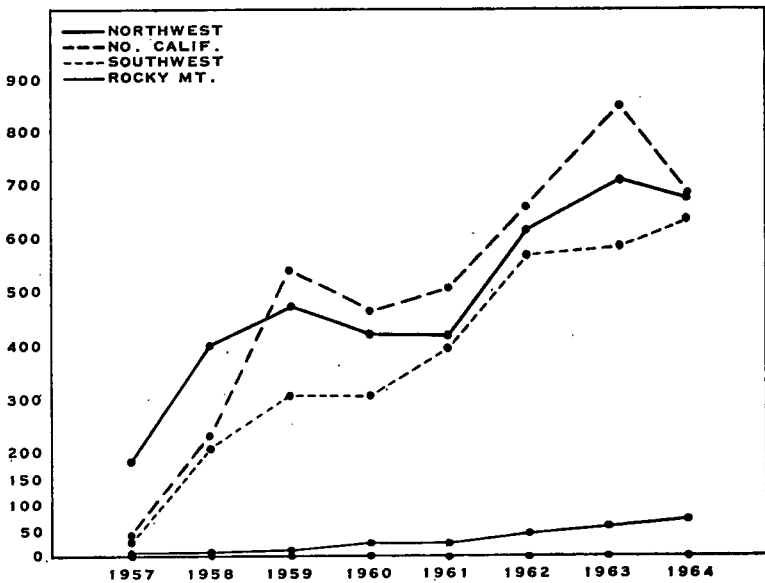


EMPLOYEES RECEIVING BENEFITS

NUMBER OF EMPLOYEES RECEIVING BENEFITS



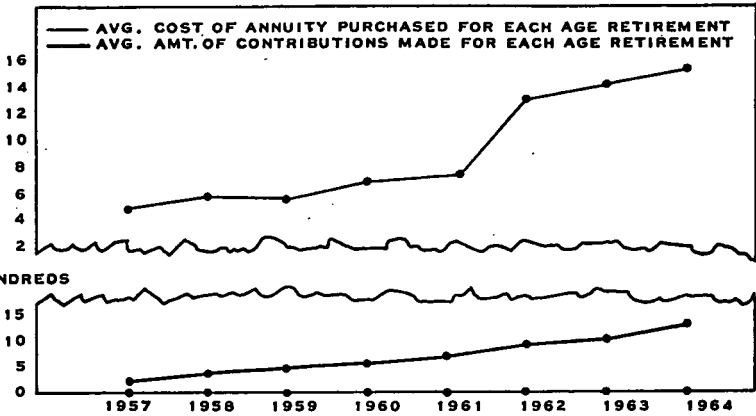
NUMBER OF RETIREMENTS BY AREA



PRIVATE PENSION PLANS

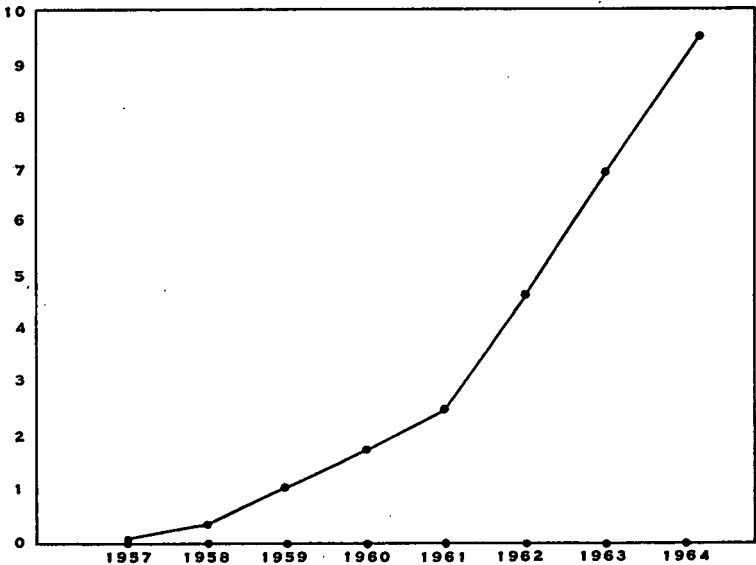
AMOUNTS OF EMPLOYEE BENEFITS

\$ THOUSANDS AVG. AMOUNTS RECEIVED & PAID FOR EACH RETIREMENT



ACTUAL BENEFIT PAYMENTS
TO EMPLOYEES AND/OR BENEFICIARIES

\$ MILLIONS



WESTERN CONFERENCE OF TEAMSTERS PENSION TRUST,
Seattle, Wash., April 15, 1966.

Memorandum.

To: Board of Trustees

Western Conference of Teamsters Pension Trust

From: John C. Hughes, Administrator

Enclosed is our report for the Board of Trustees' meeting to be held on April 20 and 21, 1966, in San Diego, California.

In addition to the statistics in this report, you will be furnished at the meeting new tables to up-date your Trustees' notebook. You will note from this mass of material the Plan is growing vigorously, not only in the number of people covered, but also in the dollars contributed per employee. Likewise, the number of people retiring and receiving other benefits under the Plan is also increasing.

An Administrator's meeting is planned the day prior to the Trustees' meeting, therefore, administrative personnel will be available from all offices at the beginning of the Trustees' meeting.

If you have any questions, please let me know.

STATUS OF THE TRUST FUND

In eleven years since the Trust's inception, the Fund has grown to encompass almost 365 thousand reported Teamster employees. This compares to 22 thousand the first year, and less than 200 thousand a mere five years ago. In 1955, the majority of the covered employees were at the 5¢ contribution rate, in 1961 three-fourths were at the 10¢ rate, and this past year almost two-thirds of the people were at or above the 15¢ rate.

Through 1965, employer contributions have exceeded \$374 million which, combined with interest income, dividends, and other income sources, brings the total Trust income to over \$437 million. From this total, benefits equalling almost \$163 million have been paid from the Trust Fund which, combined with operating costs, left a total Fund reserve as of the end of 1965 of \$269 million. During the first quarter of 1966 employer contributions totaled almost \$16.5 million which, together with other income, equaled well over \$19 million.

Disbursements for benefits and administrative costs equaled almost \$11 million, leaving the Fund reserve as of March 31, 1966 at \$277 million. In addition to this reserve, there is the retired life reserve held by Prudential from which is paid monthly annuity payments to retirees.

During the past quarter, 654 people retired under the Plan, plus 218 death and termination benefits paid. This brings the total retirements to well over 14,000 people, and total benefits paid close to 16,500. This is a substantial increase over the first quarter of last year. Pointing out a significant trend is the fact that in the first quarter of 1966, ten percent more people retired than during the like period last year, but their total pension cost increased by twenty-two percent. This, of course, indicates people are retiring with longer periods of service and at higher contribution rates. In line with this, it is interesting to note that in 1957, the first retirees received benefits which cost an average of approximately \$4,800, which increased steadily to \$6,600 in 1960, \$14,000 in 1964, and \$15,300 in 1965. More people are retiring each year with greater benefits.

On our last quarterly report, we estimated that Trust income during 1966 would exceed \$100 million. Adjusting our present figures for seasonal variation indicates that our forecast is still justified.

ADMINISTRATION

You will note in the attached tables that the volume of employees covered, monies contributed, and retirements, has increased very substantially in the last two years. This has been particularly true in the Northern California office, which had 50,000 new covered employees alone in seasonal canneries.

The workload in the offices has increased so rapidly that in some cases it has been impossible to adequately staff to keep the workload current. As the number of retirements increases, the number of estimates made increases in about the same proportion. The San Francisco office, as a result, has accrued a substantial backlog in retirees which has necessitated not only increasing their staff of retirement clerks, but has made necessary the establishment of a second shift. This backlog in San Francisco, plus an increase in Southern California, has likewise increased the burden of the Prudential office, which again slows up the time between when a man applies and when he receives his first benefit check.

You will note from the tables and from the comments made in the Status of the Trust that there are rapid changes being made in contribution levels. This has taxed all offices because the employer billing must be modified to reflect these changes. Also, many of the changes are retroactive and require supplemental billing by the administrative offices. Work is being done by the administrative staff in an attempt to solve these problems.

The day prior to the meeting of the Trustees, an all-day meeting is scheduled for the administrators, Prudential people and the Chairman to deal with these and other problems.

The 1965 Summary, we believe to be in satisfactory condition and should be in the hands of the insurance company shortly.

The delinquency procedure which was modified to the extent that a full time person in each office was assigned the responsibility for collections, has resulted in a very substantial drop in the number of accounts referred to the collection

attorneys. This should result in a substantial net savings to the Trust Fund in the future.

The area administrative expenses, of course, reflect the step up in administrative activity. During the past quarter an extensive review was made of all charges in each office, and new time studies are being made in all phases where pension activity is shared. Modifications will be reflected in the next quarterly report.

TABLE 1.—*Assets and liabilities resulting from cash transactions, Mar. 31, 1966*

Assets:	
Cash-----	\$345, 928. 39
Deposits with the Prudential Insurance Co.:	
Funds on guaranteed interest-----	248, 929, 620. 01
Segregated fund (cost basis)-----	27, 932, 296. 92
Returned checks-----	6, 500. 60
Prepaid insurance-----	1, 790. 35
Total assets-----	277, 216, 136. 27
Liabilities:	
Administrative office termination pay withheld from payments-----	9, 399. 43
Fund reserve for future benefits-----	277, 206, 736. 84
Total liabilities-----	277, 216, 136. 27

TABLE 2.—*Statement of cash accumulation in fund reserve for the quarter ended Mar. 31, 1966*

Receipts:	
Employer contributions-----	\$16, 475, 526. 24
Interest income-----	2, 668, 818. 78
Segregated fund income (dividends on stocks)-----	171, 373. 45
Annuity credits-----	6, 601. 00
Total, receipts-----	19, 322, 319. 47
Expense disbursements: Area administration ¹ -----	
Residence fee and travel, Robert May-----	1, 050. 00
Administrator's salary-----	3, 000. 00
Payroll taxes-----	126. 00
Overall administration ² -----	8, 407. 99
Trustees' travel-----	8, 032. 74
Trustees' per diem-----	6, 450. 00
Trustees' meeting expense-----	489. 25
Fees and expenses of chairman-----	3, 585. 10
Collection fees on delinquencies-----	34, 573. 32
Legal fees-----	450. 00
Actuarial fees, Milliman & Robertson-----	1, 546. 81
Insurance-----	334. 31
Miscellaneous-----	160. 42
Total, expense disbursements-----	279, 017. 31
Excess of receipts over expense disbursements-----	19, 043, 302. 16
Withdrawals for benefits:	
Retirement annuities-----	10, 395, 394. 55
Survivor annuities-----	228, 470. 87
Deaths and terminations-----	83, 496. 82
Total, withdrawals-----	10, 707, 362. 24
Net receipts for the year-----	8, 335, 939. 92
Fund reserve, Dec. 31, 1965-----	268, 870, 796. 92
Fund reserve, Mar. 31, 1966-----	277, 206, 736. 84

¹ Reviewed quarterly by Friedman, Lobe & Block for allocation and propriety.

² Reviewed monthly by the chairman and quarterly by Friedman, Lobe & Block.

TABLE 3.—Funds on deposit at guaranteed interest with The Prudential Insurance Co., for the quarter ending Mar. 31, 1966

Total fund, Dec. 31, 1965	\$246,345,579.67
Deposits during quarter, area account transfers	16,115,982.80
Credits during quarter:	
Interest at 4½ percent	2,668,818.78
Reduced annuity credit	6,601.00
Total credits	18,791,402.58
Withdrawals for benefits during quarter:	
To purchase annuities	10,395,394.55
To purchase survivor benefits	228,470.87
To pay lump sum benefits	83,496.82
Total, withdrawals	10,707,362.24
Transfers during quarter to variable unit account (segregated fund)	5,500,000.00
Total, withdrawals and transfers	16,207,362.24
Total fund, Mar. 31, 1966 (at guaranteed interest)	248,929,620.01

TABLE 4.—Amounts withdrawn from active life fund for benefits accumulation to date and 1st quarter, 1966

Area	Cumulative to date		Current quarter	
	Number	Amount	Number	Amount
Retirement annuities:				
Northwest	4,725	\$67,254,562.82	189	\$3,288,612.45
Northern California	5,167	62,237,860.09	269	4,280,025.44
Southwest	3,902	43,632,017.79	174	2,474,501.19
Rocky Mountain	373	3,953,634.67	22	352,255.47
Total	14,167	167,078,075.37	654	10,395,394.55
Survivor benefits:				
Northwest	38	199,950.24	13	79,155.94
Northern California	58	289,117.84	17	89,894.33
Southwest	63	239,531.85	11	47,401.19
Rocky Mountain	7	25,836.77	2	12,029.41
Total	166	754,436.70	43	228,470.87
Deaths and terminations:				
Northwest	674	255,765.17	63	33,562.69
Northern California	743	243,366.95	56	25,449.33
Southwest	702	226,636.74	52	23,161.82
Rocky Mountain	44	13,301.09	4	1,322.98
Total	2,163	739,069.95	175	83,496.82
Total benefits:				
Northwest	5,437	57,710,728.23	265	3,401,331.08
Northern California	5,968	62,770,344.88	342	4,395,359.10
Southwest	4,667	44,096,186.38	237	2,545,064.20
Rocky Mountain	424	3,992,772.53	28	365,607.86
Total	16,496	168,571,582.02	872	10,707,362.24

PRIVATE PENSION PLANS

TABLE 5.—*Segregated fund (variable unit account) with the Prudential Insurance Co., Mar. 31, 1966*

	May 1, 1964 to date		Current quarter	
	Market basis	Cost basis	Market basis	Cost basis
Beginning fund total.....			\$24,824,805.52	\$22,260,923.47
Deposits during period.....	\$27,250,000.00	\$27,250,000.00	5,500,000.00	5,500,000.00
Gains during period, investment income (dividend on stocks).....	682,296.92	682,296.92	171,373.45	171,373.45
Market value increase (decrease).....	2,220,925.81		(342,956.24)	
Total gain (loss).....	2,903,222.73	682,296.92	¹ (171,682.79)	171,373.45
Ending fund total.....	30,153,222.73	27,932,296.92	30,153,222.73	27,932,296.92

¹ This amount is represented by a decrease of \$143,516.61 on the total of the fund at the beginning of the quarter and \$28,066.18 on the amounts deposited to the fund during the quarter.

TABLE 6.—*Area administrative expenses, quarter ended Mar. 31, 1966*

	Northwest and Rocky Mountain administrative area	Northern California administrative area	Southwest administrative area	Grand total
Salaries.....	\$38,480.55	\$46,577.57	\$33,368.32	\$118,426.44
Office supplies.....	2,171.97	3,053.17	2,842.96	8,068.10
Office expense.....	1,713.19	667.41	846.41	3,227.01
Travel.....	3,238.79	2,666.74	2,642.81	8,548.34
Office rent.....	3,245.91	3,219.08	3,079.81	9,544.80
Communication.....	1,667.69	2,114.08	1,140.23	4,922.00
Audit and professional fees.....		961.57	345.36	1,306.93
Company insurance.....	746.23	428.28	221.22	1,395.73
Employee welfare.....	3,543.73	3,746.76	3,440.45	10,730.94
Payroll taxes.....	2,537.52	2,978.75	2,066.25	7,582.52
Property and business taxes.....	899.83	119.47	218.54	1,237.84
Depreciation.....	497.31	455.85	1,752.71	2,705.87
Machine rental.....	5,977.69	6,785.92	6,253.34	19,016.85
Mailing service.....				
Postage.....	2,209.50	1,540.49	905.71	4,655.70
Outside administrative service.....			2,175.00	2,175.00
Miscellaneous.....	1,293.94	8.40		1,302.34
Total normal operating expense.....	68,223.75	75,323.54	61,299.12	204,846.41
Average monthly operating expense for last quarter.....	22,741.25	25,107.84	20,433.04	68,282.13
Average monthly operating expense for prior quarter.....	22,594.40	21,234.36	19,010.00	62,838.76

TABLE 7.—Statistical data, for the quarter ended Mar. 31, 1966

	North-west area	Rocky Mountain area	North-central area	South-central area	Total	Previous quarter	Including (December)
Benefit data:							
Employees receiving pensions.....	4,443	345	4,728	3,249	12,765	12,131	634
Employees receiving disability.....	320	28	376	281	1,005	933	72
Survivors receiving benefits.....	48	4	60	70	182	133	49
Number of claims processed:							
Retirements.....	174	20	371	201	766	501	265
Disability.....	21	1	23	28	73	60	13
Death and terminations.....	91	5	59	49	204	147	57
Survivor benefits.....	17	1	14	14	46	42	4
Total claims processed.....	303	27	467	292	1,089	750	339
Employer data:							
Active employers:							
End of previous quarter.....	5,605	593	6,538	4,810	17,546	17,153	393
New enrollments.....	123	24	156	141	444	629	(185)
Reinstated.....	33	1	27	8	69	124	(55)
Less deletions.....	163	18	113	244	538	360	178
End of current quarter.....	5,598	600	6,608	4,715	17,521	17,546	(25)
Payments processed (monthly average).....	5,226	549	6,026	3,972	15,773	15,190	583
Administrative costs:							
Employer payments processed (monthly average).....	5,775	(1)	6,026	3,972	15,773	15,190	583
Employees processed (estimate).....	90,000	(1)	130,000	95,000	315,000	305,000	10,000
Cost per employer.....	\$3.94	(1)	\$4.16	\$5.14	\$4.32	\$3.98	\$.34
Cost per employee.....	\$.253	(1)	\$.193	\$.215	\$.216	\$.198	\$.018

¹ Processing done by the Northwest area office, therefore cost statistics included with that area.

TABLE 8.—Delinquent employers for the quarter ended Mar. 31, 1966

	Northwest area	Rocky Mountain area	Northern California area	Southwest area	Total
Past due accounts, Mar. 10:					
2 months.....	343	36	261	236	876
3 months.....	52	5	53	41	151
Over 3 months.....	58	13	136	29	236
Total.....	453	54	450	306	1,263
Accounts with attorneys:					
Beginning of quarter.....	129	28	173	103	433
Referred during quarter.....	6	2	10	26	44
Closed:					
Collected in full.....	34	3	27	7	71
Uncollectible in full.....			71	4	75
End of quarter.....	101	27	85	118	331
Age of accounts held:					
Under 30 days.....	2	1	4	14	21
30 to 60 days.....	0	0	2	5	7
Over 60 days.....	99	26	79	99	303
Collections during period.....	\$42,882.80	\$9,628.62	\$37,335.62	\$58,654.58	\$148,501.62
Collection fees.....	\$9,653.13	¹ \$297.20	\$7,178.35	\$12,276.07	\$29,404.75
Collection fee percentage.....	22.5	3.1	19.0	20.9	19.8

¹ A complete hourly charge billing for the quarter was not received as of the date of this report.

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TABLE 9.—Referrals to attorneys for the year 1965 and first quarter of 1966

	Northwest and Rocky Mountain office	Northern California office	Southwest office	Total
Referrals:				
Quarter ending:				
Mar. 31, 1965	56	90	21	167
June 30, 1965	68	22	12	102
Sept. 30, 1965	53	18	7	78
Dec. 30, 1965	41	45	12	98
Total, 1965	218	175	52	445
Average 1965 quarter	54	44	13	111
First quarter 1966	8	10	26	44
Increase (decrease)	(46)	(34)	13	(67)
Accounts with attorneys:				
Mar. 31, 1965	280	236	136	652
June 30, 1965	285	181	113	579
Sept. 30, 1965	246	157	109	512
Dec. 30, 1965	157	173	103	433
Average 1965	242	187	115	544
Mar. 31, 1966	128	85	118	331
Increase (decrease)	(114)	(102)	3	(213)

TABLE 1-A.—Comparative statement of financial condition for the years 1955 through 1959

	1955	1956	1957	1958	1959
Assets:					
Cash	\$644, 077	\$1, 279, 769	\$500, 857	\$641, 377	\$106, 531
Contributions due from employers					
Deposit with insurance carrier	529, 407	9, 970, 783	32, 075, 640	53, 530, 168	77, 510, 276
Other		7, 343	14, 562	2, 219	53, 238
Total assets	1, 173, 484	11, 257, 895	32, 591, 059	54, 173, 764	77, 670, 045
Liabilities and fund reserve:					
Accounts payable	6, 736	20, 304	18, 851	21, 844	48, 430
Accrued cost of benefits					
Fund reserve	1, 166, 748	11, 237, 591	32, 572, 478	54, 151, 920	77, 621, 615
Total liabilities and fund reserve	1, 173, 484	11, 257, 895	32, 591, 059	54, 173, 764	77, 670, 045

NOTE.—The financial statements are the results of an accrual basis of accounting except for employer contributions and cost of benefits.

TABLE 1-B.—Comparative statement of financial condition for the years 1960 through 1963

	1960	1961	1962	1963
Assets:				
Cash	\$46, 206	\$68, 727	\$43, 521	\$111, 409
Contributions due from employers	2, 811, 057	3, 225, 286	3, 447, 565	3, 899, 835
Deposit with insurance carrier	104, 431, 913	136, 748, 347	155, 753, 785	181, 444, 969
Other	3, 395	3, 943	6, 194	4, 581
Total assets	107, 292, 571	140, 046, 303	159, 251, 065	185, 460, 794
Liabilities and fund reserve:				
Accounts payable	20, 964	18, 905	29, 120	56, 298
Accrued cost of benefits	472, 643	414, 727	2, 939, 301	2, 979, 388
Fund reserve	106, 798, 964	139, 612, 671	156, 282, 644	182, 425, 108
Total liabilities and fund reserve	107, 292, 571	140, 046, 303	159, 251, 065	185, 460, 794

NOTE.—Subsequent to 1959, the financial statements are the result of an accrual basis of accounting, except for the group annuity dividend, which is recorded when received. Prior to 1960, employer contributions and cost of benefits were also recorded on a cash basis.

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TABLE 1-C.—Comparative statement of financial condition for the years 1964 and 1965

	1964	1965
Assets:		
Cash.....	\$25, 607	\$264, 746
Contributions due from employers.....	5, 067, 238	5, 078, 719
Deposits with insurance carrier:		
Funds on guaranteed interest.....	208, 748, 929	246, 345, 580
Segregated investment fund (cost basis) ¹	8, 831, 519	22, 260, 923
Other.....	10, 861	8, 557
Total assets.....	222, 684, 154	273, 958, 625
Liabilities and fund reserve:		
Accounts payable.....	99, 838	114, 725
Accrued cost of benefits.....	3, 563, 494	4, 923, 407
Fund reserve.....	219, 020, 822	268, 915, 393
Total liabilities and fund reserve.....	222, 684, 154	273, 958, 625

¹ Market value at the end of each of the periods was: 1964, \$8,911,577; 1965, \$24,824,806.

NOTE.—Subsequent to 1959, the financial statements are the result of an accrual basis of accounting, except for the group annuity dividend, which is recorded when received. Prior to 1960, employer contributions and cost of benefits were also recorded on a cash basis.

TABLE 2-A.—Comparative statement of fund transactions for the years 1955 through 1959

	1955	1956	1957	1958	1959	Accumulated total
Contributions and income:						
Employer contributions.....	\$1, 178, 801	\$10, 058, 533	\$22, 346, 109	\$25, 730, 111	\$29, 850, 430	\$89, 161, 984
Interest income.....	1, 715	114, 471	537, 005	1, 159, 860	1, 745, 804	3, 558, 855
Group annuity dividend.....						
Other.....		98	579	7, 060	6, 001	13, 738
Total contributions and income.....	1, 178, 516	10, 173, 102	22, 883, 693	26, 897, 031	31, 602, 235	92, 734, 577
Administrative expenses:						
Area administrative offices.....	11, 768	100, 577	223, 477	262, 030	358, 725	956, 577
Overall administration and salaries.....				12, 789	28, 125	40, 914
Trustees travel and per diem.....				6, 828	16, 355	23, 183
Fees and expenses of chairman.....				1, 572	7, 170	8, 742
Delinquency collection fees.....					22, 412	22, 412
Legal fees.....			117		17, 066	17, 183
Audit fees.....		1, 087	5, 195	9, 143	8, 532	23, 957
Administrative consulting fees.....				27, 385	14, 885	42, 270
Actuarial fees.....					7, 751	7, 751
Miscellaneous and extraordinary items.....		595	2, 601	4, 596	7, 284	15, 076
Total administrative expenses.....	11, 768	102, 259	231, 390	324, 343	488, 305	1, 158, 065
Revenue over administrative expenses.....	1, 166, 748	10, 070, 843	22, 652, 303	26, 572, 688	31, 113, 930	91, 576, 512
Cost of benefits:						
Retirement annuities.....			1, 316, 475	4, 987, 531	7, 629, 486	13, 933, 492
Deaths.....			941	5, 715	14, 654	21, 310
Terminations.....					95	95
Total cost of benefits.....			1, 317, 416	4, 993, 246	7, 644, 235	13, 954, 897
Addition to fund reserve for year.....	1, 166, 748	10, 070, 843	21, 334, 887	21, 579, 442	23, 469, 695	77, 621, 615
Fund reserve balance at year end.....	1, 166, 748	11, 237, 591	32, 572, 478	54, 151, 920	77, 621, 615	77, 621, 615

See note on table 1A.

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TABLE 2-B.—Comparative statement of fund transactions—accumulated amounts to Dec. 31, 1959, and for the years 1960 through 1963

	May 1, 1955, to Dec. 31, 31, 1959	1960	1961	1962	1963	Accumulated total
Contributions and income:						
Employer contributions.....	\$89,161,984	\$36,283,147	\$37,374,453	\$42,575,362	\$47,255,247	\$262,650,193
Interest income.....	3,558,855	2,752,334	4,669,535	5,595,938	7,375,087	23,951,799
Group annuity dividend.....		685,442	838,437	935,235	1,975,183	4,434,277
Other.....	13,738	6,580	2,062	3,352	9,381	35,115
Total contributions and income.....	92,734,577	39,727,483	42,884,489	49,109,937	56,614,898	281,071,384
Administrative expenses:						
Area administrative offices.....	956,577	459,951	383,609	435,484	510,988	2,746,607
Overall administrative and salaries.....	40,914	26,489	28,732	30,690	37,313	164,138
Trustees travel and per diem.....	23,183	15,974	18,166	19,401	21,147	97,871
Fees and expenses of chairman.....	8,742	6,371	9,781	9,974	15,385	50,253
Delinquency collection fees.....	22,412	41,482	55,704	67,111	66,429	253,138
Legal fees.....	17,183	14,290	2,600	2,314	3,550	39,937
Audit fees.....	23,957	11,128	11,992	14,515	20,836	82,428
Administrative consulting fees.....	42,270	9,712	10,029			62,011
Actuarial fees.....	7,751	3,729	10,306	6,558	7,369	35,713
Miscellaneous and extraordinary items.....	15,076	5,834	3,728	4,856	4,210	33,704
Total administrative expenses.....	1,158,065	594,960	534,647	590,903	687,225	3,565,800
Revenue over administrative expenses.....	91,576,512	39,132,523	42,349,842	48,519,034	55,927,673	277,505,584
Cost of benefits:						
Retirement annuities.....	13,933,492	9,927,665	9,493,672	31,768,317	29,650,142	94,782,288
Deaths.....	21,310	26,955	38,025	64,026	102,537	252,853
Terminations.....	95	554	4,438	16,718	23,530	45,335
Total cost of benefits.....	13,954,897	9,955,174	9,536,135	31,849,061	29,785,209	95,080,476
Addition to fund reserve for year.....	77,621,615	29,177,349	32,813,707	16,669,973	26,142,464	182,425,108
Fund reserve balance at year end.....	77,621,615	106,798,964	139,612,671	156,282,644	182,425,108	182,425,108

See note on table 1B.

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TABLE 2-C.—Comparative statement of fund transactions—Accumulated amounts to Dec. 31, 1963, and for the years 1964 and 1965

	May 1, 1955 to Dec. 31, 1963	1964	1965	Accumulated totals (from trust inception)
Contributions and income:				
Employer contribution	\$252,650,193	\$56,275,831	\$65,260,204	\$374,186,228
Funds from trust mergers			8,514,149	8,514,149
Interest income	23,951,799	8,556,862	10,016,399	42,525,060
Group annuity dividends	4,434,277	2,599,615	4,254,412	11,288,304
Segregated fund stock dividends		81,519	429,404	510,923
Other	35,115	10,684	13,984	59,783
Total	281,071,384	67,524,511	88,488,552	437,084,447
Administrative expenses:				
Area administrative offices	2,746,607	620,361	714,118	4,081,086
Overall administration and salaries	164,138	37,703	37,536	239,377
Trustees travel and per diem	97,871	19,729	20,612	138,212
Fees and expenses of chairman	50,253	15,060	12,084	77,397
Delinquent collection fees	253,138	122,335	135,931	511,404
Legal fees	39,937	12,024	4,975	56,936
Audit fees	82,428	17,500	19,011	118,939
Administrative consulting fees	62,011			62,011
Actuarial fees	35,713	5,641	7,754	49,108
Miscellaneous and extraordinary items	33,704	4,467	3,787	41,958
Total	3,565,800	854,820	955,808	5,376,428
Revenue over administrative expense	277,505,584	66,669,691	87,532,744	431,708,019
Cost of benefits:				
Retirement annuities	94,782,288	29,906,655	36,683,146	161,372,089
Survivors			727,913	727,913
Deaths and terminations	298,188	167,322	227,114	692,624
Total	95,080,476	30,073,977	37,638,173	162,792,626
Addition to fund reserve for year	182,425,108	36,595,714	49,894,571	268,915,393
Fund reserve balance at year end	182,425,108	219,020,822	268,915,393	268,915,393

TABLE 3.—Percentage of selected income and expense items to total annual trust income 1955 through 1965

[In percent]

Year	Employer contri- butions	Interest income	Segre- gated Fund Inc.	Group annuity dividend	Area adminis- trative expense	Other expenses	Cost of benefits
1955	99.9	0.1			1.0	0	0
1956	98.8	1.1			1.0	0.02	0
1957	97.6	2.3			1.0	.03	5.7
1958	95.6	4.3			1.0	.23	18.6
1959	94.4	5.5			1.1	.41	24.2
1960	91.3	6.9		1.7	1.2	.34	25.1
1961	87.2	10.8		2.0	.9	.35	22.2
1962	86.7	11.4		1.9	.9	.32	64.9
1963	83.4	13.0		3.5	.9	.31	52.6
1964	83.4	12.7	0.1	3.8	.9	.35	44.5
1965	83.4	11.3	.5	4.8	.8	.27	42.5
Accumulated total	87.6	9.7	.1	2.6	.9	.30	37.2

¹ Includes payment for a deficit sustained by the area offices during the years 1955 through 1959.

² Includes funds from trust mergers which represent 9.6 percent of trust income during 1965 and 2 percent of the accumulated total income.

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TABLE 4.—Comparative administrative costs per employee and employer for the years 1955 through 1964

[Monthly report]

	Area administrative office costs				Total trust expenses
	Northwest and Rocky Mountain office	Northern California office	Southern California office	Average, all offices	
Per employer:					
1955.....	\$0.65			\$0.65	\$0.65
1956.....	1.71	\$2.21	\$4.60	2.15	2.18
1957.....	1.79	2.78	3.63	2.50	2.58
1958.....	1.68	2.18	3.57	2.29	2.83
1959.....	2.25	3.04	3.98	2.96	4.03
1960 ¹	2.59	3.39	5.27	3.53	4.57
1961.....	2.12	2.51	3.49	2.63	3.66
1962.....	2.41	2.84	4.17	2.99	4.06
1963.....	2.44	2.91	4.62	3.29	4.16
1964.....	2.90	3.12	3.79	3.22	4.62
Per employee:					
1955.....	.05			.05	.05
1956.....	.11	.13	.13	.12	.12
1957.....	.14	.15	.13	.14	.15
1958.....	.14	.13	.13	.13	.18
1959.....	.17	.20	.14	.17	.23
1960 ¹.....	.18	.20	.19	.19	.25
1961.....	.14	.18	.15	.16	.22
1962.....	.16	.18	.15	.16	.23
1963.....	.15	.17	.14	.15	.18
1964.....	.18	.11	.16	.15	.21

¹ Includes payment for a deficit sustained by the area offices during the years 1955 through 1959.

TABLE 4-A.—Comparative administrative costs per employee and employer for the years 1964 and 1965

[Monthly average]

	1964	1965		1964	1965
Per employer:			Per employee:		
Northwest and Rocky Mountain offices.....	\$290	\$383	Northwest and Rocky Mountain offices.....	\$0.18	\$0.23
Northern California office.....	312	399	Northern California office.....	.11	.15
Southern California office.....	379	506	Southern California office.....	.16	.23
Average all offices.....	322	422	Average all offices.....	.15	.19
Total trust expenses.....	462	578	Total trust expenses.....	.21	.26

TABLE 5.—Comparative average number of employees and employers reported for the years 1955 through 1964

	Northwest and Rocky Mountain		Northern California		Southwest		Total number
	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total	
Average employers reported:							
1955.....	1,508	100					1,508
1956.....	2,360	60	1,130	29	411	11	3,901
1957.....	3,608	48	2,138	29	1,713	23	7,459
1958.....	4,222	44	3,096	33	2,224	23	9,542
1959.....	4,148	41	3,653	36	2,304	23	10,105
1960.....	4,583	42	3,727	34	2,549	24	10,859
1961.....	4,768	39	4,423	36	2,967	25	12,158
1962.....	4,953	40	4,515	38	2,670	22	12,138
1963.....	5,588	41	5,275	38	2,899	21	13,763
1964.....	5,706	37	5,508	36	4,219	27	15,433
Average employees reported:							
1955.....	22,335	100					22,335
1956.....	35,786	52	18,809	27	14,684	21	69,279
1957.....	46,825	35	38,524	29	47,869	36	133,218
1958.....	49,626	30	54,453	33	60,096	37	164,175
1959.....	55,143	31	55,396	31	66,147	38	176,686
1960.....	64,324	33	62,392	31	71,073	36	197,789
1961.....	73,679	36	60,592	30	67,605	34	201,876
1962.....	73,451	34	69,167	32	71,584	34	214,102
1963.....	86,699	33	87,709	33	88,415	34	262,823
1964.....	89,791	27	149,575	45	95,452	28	334,818

TABLE 5-A.—Comparative average number of employees and employers for the years 1964 and 1965

	1964		1965	
	Number	Per cent of total	Number	Per cent of total
Average employers reported:				
Northwest and Rocky Mountain.....	5,706	37	5,934	36
Northern California.....	5,508	36	6,179	38
Southwest.....	4,219	27	4,415	26
Total number.....	15,433	100	16,528	100
Average employees reported:				
Northwest and Rocky Mountain.....	89,791	27	97,224	27
Northern California.....	149,575	45	166,525	46
Southwest.....	95,452	28	97,661	27
Total number.....	334,818	100	361,410	100

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TABLE 6.—Comparative schedule of employees reported by rate for the years 1955-64

[Monthly average]

	\$0.05	\$0.075 and \$0.08	\$0.10	\$0.125	\$0.15	\$0.175	\$0.20	Total
Northwest:								
1955	13,545		8,790					22,335
1956	15,531		15,071					30,602
1957	13,409		29,219					42,628
1958	11,695		32,928					44,623
1959	12,251		34,798					47,049
1960	9,096		42,655		1,718			53,469
1961	3,619		47,779	1,245	9,938			62,581
1962	240		32,307	10,857	19,337			62,741
1963	373		22,471	4,250	45,913		62	73,069
1964	980		12,053	935	41,729	18,427	1,786	75,910
Rocky Mountain:								
1955								
1956	5,111		73					5,184
1957	4,146		51					4,197
1958	4,368		635					5,003
1959	7,188		906					8,094
1960	5,755		5,100					10,855
1961	2,757		8,119	222				11,098
1962	473	239	6,819	3,160	19			10,710
1963	170	437	6,543	794	5,686			13,630
1964	25	192	5,277	1,348	2,347	4,692		13,881
Northern California:								
1955								
1956	11,839		6,970					18,809
1957	14,543	29	23,952					38,524
1958	21,606	57	32,394		396			54,453
1959	14,447	14	40,821		114			55,396
1960	6,419		53,520		2,453			62,392
1961	1,174	23	53,185	1,388	4,822			60,592
1962	707	188	31,917	13,389	22,966			69,167
1963	787	344	26,235	8,098	52,245			87,709
1964	583	54,900	23,264	728	46,084	17,168	6,848	149,575
Southwest:								
1955								
1956	11,739		2,945					14,684
1957	19,229		28,640					47,869
1958	17,919		42,177					60,096
1959	20,769		45,378					66,147
1960	11,348		59,725					71,073
1961	2,540		60,174	1,888	3,003			67,605
1962	1,103	1,461	40,917	22,933	5,170			71,594
1963	813	5	35,824	11,541	40,149		83	88,415
1964	2,755		30,305	3,580	36,388	22,093	331	95,452
Total:								
1955	13,545		8,790					22,335
1956	44,220		25,059					69,279
1957	51,327	29	81,862					133,218
1958	55,588	57	108,134		396			164,175
1959	64,655	14	121,903		114			176,686
1960	32,818		161,000		4,171			197,789
1961	10,090	23	169,257	4,743	17,763			201,876
1962	2,523	1,888	111,060	50,339	47,492			214,202
1963	2,143	786	91,073	24,683	143,993		145	262,823
1964	4,343	55,092	70,899	6,591	126,548	62,380	8,965	334,818

TABLE 6-A.—Comparative schedule of employers reported by rate for the years 1964 and 1965

	Rate	1964		1965	
		Number	Percent	Number	Percent
Northwest.....	\$.05	980	1.3	2,401	3.0
	.075			2,394	3.0
	.10	12,053	15.9	8,273	10.4
	.125	935	1.2	637	.8
	.15	41,729	54.9	33,887	42.5
	.175	18,427	24.3	16,756	20.9
	.20	1,786	2.4	15,450	19.4
Total.....		75,910	100.0	79,798	100.0
Rocky Mountain.....	.05	25	.2	2,190	12.6
	.075	192	1.4	105	.6
	.10	5,277	38.0	4,019	23.1
	.125	1,348	9.7	1,917	11.0
	.15	2,347	16.9	2,622	15.0
	.175	4,692	33.8	6,566	37.7
	.20			7	
Total.....		13,881	100.0	17,426	100.0
Northern California.....	.05	583	.4	794	.5
	.075	54,900	36.7	64,339	38.6
	.10	23,264	15.6	22,943	13.8
	.125	728	.5	189	.1
	.15	46,084	30.8	21,562	12.0
	.175	17,168	11.5	25,107	15.1
	.20	6,848	4.5	31,591	19.0
Total.....		149,575	100.0	166,525	100.0
Southwest ¹.....	.05	2,755	2.8	2,751	2.8
	.075			1,310	1.3
	.10	30,305	31.7	25,697	26.3
	.125	3,580	3.8	2,027	2.1
	.15	36,388	38.1	35,860	36.7
	.175	22,093	23.2	27,073	27.7
	.20	331	.4	2,943	3.1
Total.....		95,452	100.0	97,661	100.0
Total.....	.05	4,343	1.3	8,136	2.3
	.075	55,092	16.5	69,148	18.9
	.10	70,899	21.2	60,932	16.9
	.125	6,591	1.9	4,770	1.3
	.15	126,548	37.8	93,931	26.0
	.175	62,380	18.6	75,502	20.9
	.20	8,965	2.7	49,991	13.7
Total.....		334,818	100.0	361,410	100.0

¹ Construction employees in the Southwest area were estimated.

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TABLE 7.—Comparative benefit statistics by area for the years 1957 (inception) through 1964

	Northwest	Rocky Mountains	Northern California	Southwest	Total
Number of retirement annuities purchased:					
1957.....	183	1	43	44	271
1958.....	400	8	234	212	854
1959.....	470	11	543	311	1,335
1960.....	422	33	463	309	1,227
1961.....	418	28	512	387	1,345
1962.....	611	48	664	568	1,891
1963.....	713	62	847	585	2,207
1964.....	670	73	685	630	2,058
Accumulated total.....	3,887	264	3,991	3,046	11,188
Number of deaths and terminations paid:					
1957.....	7	0	2	3	12
1958.....	16	0	12	21	49
1959.....	42	0	19	33	94
1960.....	49	1	43	41	134
1961.....	63	3	51	64	181
1962.....	67	3	85	64	219
1963.....	100	5	179	128	412
1964.....	125	11	162	137	435
Accumulated total.....	469	23	553	491	1,536
Average cost of annuity per retirement:¹					
1957.....	\$5,500	\$1,813	\$3,576	\$3,302	\$4,858
1958.....	5,814	3,140	5,939	5,883	5,840
1959.....	5,751	3,890	5,749	5,665	5,715
1960.....	6,833	5,896	6,793	5,991	6,581
1961.....	7,475	5,159	7,419	6,422	7,102
1962.....	12,431	9,739	11,998	10,685	11,666
1963.....	14,372	9,952	13,479	12,540	13,420
1964.....	15,283	11,339	14,173	13,569	14,249
Average for all years.....	11,168	9,204	10,956	10,368	10,828

¹ These average annuity costs indicate trends. Since the cost of the annuity for each dollar of benefit is the same in all areas, cost fluctuations between areas result from service and contribution rate differentials.

NOTE.—Additional annuities were purchased to increase benefits 10 percent on 2,503 active retirees as of Jan. 1, 1960, and to increase benefits 21 percent on 4,933 active retirees as of Jan. 1, 1962. The average cost per annuity for these additional benefits was \$551.93 and \$1,452.98, respectively. These costs are not reflected in the yearly amounts, but are included in the average for all years.

TABLE 7-A.—Comparative benefit statistics by area for the years 1964 and 1965

	Northwest	Rocky Mountains	Northern California	Southwest	Total
Number of retirement annuities purchased:					
1964.....	670	73	685	630	2,058
1965.....	649	87	907	632	2,325
Accumulated total.....	1,319	160	1,592	1,312	4,383
Number of survivor benefits paid:					
1964.....					
1965.....	25	5	41	52	123
Accumulated total.....	25	5	41	52	123
Number of deaths and terminations paid:					
1964.....	125	11	162	137	435
1965.....	142	17	134	159	452
Accumulated total.....	267	28	296	296	887
Average cost of annuity per retirement:¹					
1964.....	15,283	11,339	14,173	13,569	14,249
1965.....	16,267	13,464	15,693	14,041	15,285
Average for all years.....	11,897	10,260	11,833	11,040	11,594

¹ These average annuity costs indicate trends. Since the cost of the annuity for each dollar of benefit is the same in all areas, cost fluctuations between areas result from service and contribution rate differentials.

NOTE.—The above accumulated totals are from the inception of the trust to Dec. 31, 1965, as recorded on a cash basis.

TABLE 8-A.—Report on retirements—the Western Conference of Teamsters pension plan, 1962 retirements

I. AGE RETIREMENTS, 1,558 LIVES

(A) Benefit contribution rate 15 cents

Years of service at retirement	Age last birthday at retirement										Total lives
	60 to 61				62 to 64				65 and over		
	With social security option		Without social security option		With social security option		Without social security option		Number of lives	Average monthly benefit	
	Number of lives	Average monthly benefit ¹	Number of lives	Average monthly benefit	Number of lives	Average monthly benefit ¹	Number of lives	Average monthly benefit			
25 or more	8	\$190.81	7	\$116.93	13	\$228.90	34	\$131.00	84	\$144.70	146
20 to 24	2	180.03	3	111.33	7	216.78	15	125.33	61	130.51	88
15 to 19	14	154.47	9	79.16	19	188.66	76	97.49	70	106.47	188
10 to 14									33	76.77	33
9 or less									30	43.96	31
Total	24		19		39		126		278		486
(B) Benefit contribution rate at least 10 cents but less than 15 cents											
25 or more	11	155.81	8	81.44	26	184.89	58	91.61	157	98.60	260
20 to 24	7	148.62	4	72.25	8	182.10	25	84.58	137	90.37	181
15 to 19	19	131.11	20	58.20	58	165.69	124	65.58	181	74.08	402
10 to 14					3	135.63	7	49.36	106	51.41	116
9 or less					3	124.16	4	25.62	80	30.02	87
Total	37		32		98		218		661		1,046
(C) Benefit contribution rate less than 10 cents											
25 or more			1	51.00					2	63.25	4
20 to 24									6	63.58	6
15 to 19	1	117.45			4	143.68			5	47.10	11
10 to 14									5	35.90	5
9 or less											
Total	1		1		4		2		18		26

¹ Reduces by \$110 at age 65.
Source: Prudential Insurance Co.

NOTE.—Of the total of 1,558 age retirements, 203 elected the social security option and 148 elected the benefit-to-spouse option.

Report on retirements—the Western Conference of Teamsters pension plan, 1963 retirements

I. AGE RETIREMENTS, 1,913 LIVES

(A) Benefit contribution rate 15 cents

Years of service at retirement	Age last birthday at retirement										Total lives
	60 to 61				62 to 64				65 and over		
	With social security option		Without social security option		With social security option		Without social security option		Number of lives	Average monthly benefit	
	Number of lives	Average monthly benefit ¹	Number of lives	Average monthly benefit	Number of lives	Average monthly benefit ¹	Number of lives	Average monthly benefit			
25 or more.....	20	\$190.36	8	\$115.50	24	\$228.00	57	\$133.44	152	\$146.95	281
20 to 24.....	6	174.29	9	97.22	19	214.52	44	119.18	160	129.95	238
15 to 19.....	35	155.84	16	77.00	52	191.26	119	96.35	146	107.73	368
10 to 14.....							1	58.00	77	75.06	78
9 or less.....					1	141.29	3	30.16	46	42.52	50
Total.....	61		33		96		224		581		995
(B) Benefit contribution rate at least 10 cents but less than 15 cents											
25 or more.....	14	156.63	8	81.62	20	192.71	36	95.88	109	101.84	187
20 to 24.....	9	143.07	5	69.80	9	182.46	26	84.28	123	90.65	172
15 to 19.....	30	133.47	24	55.60	53	162.20	98	67.86	154	73.64	359
10 to 14.....					1	133.29	3	35.16	114	50.24	118
9 or less.....					2	121.04	4	24.62	66	29.03	72
Total.....	53		37		85		167		566		908
(C) Benefit contribution rate less than 10 cents											
25 or more.....									1	63.00	1
20 to 24.....									2	32.50	2
15 to 19.....	1	117.96						2	31.25	1	35.00
10 to 14.....									2	28.75	2
9 or less.....								1	12.00		1
Total.....	1						3		6		10

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¹ Reduces by \$110 at age 65.
Source: Prudential Insurance Co.

NOTE.—Of the total of 1,913 age retirements, 295 elected the social security option and 180 elected the benefit to spouse option.

TABLE 8-C.—Report on age retirements for the year 1965

Years of unbroken service at retirement	Retirement age 60 to 61				Retirement age 62 to 64				Retirement age 65 and over		Total lives
	With social security option		Without social security option		With social security option		Without social security option		Number of lives	Average monthly benefit	
	Number of lives	Average monthly benefit	Number of lives	Average monthly benefit	Number of lives	Average monthly benefit	Number of lives	Average monthly benefit			
Benefit contribution rate—over 15 cents:											
25 or more.....	9	\$218	10	\$130	11	\$241	37	\$163	149	\$174	216
20 to 24.....	29	191	14	115	34	234	59	142	132	152	268
15 to 19.....	16	163	13	97	30	201	48	112	71	125	178
10 to 14.....	1	159			2	176	5	79	78	85	86
9 or less.....			1	39	2	144	1	55	26	54	30
Total.....	55		38		79		150		456		778
Benefit contribution rate—15 cents:											
25 or more.....	17	191	9	116	14	225	37	134	154	145	231
20 to 24.....	31	179	22	98	40	214	58	119	91	134	242
15 to 19.....	22	159	14	83	27	192	40	95	101	106	204
10 to 14.....					1	143	2	60	78	78	81
9 or less.....					3	143	2	46	50	39	55
Total.....	70		45		85		139		474		813
Benefit contribution rate—less than 15 cents:											
25 or more.....	1	167	5	76	9	182	12	92	63	99	90
20 to 24.....	13	138	7	66	16	173	22	84	60	87	118
15 to 19.....	15	130	10	55	19	160	20	60	69	73	133
10 to 14.....					2	133	4	48	51	51	57
9 or less.....							1	13	35	28	36
Total.....	29		22		46		59		278		434
Total lives.....	154		105		210		348		1,208		2,025

TABLE 9.—Schedule of comparative age retirements, for the years 1962 through 1964

Years of service	1962			1963			1964		
	Early	65 and over	Total	Early	65 and over	Total	Early	65 and over	Total
15-cent rate or over:									
25 or more.....							9	12	21
20 to 24.....							20	7	27
15 to 19.....							5	14	19
Less than 15.....							2	19	21
Total.....							36	52	88
15-cent rate:									
25 or more.....	62	84	146	109	152	261	110	212	322
20 to 24.....	27	61	88	78	160	238	203	126	329
15 to 19.....	118	70	188	222	146	368	181	159	340
Less than 15.....	1	63	64	5	123	128	12	159	171
Total.....	208	278	486	414	581	995	506	656	1,162
10- to 15-cent rate:									
25 or more.....	103	157	260	78	109	187	47	91	138
20 to 24.....	44	137	181	49	123	172	64	57	121
15 to 19.....	221	181	402	205	154	359	87	72	159
Less than 15.....	17	186	203	10	180	190	10	98	108
Total.....	385	661	1,046	342	566	908	208	318	526
Less than 10-cent rate:									
15 to 25 or more.....	8	13	21	3	4	7	1	4	5
Less than 15.....		5	5	1	2	3		1	1
Total.....	8	18	26	4	6	10	1	5	6
Total:									
25 or more.....	167	243	410	187	262	449	167	316	483
20 to 24.....	71	204	275	127	285	412	287	192	479
15 to 19.....	345	256	601	430	301	731	273	246	519
Less than 15.....	18	254	272	16	305	321	24	277	301
Total.....	601	957	1,558	760	1,153	1,913	751	1,031	1,782
Percentage comparison:									
By rate:									
15-cent rate or over.....							2.0	2.9	4.9
15-cent rate.....	13.4	17.8	31.2	21.6	30.4	52.0	28.4	36.8	65.2
10- to 15-cent rate.....	24.7	42.4	67.1	17.9	29.6	47.5	11.7	17.8	29.5
Less than 10 cents.....	.5	1.2	1.7	.2	.3	.1	.1	.3	.4
Total.....	38.6	61.4	100.0	39.7	60.3	100.0	42.2	57.8	100.0
By years of service:									
25 or more.....	10.7	15.6	26.3	9.8	13.7	23.5	9.4	17.7	27.1
20 to 24.....	4.6	13.1	17.6	6.6	14.9	21.5	16.1	10.8	26.9
15 to 19.....	22.1	16.4	38.6	22.5	15.7	38.2	15.3	13.8	29.1
Less than 15.....	1.2	16.3	17.5	.8	16.0	16.8	1.4	15.5	16.9
Total.....	38.6	61.4	100.0	39.7	60.3	100.0	42.2	57.8	100.0

TABLE 9-A.—Schedule of comparative age retirements for the years 1964 and 1965

Years of service	1964			1965		
	Early	65 and over	Total	Early	65 and and	Total
Over 15-cent rate:						
25 or more.....	9	12	21	67	149	216
20 to 24.....	20	7	27	136	132	268
15 to 19.....	5	14	19	107	71	178
Less than 15.....	2	19	21	12	104	116
Total.....	36	52	88	322	456	778
15-cent rate:						
25 or more.....	110	212	322	77	154	231
20 to 24.....	203	126	329	151	91	242
15 to 19.....	181	159	340	103	101	204
Less than 15.....	12	159	171	8	128	136
Total.....	506	656	1,162	339	474	813
Less than 15-cent rate:						
25 or more.....	48	92	140	27	63	90
20 to 24.....	64	59	123	58	60	118
15 to 19.....	87	73	160	64	69	133
Less than 15.....	10	99	109	7	86	93
Total.....	209	323	532	156	278	434
Total:						
25 or more.....	167	316	483	171	366	537
20 to 24.....	287	192	479	345	283	628
15 to 19.....	273	246	519	247	241	515
Less than 15.....	24	277	310	27	318	345
Total.....	751	1,031	1,782	817	1,208	2,025
Percentage comparisons:						
By rate:						
Over 15 cent rate.....	2.0	2.9	4.9	15.9	22.5	38.4
15 cent rate.....	28.4	36.8	65.2	16.7	23.4	40.1
Less than 15 cents.....	11.8	18.1	29.9	7.7	13.8	21.5
Total.....	42.2	57.8	100.0	40.3	59.7	100.0
By years of service:						
25 or more.....	9.4	17.7	27.1	8.5	18.1	28.6
20 to 24.....	16.1	10.8	26.9	17.0	14.0	31.0
15 to 19.....	15.3	13.8	29.1	13.5	11.9	25.4
Less than 15.....	1.4	15.5	16.9	1.3	15.7	17.0
Total.....	42.2	57.8	100.0	40.3	59.7	100.0

Representative GRIFFITHS. Under what circumstances may a member be retired involuntarily?

Mr. IVERS. Well, if he becomes disabled he gets a disability benefit.

Representative GRIFFITHS. What if he is fired?

Mr. IVERS. Well, I cannot answer that question because I do not know whether or not he goes to work for another covered employer and he does not lose his accumulated benefits.

Representative GRIFFITHS. What if he is fired and does not take a job with a covered employer?

Mr. IVERS. Well, I cannot answer that question because I do not know what his status is at the time he was fired. If he had a vested benefit you cannot take it away from him by firing him.

Representative GRIFFITHS. How frequent are the involuntary retirements, do you know?

Mr. IVERS. What do you mean by involuntary retirement?

Representative GRIFFITHS. He became ill, the job ceased or he was fired. Do you know how frequent such retirements are?

Mr. IVERS. No.

Mr. MARSHALL. I do not think we have any figures on that.

Mr. IVERS. I can say this. There is an involuntary retirement at age 65 under most of the contracts. It becomes a required company policy of most of the employers under this plan that the employees retire at age 65. If they are disabled, of course that is also an involuntary retirement.

Representative GRIFFITHS. What does Prudential make on this plan?

Mr. IVERS. Prudential is a mutual company. Their earnings are used in only two ways: one is to set up reserves, and the other is to pay dividends. Since Prudential has no stockholders, there is no profit motive from the standpoint of trying to make money off of it.

Representative GRIFFITHS. They are investing for you a quarter of a billion dollars annually, are they not?

Mr. IVERS. Yes, ma'am.

Representative GRIFFITHS. Well, they are making money off of it.

Mr. IVERS. No, they pay it back to us.

Representative GRIFFITHS. What I would really like to know is how much money do they make?

Mr. IVERS. They pay it back to us.

Representative GRIFFITHS. They are paying a president and they are paying quite a few other people.

Mr. IVERS. Oh, certainly. It is a large organization; it is one of the largest organizations in the country.

Representative GRIFFITHS. On that quarter of a billion dollars they are investing for you I would like to know what their return is.

Mr. IVERS. Well, their total assets are \$20 billion, and our portion of it is a very small portion.

Representative GRIFFITHS. Do you know what the total assets of the plan are at book and market value?

Mr. IVERS. It is contained in the records which I gave you.

Representative GRIFFITHS. All right, fine.

I believe we have asked you most of the questions that we would like to have answered, and I would like to tell you that I sincerely appreciate your coming here.

I would like to ask you, Mr. Marshall, how did you become a trustee?

Mr. MARSHALL. I was elected by the joint council in the area in which I live.

Representative GRIFFITHS. How long have you been a trustee—since the Plan's inception?

Mr. MARSHALL. No, I have been a trustee since 1958.

Representative GRIFFITHS. How frequently are elections held for union trustees.

Mr. MARSHALL. Well, each trustee is elected for 6 years, and we have an election every 3 years.

Representative GRIFFITHS. Are the trustees reelected generally or are they not reelected? Is it an honor given to you or do they value experience?

Mr. MARSHALL. They value experience and interest in the plan. Some people have more interest in pensions and devote more time to it than others.

Representative GRIFFITHS. Well, it is the consideration of this committee that a lot of people who heretofore have not had interest in a pension are suddenly going to have an interest in a pension.

Mr. MARSHALL. I think that would be good.

Representative GRIFFITHS. What we are really concerned with is whether the money will be there and available when employees come to that period of their lives when they need that pension. I believe you pointed out one-sixth of the people for whom money is paid into the plan, you anticipate will draw pensions. Now, what is going to happen to that other five-sixths?

Mr. IVERS. Well, some of them are going to die.

Representative GRIFFITHS. Oh, no.

Mr. IVERS. Oh, yes indeed.

Representative GRIFFITHS. Not five-sixths.

Mr. IVERS. No, not all of them. But what percentage of the people that are born live to be age 65?

Representative GRIFFITHS. Well, I have no idea, do you know?

Mr. IVERS. Well, that is an actuarial fact.

Representative GRIFFITHS. Yes, of course.

Mr. IVERS. Of course. And you will find in the information that you have there, the actuarial assumptions we have on death and termination.

Representative GRIFFITHS. It will show us?

Mr. IVERS. Yes.

Representative GRIFFITHS. Thank you very much.

Mr. IVERS. I wanted to say one thing further.

Representative GRIFFITHS. Yes?

Mr. IVERS. The board of trustees that we have in this pension trust is a board that I am very proud of, both from the standpoint of the union and the standpoint of the employers. Now the union people, of course, are all employed either by the international union, or by local unions, or by divisions of the unions.

On the other hand out of 14 employers on this board, we have five attorneys, one certified public accountant. We have one executive of the Zellerbach Paper Co.; we have one man who is in charge of labor relations for the Safeway Stores. The balance are executives of employer associations. These people have been very dedicate to the problem of operating this plan under the most tight scrutiny. We have employed as attorneys for the plan the firm of Pillsbury, Madison, and Sutro, of San Francisco, one of the outstanding legal firms in the United States. We have employed as consulting actuaries the firm of Milliman and Robertson, which is one of the outstanding actuarial firms in the United States.

The trustees have very seriously followed the legal advice and the actuarial advice of the experts whom they employ. The attitude of the trustees is not one of simply being a member of the board for the purpose of prestige. They are all on there for the purpose of working toward the maintenance of a solvent and financially sound plan, and I speak for all of them in that respect.

Representative GRIFFITHS. Have any of the trustees from the management side ever been members of unions?

Mr. IVERS. Well, all of the union trustees have been members of unions.

Representative GRIFFITHS. Yes, but I mean have any of the management trustees, ever been union members?

Mr. IVERS. Yes; we have one, Mr. Norman Pixler, the general manager of the Western Empire Operators Association, Denver, Colo., was formerly a union employee.

Representative GRIFFITHS. I would like to ask you also can a person who draws a pension from this plan work for a covered employer in any capacity? There are plans that do not permit people to continue to work but you do not stop them.

Mr. IVERS. No.

Representative GRIFFITHS. They can work for the management after they have retired as a teamster?

Mr. IVERS. They can go to work with anybody who will hire them.

Representative GRIFFITHS. They can go to work with the very same management they have been working for but as a part of management?

Mr. IVERS. Well, they could.

Representative GRIFFITHS. So there is no subsequent behavior that disqualifies them from drawing the benefits from your plan.

Mr. MARSHALL. After they retire they receive a policy from Prudential and the trustees—nobody has anything more to do with it from that time.

Representative GRIFFITHS. How many times have the plan been sued?

Mr. IVERS. Once.

Representative GRIFFITHS. Who sued you?

Mr. IVERS. Well, it was a lady who worked for Libby, McNeil & Libby, and lives in San Jose, Calif. We just settled the case because we decided that she was entitled to what she was claiming.

Representative GRIFFITHS. Good. What did she claim?

Mr. IVERS. Well, she claimed she had been misinformed, and it developed that she had been misinformed. She was disabled and on sick leave but still on the employer's payroll on May 31, 1964. She was told that there was no reason for her to wait to claim her pension because there was no chance of any increase in her pension. On June 1, the day after she was off the payroll, the pension was increased, and so she sued for the increased pension; if she had waited until June 1 to apply for the pension, she would have received a larger percentage.

Representative GRIFFITHS. Who misinformed her?

Mr. IVERS. The union business agent misinformed her.

Representative GRIFFITHS. And he himself, did not know, I take it.

Mr. IVERS. Well, I do not think he intentionally misinformed her, but he was responsible for it. So she applied for her pension on the basis of this misinformation, when she really did not have to apply. That is the only time we have been sued, and we settled the case.

Representative GRIFFITHS. Good.

Mr. IVERS. I would also like to leave with you a copy of the D-2 report to the Department of Labor for the year 1965 for this plan, which I think includes some information that is not included in the others.¹

Representative GRIFFITHS. Have you ever been investigated by the Internal Revenue Service on this plan?

Mr. IVERS. No.

May I also leave with you a list of the trustees of the plan?

¹ The document referred to is retained in the files of the Subcommittee on Fiscal Policy.

Representative GRIFFITHS. Thank you very much. We will be pleased to have it. And we have been very pleased to have you here and to give this testimony. Thank you.

(Whereupon, at 11:30 a.m. the committee recessed, to reconvene at 10 a.m., Wednesday, April 27, 1966.)

(The list of trustees, submitted by Mr. Ivers, follows:)

WESTERN CONFERENCE OF TEAMSTERS PENSION PLAN

EMPLOYER TRUSTEES

Northwest area :

Wilford C. Long,¹ attorney, Portland, Oreg.
Henry T. Ivers,² Lenihan & Ivers, Seattle, Wash.
Joseph M. McMenamin,¹ Safeway Stores, Seattle, Wash.
Charles A. Gimblett,² Zellerbach Paper Co., Seattle, Wash.

Northern California area :

J. W. Bristow,¹ Oakland, Calif.
Richard Zeller,² California Trucking Associations, Inc., Berkeley, Calif.
William G. Storie,¹ San Francisco Employers Council, San Francisco, Calif.
Raymond A. Smardon, Jr.,² Distributors Association of Northern California, San Francisco, Calif.

Southwest area :

Gordon Bell,¹ California Trucking Association, Inc., Los Angeles, Calif.
Herschel A. Phillips,² Rexall Drug Co., Los Angeles, Calif.
Robert K. Fox,¹ Food Employers Council, Inc., Los Angeles, Calif.
Wm. F. Spalding,² Gibson, Dunn & Crutcher, Los Angeles, Calif.

Rocky Mountain area :

Norman C. Pixler,¹ Western Empire Operators Association, Denver, Colo.
James G. Howell,² Mountain States Employers Council, Denver, Colo.

EMPLOYEE TRUSTEES

Northwest area :

Frank W. Brewster,¹ Joint Council of Teamsters No. 28, Seattle, Wash.
George Cavano,² Teamsters Local 174, Seattle, Wash.
Charles H. Jewell,² Teamsters Local 148, Wenatchee, Wash.
Jack Estabrook,¹ Teamsters Local 206, Portland, Oreg.

Northern California area :

Joseph J. Diviny,¹ International Brotherhood of Teamsters, San Francisco, Calif.
Peter A. Andrade,² Western Cannery Council, Burlingame, Calif.
Wendell J. Phillips,² National Bakery Division, San Francisco, Calif.
Wendel Kiser,¹ Teamsters Local 386, Modesto, Calif.

Southwest area :

John M. Annand,¹ International Brotherhood of Teamsters, Los Angeles, Calif.
B. M. Waggoner,¹ Teamsters Local 104, Phoenix, Ariz.
John G. Marshall,² Teamsters Local 306, Los Angeles, Calif.
Larry M. Smith,² Teamsters Local 683, San Diego, Calif.

Rocky Mountain area :

Charles Lindsay,² Joint Council of Teamsters No. 54, Denver, Colo.
Clarence Lott,¹ Teamsters Local 983, Pocatello, Idaho

¹ Terms commenced Jan. 1, 1964.

² Terms commenced Jan. 1, 1961.

PRIVATE PENSION PLANS

WEDNESDAY, APRIL 27, 1966

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representative Griffiths.

Also present: James W. Knowles, executive director; Nelson D. McClung, economist; Donald A. Webster, minority economist; and Hamilton D. Gewehr, administrative clerk.

Representative GRIFFITHS. The subcommittee will be in order. I would like to express my appreciation and that of the committee and the staff, Mr. Solenberger and Mr. MacMillan, for your appearing here today.

Mr. MACMILLAN. Thank you.

Representative GRIFFITHS. I am well aware that you have explained this plan before, but we would like to hear it one more time. Will you begin with your statements, whichever of you is to start?

STATEMENT OF CLIFFORD M. MacMILLAN, VICE PRESIDENT, STUDEBAKER CORP.

Mr. MACMILLAN. My name is Clifford M. MacMillan. I am vice president of the Studebaker Corp., South Bend, Ind.

The Studebaker-UAW pension plan became effective on November 1, 1950, as the result of a collective bargaining agreement between the UAW—AFL—CIO, its local No. 5, and the company. It was terminated by agreement between the parties on November 1, 1964.

The reason for its termination was that the Studebaker Corp. had been forced by economic necessity to discontinue its automotive manufacturing in the United States, which resulted in the termination of its employees engaged in that endeavor at South Bend, Ind.

The announcement of the corporation's intention to discontinue manufacturing in South Bend was made on December 9, 1963, and by the end of 1964, all but a handful of the employees covered by the pension plan had been terminated.

During the 14 years the plan was in existence, it:

- (a) Accumulated assets of \$37,906,093.26;
- (b) Provided for pensions for 4,626 persons;
- (c) Paid out \$2,447,931.08 to 4,080 former employees not eligible for retirement.

(Mr. MacMillan's prepared statement includes the following:)

PENSION PLAN HISTORY

The effective date of original hourly pension plan was 11-1-50.

CHARACTERISTICS OF PLAN

Normal Retirement.—Age 65—10 years of credited service, \$1.50 per month per year of credited service, maximum 30 years of credited service. Minimum \$4.00 x 25 years less Social Security.

Early Retirement.—Age 60—10 years of credited service. Reduced by $\frac{1}{10}$ of 1% for each month less than 65.

Early Retirement—Company Option.—Age 60—10 years of credited service \$3.00 per month per year of credited service (maximum 30 years) then reduced to normal retirement at age 65.

Automatic Retirement.—Age 68 (to be effective 1-1-52) at Normal Retirement rate.

Total & Permanent Disability.—Age 50—15 years of credited service, \$3.00 per month per year of credited service (maximum 30 years). To be reduced to normal retirement at age 65.

CHANGES EFFECTIVE 6-1-53

Changed Benefits to \$1.75 per month per year of credited service (maximum 30 years). Funding of past service to 6-1-53 was extended to 30 years from this date.

CHANGES EFFECTIVE 9-1-55

Benefits increased to \$2.25 per month per year of credited service. Company option under Early Retirement discontinued.

Credited service in lieu of Vacation given—maximum 120 hours.

Vesting put into plan—between ages 40 and 60—10 years of credited service with no service given prior to age 30.

Central Pension Board established to administer plan, equal number of company and union representatives were appointed.

Disability Benefits under Social Security became a deduction under Total and Permanent Disability Benefits.

Funding extended to 30 years from 9-1-55.

CHANGES EFFECTIVE 9-1-59

Benefit changes

Those retired prior to 9-1-59, \$2.35 per month per year of credited service and \$2.50 per month per year for credited service in 1959.

Those retired after 9-1-59—\$2.40 per month per year of service prior to 1-1-59 and \$2.50 per month per year for service after 1-1-59.

As a part of Early Retirement—Mutually satisfactory condition added.

Early—Permanent and Total Disability—Automatic and Vested Benefits all computed on above scale.

Funding extended to 30 years from 9-1-59.

CHANGES EFFECTIVE 12-1-61

After 1-1-62 Benefits of \$2.50 per month for all years of credited service.

Total and Permanent Disability eligibility reduced from 15 to 10 years of credited service.

Survivorship option added—for this Pension to be reduced by 10% (if same age) and further reduced by $\frac{1}{2}$ of 1% for each year wife is younger.

Vesting—credited service for all time worked, age 30 restriction eliminated.

Credited Service given—40 hours for each week draws weekly Benefits under the Health Security program—40 hours given for Short Work weeks.

TERMINATION AGREEMENT DATED 10-15-64

This Agreement between the Union and the Company was, in effect, an implementation by which the Pension Plan was terminated and the fund distributed in accordance with its provisions.

The Termination Agreement had the required approvals by Internal Revenue Service.

Company contributions ceased as of 10-30-64, however, plan continued through 11-1-64.

Applicants for pension had to attain 60 by 11-1-64 but had until 11-1-65 to apply for Pension.

Former employees, with vested rights, if terminated prior to 11-1-61 were eligible for pension benefits only if they attained age 65 by 11-1-64.

Applicants for Total and Permanent disability pension had to be disabled prior to 11-1-64 and make proper application by 12-1-64 to qualify.

Annuities were to be purchased for those drawing pension benefits. These annuities would assure a full pension payment to all retired and pensioned for their lifetime. This was at a cost of \$21,555,131.32 from the pension fund.

The assets of the Pension Fund after their purchase of the Annuities was to be distributed in keeping with the provisions of the Pension Plan (1961) to employees not entitled to a pension but with vested rights.

Such individuals had to be between the age of 40 and 60 by 11-1-64 and had to make application for such distribution by 11-1-65.

After purchase of annuities those on disability pension were not to have pension reduced even though they received Social Security payments until their 65th birthday.

DISTRIBUTION FACTS

About 4,550 persons between age 40 and 60 were notified of eligibility for lump SUM. Heard from all but 13 individuals (many deceased). 4,080 persons received a total of \$2,447,931.08.

FINANCIAL ADMINISTRATION OF PENSION FUND

(Entire Fund Contributed by Studebaker Corporation.)

From the start of the Pension Plan, the financial management of the Fund was in the jurisdiction of the Trustees, The Chase-Manhattan Bank. The parties had indicated that the Fund be invested only in bonds, government securities, and stocks on the "legal list."

A joint pension committee (Union and Company) was named in the Pension Plan to confirm the eligibility of the employee, the pension service, and to authorize the Trustee to commence pension payments.

CONCLUSION

Until the pension plan came into existence, Studebaker hourly employees had not been covered by a pension plan. Of significance was that the plan provided that years of service to be counted included past service. Thus, for older employees, a contingent right of considerable value was suddenly created. Conversely, for Studebaker Corporation, a contingent liability was suddenly created, based on past operations but not provided for by them.

Studebaker had large numbers of long-service employees at this time. Funding for past services was planned over a thirty-year period and the life of the pension plan was not sufficient for the past service to be entirely provided for.

Exhibit No. 1 attached sets forth by year the total employees retired under the plan, the total receiving pensions, the amount of pensions paid, and contributions made by the Company. It also reflects the Termination Agreement.

EXHIBIT No. 1

List of retirees receiving pension, pension paid, and company contributions

	Total number retired	Total number receiving pension	Pension paid to retirees	Company contribution to plan
Nov. 1, 1950, to Dec. 31, 1950.....	81	81	\$3, 717. 65	-----
Dec. 31, 1951.....	232	228	162, 646. 66	\$2, 528, 236. 00
Dec. 31, 1952.....	731	664	199, 664. 90	1, 421, 936. 00
Dec. 31, 1953.....	876	747	314, 230. 08	2, 097, 782. 00
Dec. 31, 1954.....	1, 144	949	443, 281. 94	1, 570, 717. 00
Dec. 31, 1955.....	1, 429	1, 160	512, 107. 86	1, 366, 559. 00
Dec. 31, 1956.....	1, 833	1, 470	758, 339. 80	1, 190, 308. 00
Dec. 31, 1957.....	2, 095	1, 717	1, 023, 218. 22	2, 596, 386. 00
Dec. 31, 1958.....	2, 359	1, 590	1, 127, 219. 94	4, 531, 793. 00
Dec. 31, 1959.....	2, 511	1, 929	1, 240, 067. 22	2, 590, 050. 00
Dec. 31, 1960.....	2, 724	2, 036	1, 353, 907. 73	2, 383, 680. 00
Dec. 31, 1961.....	2, 934	2, 124	1, 449, 773. 26	2, 400, 000. 00
Dec. 31, 1962.....	3, 162	2, 240	1, 526, 011. 09	1, 982, 311. 00
Dec. 31, 1963.....	3, 397	2, 297	1, 611, 124. 90	2, 047, 454. 00
Dec. 31, 1964.....	4, 626	3, 401	2, 177, 719. 61	1, 725, 570. 00
Total.....	-----	-----	13, 903, 030. 86	30, 432, 782. 00
Annuities purchased from Aetna Life Insurance Co. to pay pension.....	-----	-----	21, 555, 131. 32	-----
Subtotal.....	-----	-----	35, 458, 162. 18	-----
In addition, 4,080 other employees received in a lump sum the amount of.....	-----	-----	2, 447, 931. 08	-----
Total paid on behalf of employees.....	-----	-----	37, 906, 093. 26	-----

Mr. MACMILLAN. It was patterned after the automotive pension plans negotiated with the Big Three by the same union. The effective date of original hourly pension plan was November 1, 1950.

Characteristics of plan: Normal retirement: Age 65, 10 years of credited service, \$1.50 per month per year of credited service, maximum 30 years of credited service. Minimum \$4 per month times 25 years less social security. This feature later was dropped from the plan. It was early retirement at company option which meant that the company, without agreement of the union, could retire certain people if it so desired. This, however, could only be done after they were age 60 and had 10 years of credited service. The retirement benefit was doubled if and when the company exercised its option.

I might mention in passing that in my time at Studebaker it was only exercised once. Automatic retirement was at age 68 at the normal retirement age to be effective January 1, 1952. Total and permanent disability, retirement was provided for at age 50 with 15 years of credited service, with also a double benefit with a maximum of 30 years, and this benefit was to be reduced at normal retirement date to the regular benefit.

Effective June 1, 1953, the parties negotiated a change in benefits from \$1.50 per month for each year of credited service to \$1.75 per month, and in funding the past service for this a new funding period was established on an actuarial basis of 30 years for past service. Effective September 1, 1955, the benefits increased to \$2.25 per month per year of credited service. The company option had proved of no real value and was discarded at that point.

Credited service was previously given for time worked and at this point the parties agreed to include vacation time for which the employee was paid as time worked in establishing his credited service.

A central pension board was established to administer the plan, with an equal number of company and union representatives appointed to the board. The powers of the board were strictly limited. It had nothing to do with the financing of the fund, and it could not change the conditions of the plan.

On September 1, 1959, there were further changes. Those retired prior to September 1, 1959, the benefit was increased to \$2.35 per month per year of credited service, and \$2.50 per month per year for credited service in 1959 and subsequent to that.

Those retired after September 1, 1959, had a benefit of \$2.40 per month per year of service prior to January 1, 1959, and \$2.50 per month per year for service after January 1, 1959. This may get a little involved, ma'am, but these are the basic changes.

Representative GRIFFITHS. The effect of extending the funding date was to permit you to pay greater benefits. Was that true to those now retiring?

Mr. MACMILLAN. This is basically correct, ma'am. When the benefits were increased, then the company had to pick liability up for past years.

Representative GRIFFITHS. Yes.

Mr. MACMILLAN. And the recognition of this, then a new funding period was established, so that the immediate cash outlay of the company did not increase dramatically as it would have otherwise, because you pick up very substantial chunks of liability when you change these benefits patterns.

Representative GRIFFITHS. Would you say that the first retirees benefited most from this change?

Mr. MACMILLAN. No, ma'am.

Representative GRIFFITHS. No?

Mr. MACMILLAN. Every person over 60 years of age who worked for Studebaker since the time the pension plan came in retired with full pension.

Representative GRIFFITHS. But to be 60 and retired you benefited from this change in the operation?

Mr. MACMILLAN. Yes, ma'am, you benefited by the plan. Under the early retirement provisions, a mutually satisfactory condition was added. I believe this was used once by one gentleman and we couldn't find anything for him to do, so we agreed to retire him and gave him double benefits with the agreement by the union.

Early retirement on a permanent and total disability and automatic and vested benefits were all computed on the new scale of \$2.35 per month before January 1, 1959, and \$2.40 per month subsequent. I am getting a little wound up here. But anyway, the benefit structure changed for all types of retirement here.

On December 1, 1961, after January 1, 1962, benefits of \$2.50 per month for all years of credited service was agreed to.

Total and permanent disability eligibility was reduced from 15 to 10 years of credited service. This made people with less service eligible for total and permanent disability.

A survivorship option was added. This was in an attempt to provide ongoing income for a wife or a husband, because we had lady employees in the corporation.

Representative GRIFFITHS. And you gave the widower some money.

Mr. MACMILLAN. Title 7 of the Civil Rights Act was not in effect, but we anticipated it, ma'am.

Representative GRIFFITHS. Good.

Mr. MACMILLAN. Vesting credited service for all time worked, and the age 30 restriction was eliminated. We had people at Studebaker who had 40 years of service, and up until this point could only get retirement benefits based on the 30. This allowed them to get the benefit for the total service. And, also, again, in building this credited service, we agreed to give credit for weekly benefits under the health security program. In other words, if a person was off sick and drawing benefits under our insurance plan, he got credited service for that period of time.

The termination agreement was entered into between the parties as of October 15, 1964. This was, in effect, an implementation by which the pension plan was terminated and the fund distributed in accordance with its provisions.

From the beginning, the plan had contained provisions for termination if such were to occur. This then gave life to it and gave us an opportunity, faced with it, to make some interpretations and some decisions, but there was no change in the basic fundamentals of the termination provision. This had the required approval of the Internal Revenue Service.

The company contributions ceased as of October 30, 1964, which was the expiration date of the labor agreement. However, the plan continued through November 1. This was in order to include some people. It was a better break point in terms of age, and it allowed us to find a better way. There is always somebody who is marginal, and if you move a little bit you can include them. By allowing this additional 2 days here, we allowed more people to benefit under the plan than would otherwise have benefited, or to benefit in a different way, to be completely correct about this. The people who were over 60 at the time the plan terminated all got complete benefits earned up to that date, but there was a cash distribution to others of about some \$2 million and by allowing this time to go by here, a few people came out of cash distribution and went into the retirement part of the plan.

Representative GRIFFITHS. How much did the company get back?

Mr. MACMILLAN. Nothing.

Representative GRIFFITHS. Nothing at all?

Mr. MACMILLAN. Oh, no.

Representative GRIFFITHS. You distributed all the money?

Mr. MACMILLAN. Yes, ma'am. The applicants for pensions—now there were people who had been laid off prior to this who had vested rights, and these people had been scattered to the four winds, but by the termination provision of the plan, these were entitled to participate in the assets of the plan, and so there was a year agreed to, in which we could seek out these people, and let them know what their rights were and allow them to apply for the rights, because they had to apply. There was nothing automatic about this.

This was, if I may take a moment on this plan—we came very close about 6 weeks before this period was ended, and we had some 500 or 600 people that we hadn't heard from. Both the union and the company had been diligently searching for them. We asked our public relations people to write a story on this, and it was picked up by the

wires and I believe that we found everybody but about 13 people, and we all felt real good about that.

The applicants for the pensions had to qualify before November 1, 1964, but had this additional year in which to apply. This was true of the applicants for total and permanent disability. The agreement was that we would liquidate the fund and we would use whatever part of it was necessary to provide annuities for the people who were entitled to full pension benefits.

Bids were taken from 20-some insurance companies and it was Aetna, I believe, that came in with the low bid. By this process of bidding we made the best possible use of the assets of the fund, on this the successful bid was for \$21,555,131.32. The remaining assets of the pension fund, after its purchase of the annuities was to be distributed in keeping with the provisions of the plan to employees not entitled to a pension but with vested benefits. These people were between 40 and 60, both employees who were currently there and people who had left and still had carried their vested rights with them.

These payments ranged from about \$150 to about \$1,600. These were cash payments.

Representative GRIFFITHS. Lump-sum payments?

Mr. MACMILLAN. Yes, ma'am. We had a problem. Am I going into too much detail, ma'am?

Representative GRIFFITHS. No, no, not at all. Go right on.

Mr. MACMILLAN. We had a problem in that under the ongoing administration of the plan, a person with total and permanent disability who had recovered, would have their pension reduced, but there is no way for the parties to police this, and our history had indicated that it didn't happen very often. So, we just said, let it go. And so there will be no attempt, even if a person were to recover from total and permanent disability, there would be no attempt to change the pension. It was administratively too difficult, and there wasn't enough involved to make it worth while.

Representative GRIFFITHS. Did those who were drawing pensions when the plan was terminated continue to draw their pensions?

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. As long as they lived?

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. And those who had vested rights but were not yet at the period where they would draw the pensions were given lump-sum payments?

Mr. MACMILLAN. Yes, ma'am; and people who retired prior to November 1.

Representative GRIFFITHS. 1964?

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. All right.

Mr. MACMILLAN. About 4,550 persons between age 40 and 60 were notified of their eligibility for lump-sum payment. Here is a statistic. We heard from all but 13 of those people as a result of this effort to find them; 4,080 persons qualified to receive a total of \$2,447,931.08.

The fund was built by contributions by the Studebaker Corp. I think that it might be informative here to go to the history of negotiation on the plans. The original plans in the automotive industry came into effect in 1949. There had been some attempts on the part of the

union and the company to put in plans prior to that. But the employees had felt that they would rather have the money. I think this was probably because of the younger age groups. And it was not until 1949 that the union—and correct me, Willard—was successful on convincing its membership that this was better for them. So, in those negotiations and in succeeding negotiations the amount of money to be put into the pension fund was figured in as an economic cost per hour to the company. In other words, this was in lieu of pay, one way of saying this, would you agree, Willard?

Mr. SOLENBERGER. Yes; it was considered generally part of the economic package.

Mr. MACMILLAN. Right.

Representative GRIFFITHS. In what year?

Mr. MACMILLAN. The first pension plan I believe was at Ford in 1949.

Mr. SOLENBERGER. They all got underway in 1950. It was negotiated at Ford in 1949, yes.

Mr. MACMILLAN. What I am saying, ma'am, is that—as an example in 1961—to improve and to continue the pension plan cost Studebaker 12 cents an hour per each hour that it was compensated to the employees. This we took as a labor cost, and this was given up, if you will, by the employees. Rather than take this in the paycheck, they chose through their representatives to have this contributed toward the pension plan.

Representative GRIFFITHS. There weren't any guidelines in effect then, or were there?

Mr. MACMILLAN. There was the usual resistance to raising labor or costs, yes, but not to the extent of "don't raise wages." We negotiated hard over these matters, and I think I can say, without bitterness, without enmity. We tried to keep the costs down and the UAW tried to improve their peoples' benefits. This was collective bargaining.

Representative GRIFFITHS. Did you suggest a contributory plan?

Mr. MACMILLAN. We have contributory plans in other parts of the company.

Representative GRIFFITHS. But this was not a contributory plan?

Mr. MACMILLAN. No, ma'm. This was not, unless you assume as I have tried to point out, that this 12 cents an hour that it cost us to fund in the plan was, in effect, money that the employees otherwise would have had in direct wages. Now to that extent—

Representative GRIFFITHS. If they had received it in direct wages they would pay taxes on it.

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. But a contributory plan would have had immediate vesting. In a contributory plan you would have arranged that, even if an employee had worked 1 year and quit, he would have had some rights to withdraw the money that he had put in. Would that be right or not?

Mr. MACMILLAN. It depends on the plan. We have a contributory plan, not with this group. It is what they call a career average plan.

Representative GRIFFITHS. How much money is there left in this plan?

Mr. MACMILLAN. Not one penny.

Representative GRIFFITHS. Did I understand you to say that you were still paying pensions?

Mr. MACMILLAN. We put \$21 million with Aetna Life Insurance and purchased annuities and Aetna now is paying the pensions.

Representative GRIFFITHS. So that you have no further rights to any money out of this plan.

Mr. MACMILLAN. We never had any rights to any of it. The money that was contributed, and this is done on the basis—

Representative GRIFFITHS. You had no residual rights?

Mr. MACMILLAN. No, ma'am.

Representative GRIFFITHS. There was never any time at which if Studebaker had gone out of business, that you could in any way have gotten back any of this money?

Mr. MACMILLAN. No, ma'am. We considered that it was, in effect, the employees' money. And I am sure the UAW would have resisted any attempts for us to divert it to anything else, and properly so.

Representative GRIFFITHS. You are aware that there are plans where this happens?

Mr. MACMILLAN. Yes, ma'am, but not in Studebaker.

Representative GRIFFITHS. You may proceed.

Mr. MACMILLAN. We have other pension plans, and these are all handled by insurance companies where we buy annuities each year or they are trustee'd with banks. This particular plan, the financial management of the fund, the moneys that were contributed, were under the Chase Manhattan Bank.

Representative GRIFFITHS. How did you do it?

Mr. MACMILLAN. We did it through a trust agreement, between the company and the bank, and this trust agreement provided:

- (1) That none of the money could be recovered by the company.
- (2) That the funds could only be invested in bonds, Government securities and stocks on the legal list. Within that framework the Chase Manhattan Bank was responsible for the investment of the funds. The company, nor the union, neither one could influence what happened to that money.

Representative GRIFFITHS. Did they guarantee you a return?

Mr. MACMILLAN. No, ma'am.

Representative GRIFFITHS. Or did they show you what the return was at the end of the year?

Mr. MACMILLAN. They reported to us annually, the report of the investments, the report of the status of the fund, the report—and we have attached here as the last page where the money went.

Representative GRIFFITHS. Did they charge you a fee for their expertise and their management or did they just use your money?

Mr. MACMILLAN. No, we got the benefit. We? I mean who is we? The employees got the benefit of the fund growth. I don't know the amount or the percentage or the fee basis, but it was a very, very small part. It was a financial management type of fee, and it was not a great amount of money in relationship to a fund that cumulatively had assets of almost \$40 million. A very small part of this was administrative expense.

Representative GRIFFITHS. What was the administrative expense?

Mr. MACMILLAN. I can't tell you that, ma'am. I can prepare this, if you wish.

Representative GRIFFITHS. Yes, I would like to know. I would also like to know what was the annual return on the investment.

(Mr. MacMillan subsequently furnished the following information as requested by Representative Griffiths:)

STUDEBAKER CORP.,
May 4, 1866.

Dr. NELSON McCLUNG,
Staff Economist,
Joint Economic Committee,
Senate Office Building,
Washington, D.C.

DEAR DR. McCLUNG: At the hearing on private pension plans held Wednesday, April 27, Mrs. Griffiths asked about the trustee fees charged for administering our pension plan.

Attached is a statement prepared by Mr. R. C. Rieffel, our Payroll and Pension Manager. You will note that, during the fourteen years the plan was in existence, \$195,915.70 was paid to the trustee. Under the prudent administration of the trustee, the total company contributions of \$30,432,782 accumulated assets of \$37,906,093.26.

If we can be of further service, please feel free to call on us. It was nice meeting you, and I hope our paths will cross again sometime.

Sincerely yours,

C. M. MACMILLAN,
Vice President, Industrial Relations.

Attachment.

STUDEBAKER CORPORATION

To: C. M. MacMillan.

Location: Industrial Relations—Vice President.

From: R. C. Rieffel.

Location: Payroll & Pension Manager.

Date: May 3, 1966.

Subject: Actuarial and Trustee Fees Charged to Local 5 Pension Fund

Except for actuarial fees in connection with the termination of the plan, there were no actuarial, consulting or valuation fee charges paid from the Local 5 pension trust fund.

With respect to the trustee fees charged to the fund, there were no fees charged against the trust fund for the first years of the plan from 1951 through 1953. Because the trust fund was yielding a greater percentage of income than was calculated in actuarial valuation, our actuaries advised that we could pay trustee fees directly out of the fund, and therefore, beginning with 1954, trustee fees and expenses were charged directly to the fund. The following is a yearly summary of company contributions and trustee fee charges to the fund.

For year ending	Company contributions	Trustee fees charged
1951.....	\$2,034,000	0
1952.....	2,010,242	0
1953.....	2,161,747	0
1954.....	1,478,863	\$4,044.92
1955.....	1,542,625	5,979.38
1956.....	2,318,061	7,684.11
1957.....	2,896,386	7,744.06
1958.....	2,827,773	9,028.42
1959.....	2,590,050	19,857.58
1960.....	2,383,680	21,125.48
1961.....	2,400,000	22,649.87
1962.....	2,301,396	24,259.92
1963.....	2,349,852	25,583.90
1964.....	1,138,107	27,863.00
1965.....	0	8,632.92
1966.....	0	1 10,862.14
Total.....	30,432,782	195,915.70

¹ Actuarial charges.

Mr. MACMILLAN. You will note, if I may draw your attention to the last page.

Representative GRIFFITHS. All right.

Mr. MACMILLAN. That the column to the right shows total contributions of the company of \$30,432,782. In the next column the total paid out on behalf of employees was \$37,906,093.26. The difference between these two amounts covered the administrative cost of the plan, or the difference between the two amounts was the growth of the fund minus whatever the administrative costs were involved. So you can see—

Representative GRIFFITHS. And plus whatever Chase Manhattan took for itself.

Mr. MACMILLAN. This is what I say is the administrative costs, yes ma'am.

Representative GRIFFITHS. You considered that the administrative costs?

Mr. MACMILLAN. Yes, ma'am, any administrative costs to the parties were absorbed by the parties. The central pension committee—

Representative GRIFFITHS. You had no administrative costs of your own?

Mr. MACMILLAN. Yes, ma'am, we did.

Representative GRIFFITHS. And are they figured in here too?

Mr. MACMILLAN. No, ma'am.

Representative GRIFFITHS. How did you absorb those?

Mr. MACMILLAN. We "ate" them, is the industrial word. We absorbed them. It is not a charge against the fund, as did the union in their costs. The union had costs in connection with this too. We both had people on a central pension committee. Now I had a manager of employee benefits who was secretary to this committee, and I had a staff of about three people that handled the paperwork involved. But this was part of the industrial relations budget and it was not charged to any of the pension moneys.

Coming back to my report, if I may, the joint pension committee which I think I have mentioned earlier had no power to amend or change the plan in any way, and had absolutely no influence on what happened to the money. They were there to confirm the eligibility of an employee from company records or other sources, to make sure that the employee was eligible, and to confirm his pension service under the terms of the agreement, and then to authorize the trustee, the Chase Manhattan Bank, to commence the pension payments.

Representative GRIFFITHS. Now the committee had no power to change, but you and the UAW had the power to change the agreement didn't you?

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. And did you change the agreement?

Mr. MACMILLAN. Yes, ma'am.

Representative GRIFFITHS. Repeatedly?

Mr. MACMILLAN. Repeatedly; yes, ma'am.

Representative GRIFFITHS. All right.

Mr. MACMILLAN. Always, I may say, to the benefit of the employees.

Representative GRIFFITHS. Yes. When the committee had made its determination as to who was entitled to receive a pension and how much, to whom did this person appeal?

Mr. MACMILLAN. We had no case like that. There were provisions. The committee was really the final word on this thing. However, if there was a disagreement in the committee, there was a provision that they would select an arbiter who would be paid out of the pension money. This would be an administrative cost to the pension. And that this person would rule. I don't believe this ever happened in our case.

Mr. SOLENBERGER. No.

Mr. MACMILLAN. No; this never happened. We kept good records, ma'am, and while we fought on occasion with the UAW in between these periods, we worked well together.

Representative GRIFFITHS. Were there any reasons whatsoever that would have caused the pension to have been cut off, once it had been granted?

Mr. MACMILLAN. In the early days, yes.

Representative GRIFFITHS. What did the employee do that would have caused the pension to be dropped?

Mr. MACMILLAN. Oh, nothing, no behavior on the part of the employee, no.

Representative GRIFFITHS. But behavior on the part of the company and the UAW. Could you have agreed between yourselves to cut a pension off?

Mr. MACMILLAN. I just don't know how to answer that one. It is beyond my experience. The only way I know that a person could have been deprived of a pension would have been in the early days when there was just a little money there, and there were tremendous numbers of people that had started to draw their pensions, and if this unfortunate thing had happened to Studebaker in 1963, if it had happened 10 years before, many, many people would not have drawn the pensions, because there wouldn't have been the money there for them.

But once the funding got to a position, I know of no way a man would lose his pension. The only provision we had, that if a person became incompetent, then we could direct the trustee to send the check to his wife or to a guardian or something like that.

Representative GRIFFITHS. As a matter of fact, if you and the UAW had the right to amend this agreement, couldn't you have amended it to the point where a person couldn't have received a pension?

Mr. MACMILLAN. It would not have been ethical to do so.

Representative GRIFFITHS. But you could have done it, couldn't you?

Mr. MACMILLAN. I suppose—I really don't know. I haven't thought about it.

Representative GRIFFITHS. In your judgment if you had amended it to that point, what rights would a person receiving the pension have had?

Mr. MACMILLAN. He might have had some under common law. I can't answer that, ma'am. I just don't know. It never crossed our

minds that we would want to do anything like that, and I am sure that this is not ethical and it would not be politically sound for the union.

Representative GRIFFITHS. Where was the situs of this fund?

Mr. MACMILLAN. The fund was kept at the Chase Manhattan Bank in New York.

Representative GRIFFITHS. Where were the pension trustees?

Mr. MACMILLAN. The trustees were the Chase Manhattan Bank.

Representative GRIFFITHS. Where was the committee?

Mr. MACMILLAN. The committee was located in South Bend. These were employees.

Representative GRIFFITHS. Were you responsible; did you have any fiduciary relationship?

Mr. MACMILLAN. No.

Representative GRIFFITHS. You did not. The committee did not have any fiduciary relations?

Mr. MACMILLAN. No.

Representative GRIFFITHS. Did the Chase Manhattan Bank have any responsibility to anybody?

Mr. MACMILLAN. Yes, ma'am; but may I defer to Mr. Solenberger.

Representative GRIFFITHS. Yes. To whom did the Chase Manhattan have to report outside yourselves.

Mr. SOLENBERGER. In the first place, this was a qualified pension plan which had secured Internal Revenue approval, which meant that an irrevocable trust had been set up. The Chase Manhattan Bank was the trustee. The trust instrument gave them a fiduciary obligation. In fact, it specified that they were solely responsible for investments, and investment policies, and neither the company nor the union would have anything to say about it, and they were, of course, subject to the fiduciary laws.

Representative GRIFFITHS. Of New York?

Mr. SOLENBERGER. For trustees, yes.

Representative GRIFFITHS. Of the State of New York?

Mr. SOLENBERGER. The State of New York.

Representative GRIFFITHS. To your knowledge did the State of New York ever exercise its power to inquire into their handling of these funds?

Mr. SOLENBERGER. I imagine; I can't speak with authority on this, but I think Chase Manhattan Bank is subject to periodic reporting to the State of New York and inspection and, of course, they handle pension trusts for corporations all over the country. They happen to be a trustee of the Ford Motor Co. and of many large corporate pension plans, and they make an annual accounting of their trusts, and of all of their trusts.

Representative GRIFFITHS. To the State of New York?

Mr. SOLENBERGER. No; this is submitted to Studebaker. In this case I refer to the accounting submitted to the union and the board of administration.

Representative GRIFFITHS. Do they make an annual accounting to the State of New York?

Mr. SOLENBERGER. I believe a filing of their annual accountings would be made also in New York.

Representative GRIFFITHS. Was the Studebaker plan ever checked again after the first time by the IRS?

Mr. MACMILLAN. Each time there were changes it was filed.

Representative GRIFFITHS. It was checked again?

Mr. MACMILLAN. Yes.

Mr. SOLENBERGER. It had to be resubmitted when it was amended. Also, the company in order to get tax deductions on its contributions had to file annual returns and actuarial certifications and information.

Representative GRIFFITHS. Did you also file with the Department of Labor or had you terminated before Landrum-Griffin came into effect?

Mr. MACMILLAN. I can't answer that, ma'am. Our legal department handles these matters. I would assume that whatever was required, we did.

Representative GRIFFITHS. Do you know what the requirements are under Landrum-Griffin, Mr. Solenberger?

Mr. SOLENBERGER. The only thing that affects the pension plan is the requirements of the Pension and Welfare Plans Disclosure Act, which takes precedence over Landrum-Griffin as far as pension plans are concerned. The filing of a D-1 report describing the plan and a D-2 report annually on the operation of the plan is the only requirement I can think of at the present time.

There are the bonding requirements, of course, of both Landrum-Griffin and the Disclosure Act which would affect any joint administrators who had control over money. Of course, this has been a moot point as far as pension plans of the type of the Studebaker plan are concerned, because the money is in the hands of an independent corporate trustee, and the local pension committee I believe, is not considered subject to bonding, because they do not control funds.

Representative GRIFFITHS. If the people, either you and Studebaker or the Chase-Manhattan, involved in this plan had not been ethical, do you think that the laws of this country on either reporting or the supervisory laws of the State of New York are sufficient to have guaranteed the participants, the beneficiaries, that they would receive their money?

Mr. SOLENBERGER. I think full disclosure of information in the case of a negotiated plan to union and employer is a very important safeguard. Of course, I think that unions have a representational responsibility to their members, which is very real and compelling, in negotiating those things that are in their interest and this would for instance, bar agreeing to reduce benefits of a plan that has been established through negotiation.

This plan was approved by Internal Revenue, and I would say that it would have been rather difficult to get an amendment through that would say the people who were receiving pensions and already vested in them would be stripped of those rights. I doubt if this could be approved under the terms of the code.

Representatives GRIFFITHS. It has not only been done, it has been tried in case after case, and people have been deprived of their rights by the courts, so that I don't think there is any guarantee.

I would like to ask you, Mr. MacMillan, since the company had no residual rights, why were you involved in the plan at all, once the money had been set aside? What was your real interest?

Mr. MACMILLAN. Any time we pay money on behalf of employees, we want to know what happens to it, and this was no lack of confidence in the UAW. We deal with some 25 unions across the country, and every instance where we make contributions to pension or other funds, we want to be involved in it, to know that this is being done properly.

Representative GRIFFITHS. You would have some interest in knowing for future negotiations, I presume, whether or not the amount of money was sufficient, and whether or not it was paid out correctly.

Mr. MACMILLAN. We have one situation where we pay 10 cents for each hour worked into a union pension fund. Now please don't question me in detail on this. I am not prepared to answer. This is with the sheet metal workers group, and it is an amalgamated union that represents some 20 employers in the Minneapolis, Minn., area. Our commitment to the union is to pay, for each hour compensated, 10 cents into a union pension fund. However, we have an attorney who sits on this pension committee, who is paid by Studebaker on a retainer basis.

Now the economics of the thing, it is helpful to me in negotiation to know the things you have just mentioned. In this sort of situation the bargaining is over cents per hour. No benefits are bargained, nothing; it is just cents per hour. I am not trying to pose as a nobleman here, Mrs. Griffiths, at all, but it is just good business not to pay money into something that could be mishandled and misinterpreted, and come back as a reflection on the company. So we have taken the position that if we make this kind of contribution, we are going to have somebody in the position to see what happens to it.

Representative GRIFFITHS. Were the lump-sum payments equal to the actuarial value of the vested pension rights of the people who got the lump sum?

Mr. MACMILLAN. They are based on a formula.

Mr. SOLENBERGER. I plan to comment on that.

Mr. MACMILLAN. Yes. Could I finish my testimony, ma'am?

Representative GRIFFITHS. Yes, of course. And then we will hear Mr. Solenberger.

Mr. MACMILLAN. We have a conclusion here, I think, that has some substance in how we came about or came into this situation.

Until the pension plan came into existence, Studebaker hourly employees had not been covered by a pension plan. Of significance was that the plan provided that years of service to be counted included past service.

We had people in their seventy's at this time who immediately were eligible for retirement. Thus, for older employees, a contingent right of considerable value was suddenly created. Conversely, for Studebaker Corp., a contingent liability was suddenly created, based on past operations but not provided for by them.

Studebaker had large numbers of long-service employees at this time. Funding for past services was planned over a 30-year period and the life of the pension plan was not sufficient for the past service to be entirely provided for.

Why didn't the plan pay out? This is the reason.

Representative GRIFFITHS. Thank you very much. Proceed, Mr. Solenberger.

STATEMENT OF WILLARD SOLENBERGER, ASSISTANT DIRECTOR OF THE SOCIAL SECURITY DEPARTMENT OF THE INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), AFL-CIO

Mr. SOLENBERGER. I am Willard Solenberger, assistant director of the social security department of the international union, UAW. I am also the principal consultant with respect to the union's negotiated pension program.

I appreciate the opportunity to appear before this committee to discuss the terminated Studebaker plan because I feel it illustrates problems that go much beyond Studebaker.

By way of background information you might be interested to know that the UAW has over 1,000 pension plans established under collective bargaining agreements with employers in the automotive, aerospace, farm implement and related industries, parts suppliers, miscellaneous manufacturing. These plans currently cover well over 1 million active workers, and we have currently drawing pensions under them, about 175,000 retired workers, some of whom have been drawing pensions since as early as 1950 and some of whom have just retired in the past year.

At the present time we estimate in round numbers that the assets of these plans are in excess of \$2.4 billion, taken together, that annual contributions going into them under our contracts amount to \$340 million and that the current pension payout is in the neighborhood of \$215 million a year. So, we have as a union quite a substantial concern in the whole pension field.

The first UAW plan, which Mr. MacMillan alluded to, was negotiated with the Ford Motor Co. back in 1949. That was, I think, really a historic breakthrough, because it was the first plan for hourly workers in the mass production industries in this country. It was set up on a funded basis in early 1950, and shortly after that the UAW negotiated plans throughout the rest of the auto industry and with major farm implement companies and parts companies. The Studebaker plan goes back to that period in 1950 when the other automotive plans were set up.

It was established on essentially the same pattern, and it involved the basic principles that have since characterized all UAW pension plans with almost no exceptions.

CHARACTERISTICS OF UAW PENSION PLANS

Basic characteristics of UAW-negotiated pension plans, reflecting principles on which the union has placed emphasis from the outset, include:

1. "Noncontributory"—100-percent employer financing.
2. Funding—through actuarially determined contributions designed to fund current service costs and to amortize past service liabilities over not more than a stipulated period of years. (In the great majority of UAW plans this determination is made by an independent actuary on the basis of provisions specified in the contract. Where a cents-per-hour contribution is negotiated, the rate is predicated on an agreed actuarial basis. In either case, contributions are deposited

in an irrevocable fund, held by an independent corporate trustee—as in the case of Studebaker—or by an insurance company.)

3. Joint administration of all aspects of plan affecting employee benefit rights—through a board of administration with equal union and management representation.

4. Benefits based on full recognition of past service prior to the establishment of the plan, or prior to the date of any negotiated benefit improvement, as well as future service. (Typically, as at Studebaker, benefits are stated as a flat amount per year of service, although we have some plans with wage-related formulas.)

5. Pensions are provided for normal retirement at 65, early retirement and disability retirement, and are supplemental and in addition to the worker's social security. We have also stressed portability of pensions through vesting of accrued pension rights on termination of employment with requisite minimum service before retirement age.

6. In our current contracts we have provided special supplements for early retirement prior to availability of full social security and have developed meaningful survivor benefits.

I would like to summarize briefly these basic characteristics so as to place them in focus in relation to the Studebaker plan and generally.

In the first place, the plans are of the so-called noncontributory type. I would subscribe very much to what Mr. MacMillan said, that this term is in some ways misleading, because pension plans in collective bargaining, if we discuss at the bargaining table the probable costs as estimated by actuaries, and on both sides agree that this is part of an economic package and an economic settlement, employees in a very real sense feel that this is some of their compensation.

Representative GRIFFITHS. The employee has been deluded in case his rights never vest; isn't that right?

Mr. SOLENBERGER. That is sometimes true and I was going to go on to this point, of course.

Representative GRIFFITHS. He has no rights at all and he has been sold a real bill of goods, and that is really what we are here to inquire about. One of the things I would like to ask you is why, when you have supported social security on a contributory basis, do you insist upon these pensions being noncontributory?

Mr. SOLENBERGER. Well, I would say that a very practical reason, which dates back to the first establishment of noncontributory pension plans, is the fact that if the money goes directly into the pension plan, it is, of course, tax deductible for the employer. Also, the contributions and fund earnings are not taxable for the employees except when and if received. Therefore, a given direct allocation of money will produce more than if it goes into the pay envelope and is subsequently contributed by the employee.

Representative GRIFFITHS. May I ask you what was the UAW's position on H.R. 10?

Mr. SOLENBERGER. I don't believe the UAW testified formally on H.R. 10, as such.

Representative GRIFFITHS. But I believe you opposed it, so that in reality what you are saying to me today is that you are supporting a tax-free loan to your members that you would like to deny to the self-employed, right?

Mr. SOLENBERGER. In Canada where the UAW is also operational, of course, as I think you know, they have a different system whereby there is tax deductibility for all arrangements—

Representatives GRIFFITHS. The real question I think that every person must ask himself is why should the rest of the people of the United States support these plans twice, once in the price they pay for goods and services and second in increased taxes paid to make up for giving you a tax-free loan.

Mr. SOLENBERGER. I believe that the indirect subsidy through deferred taxation was estimated by the President's Committee on Public Policy and Private Pension Plans, the Cabinet committee, as being something in the neighborhood of \$1 billion.

Representative GRIFFITHS. It is a subsidy.

Mr. SOLENBERGER. There is no question that the private pension plans in this country are receiving tax advantages, but this in turn is based on the theory, which I think is a sound one, that they are performing a very useful social function in supplementing the public system, and have their place in our economy.

I think because of this function that where there are defects, and where safeguards are needed these properly require attention. But I think the principle of encouragement is a sound one.

Representative GRIFFITHS. What is the shortest length of time for any UAW pension to vest?

Mr. SOLENBERGER. We have placed very strong emphasis on vesting, and we have in most of our contracts eliminated any age requirements, so that vesting is typically 100 percent on termination of employment for any reason after 10 years' service.

Representative GRIFFITHS. So that if you work 9 years and quit or are fired or terminate for some other reason, money has been paid in on your behalf for which the employer has received a tax deduction and in reality the employee doesn't have anything. If it had been a contributory plan, the employee would have been able to take away with him the money that he had paid in those 9 years; wouldn't be?

Mr. SOLENBERGER. This is correct. Under contributory plans, since they are in effect a mechanism for individual saving, the employee's contributions to the plan are his own money and they are returnable if he leaves.

Representative GRIFFITHS. That is right.

Mr. SOLENBERGER. It is as if he put his money into any other saving arrangement. It is his money. He has paid a tax on it before he deposited it. The only difference is that it is tied up until such time as he leaves or dies. It is not necessarily, therefore, serving a retirement income purpose. It is simply money which, if he lives to retirement, may serve a retirement income purpose. If he terminates sooner, he can get his own money back, but this privilege usually means forfeiture of any vested right to the employer's contributions.

Representative GRIFFITHS. So that in truth, that this is a fringe benefit to the employee is to a very great degree a delusion.

Mr. SOLENBERGER. Well, I think an educational responsibility rests on the parties to collective bargaining, and particularly on unions, to make a sharp distinction between the type of plan we are talking about and a plan that has individual accounts for each person consisting of his money. In a real sense the money going into a pension

plan of the type that is common in industry, the noncontributory plans of the autoworkers, the steelworkers, the rubberworkers, has nothing to do with individual accounts and there is no pretense that it does.

Representative GRIFFITHS. It is a loan from the rest of us.

Mr. SOLENBERGER. It is a contribution to a pool to accomplish a future retirement-income purpose; and those who meet eligibility requirements will draw from the pool, and those who don't won't, but there is no money earmarked for any individual.

Representative GRIFFITHS. As a matter of fact why don't you combine all these employers in one big plan?

Mr. SOLENBERGER. This might be a happy result. It would be a rather difficult thing I think to accomplish with the major corporations with whom we deal, because I am certain they would resist it. Broad industry pooling has been accomplished in some industries with very beneficial results, particularly where they involve a lot of small employers.

Representative GRIFFITHS. I will let you continue now.

Mr. SOLENBERGER. The second point that the UAW has put stress on right from the beginning is this question of funding. The union took the position that it would not sign contracts that did not provide for funding of benefits on what we considered a reasonably sound basis, which means typically that the contributions are determined actuarially by an independent actuary, and they are sufficient to fund current service costs, and to amortize over some stated period the past service liabilities.

A very common pattern in UAW plans and in many other pension plans is to say that this should be done at least over a period not exceeding 30 years from the time the liabilities were established.

We have some plans that are on a cents-per-hour basis but we never agree on the cents per hour without first determining what the actuarial requirements would be to amortize the past service liability and to meet current costs and then translate that into cents per hour, so the same principle obtains.

In either case again this has been a policy matter, the money is deposited in an irrevocable trust, and in practically all the UAW plans, it is held by an independent corporate trustee, a bank or trust company, or by an insurance company in a deposit fund.

We have no plans where either union or employer representatives are controlling or making investments. This idea of an independent fiduciary with responsibility for the investments has been one of the principles that underly UAW plans.

Representative GRIFFITHS. What is going to happen to the money if the plan is fully funded, and suddenly the employer quits business, goes bankrupt or some other thing, and every person receives every cent that is coming to him, and yet there is money left? Who gets the money?

Mr. SOLENBERGER. This would depend on the contract. There is a provision in the code that a plan can be approved whereby if all of the actuarial liabilities of the plan have been discharged and money is left over which is in this case labeled "due to actuarial error," the employer may recover it. I have had experience with only one plan that terminated that was fully funded. In fact, it was more than fully funded. The assets at the point of termination exceeded require-

ments for full payment of all benefits due up to the date of termination plus prospective benefits of employees who might have continued working.

Under these circumstances, normally there would have been money to revert to the employer. We had a provision in our contract, however, that if this happened, that the plan would be subject to renegotiation and allocation of the money, that none of this could be returned to the company. This was a labor contract provision. Accordingly, we negotiated a provision for additional annuities with a severance cash option to utilize all of the money. None of it was returned to the company.

Representative GRIFFITHS. So you did not let the employer have it back?

Mr. SOLENBERGER. We did not let the employer have it back, but this was because we had a labor contract that prevented it. There are many labor contracts, unfortunately that are silent on this subject.

Representative GRIFFITHS. Because they have not thought of it. That is the real answer. The employers have never even thought about the fact that it is entirely possible that the fund may some day cease and there may be money left over.

As a matter of fact, how many mistakes are you making in the funding now?

On the funding of Studebaker, what kind of error did you make?

Mr. SOLENBERGER. I would like to comment specifically on the funding at Studebaker, if I might.

The Studebaker plan started out with the original pattern of a 30-year amortization period from 1950 for the original past service liability which was then created. In successive negotiations this period was put forward. However, in 1959, when we had quite a lengthy discussion of the cost implications of the plan, the period for amortization of past service was frozen at 1989, 30 years from the contract date, and when the next amendment came up in 1962, the union took the position we were not going to extend the period, and the company agreed to this, so that funding was after 1959 continued on the same amortization schedule, even though there were subsequent amendments.

The pattern in other auto companies has been to establish a new 30-year period for each new piece of liability.

Now this happens to be exactly the recommendation that was made by the Cabinet committee report on pension plans. They considered it would be a sound policy position for legislative action to require a qualified plan under Internal Revenue to have this kind of funding as a minimum, that is at least a 30-year amortization period for the unfunded from the date it was created.

It has long been UAW policy, although an exception was made at Studebaker in 1959 when the entire then unfunded past service was put on a 30-year schedule from then, rather than just the new piece. A different course would not in my opinion have made a major difference in the end result, given a termination in 1964. There was not enough time for a slightly different amortization rate to have created very much more in assets in the fund.

When the plan was terminated, we had sufficient moneys to make good on all benefits that were then due to people retired, and anybody

who could retire at or after the age of 60. Those under 60 with vested rights who would in the normal course of things have had full pensions when they retired, based on their service at Studebaker, got 15 cents on the dollar, that is, the proration of the actuarial value of their pension amounted to 15 percent of the full amount. This percentage was used in determining the lump sum payments, where we were simply taking the residual of the fund that was left after annuities had been purchased for the people entitled to pensions, and we said we will divide this up among the vested group in accordance with the actuarial values of the entitlements which they are not going to get because of lack of money.

We would have needed approximately \$14 million more in the Studebaker fund than was there at the time of termination in order to have made good on the vested pensions.

Representative GRIFFITHS. If after a calculation has been made as to the amount of money required for funding a plan, either through error or through the fact that more people dropped out than had been estimated the plan suddenly has more money in it than had originally been assumed it would have, do you personally know of any situation where they have ever reduced the contributions?

Mr. SOLENBERGER. Where the company's contribution has been reduced in that situation?

Representative GRIFFITHS. Yes.

Mr. SOLENBERGER. In the plan that I mentioned which had attained full funding prior to termination, the reason it had was that this plan was originally established on a cents-per-hour basis, with a comparatively large work force, and with no vesting. Vesting was negotiated later. But prior to the union's being able to reopen the contract and negotiate vesting, the work force had been drastically reduced from something in the neighborhood of 6,000 to something in the neighborhood of 1,200. As a result, these assets were much more than adequate to take care of all liabilities for the smaller work force, and for a period of several years, because it was impossible to justify a tax deduction of any contributions to a fully funded plan, by agreement the company made no contributions, and the trust was simply kept in being.

At the point of termination it was still in excess of liabilities, and this was the point where we negotiated additional benefits for the employees, because the union providentially had been able to negotiate in the contract that under no circumstances ever could the company get any of the money back.

Representative GRIFFITHS. Well, as a matter of fact then, you did not suggest that the company lower its contribution. The IRS suggested it, did they not?

Mr. SOLENBERGER. IRS would not permit the company to make the contribution.

Representative GRIFFITHS. That is right.

Mr. SOLENBERGER. And take a tax deduction, yes.

Representative GRIFFITHS. So in reality you have never negotiated the contribution downward?

Mr. SOLENBERGER. No.

Representative GRIFFITHS. Is not the effect of an error in the calculations to increase the benefits?

Mr. SOLENBERGER. Well, I would say that the question of error in calculations has to be looked at in terms of what an actuarial calculation is. It really is an estimate and sometimes a "guesstimate."

Representative GRIFFITHS. Sure.

Mr. SOLENBERGER. It is simply saying that if certain assumptions, which may or may not turn out to be so, are realized with regard to interest, mortality, turnover, and other factors, then this will be the presumed result. And all of these things can go very wide of the mark.

In the first place, we assume a stable work force, and work forces do not stay stable. They tend to go up or down. We may assume a certain rate of turnover, and this may be good on an average for a period, but if a multiplant corporation closes one plant, then that may make a tremendous difference at that point. If the closed plant has vesting, there is still a liability which may require continued funding. If it did not have vesting, there may be no liability. Or if it is a plant where vesting is 10 years and everybody in that particular plant had 9 years, the plan has an actuarial gain.

These are not errors on the part of the actuary. They are simply cases where the estimate or assumptions are not borne out. This is why every pension plan should have periodic reexamination and checking and full disclosure of where it stands, and I think this is a very important point.

Representative GRIFFITHS. I agree with you, but it is my contention that in any periodic reexamination, you will not lower the contributions. You will increase the benefits.

Mr. SOLENBERGER. I would say that the general tendency in the negotiated plans has been and should be to increase benefits because they have tended to start from rather low levels, and there has always been a great deal of room for improvement.

Representative GRIFFITHS. Of course, I think the public has a real interest in this. I think you cannot deny that overfunding hurts a part of the public. Anybody that is not involved in that pension plan has a real interest in seeing to it that the "guesstimates" are as accurate as possible, and that in the reconsideration of the contributions and benefits, the public itself has some interest in seeing that those contributions are lowered. They are lending the money.

I might also say that I have a constant argument in Ways and Means Committee on earmarked taxes. In my opinion, an earmarked tax is not a conservative tax. It means positively that the money will be spent, if you have to have people sit up all night to do this.

You can proceed now.

Mr. SOLENBERGER. The typical UAW plans have provisions for a normal retirement at 65 and early retirement which generally has been at least at age 60, and there are current plans that allow early retirement as early as 55.

Disability retirement is an independent benefit which is payable at any age to persons with minimum service, if they are permanently and totally disabled. All of these benefits are independent of and in addition to social security.

As I have mentioned, we have put stress on vesting, though in the early period of the plans, the major concern was to get the best benefits possible for those who were immediately ready to retire or close to

retirement age, and we knew that the assets built up initially were going to be more than sufficient to underpin their benefits, so that vesting was not added to most UAW plans until 1955. It was not easy to negotiate and many companies insisted at first on age requirements and limitations on service counted. Today most of our plans have a straight 10-year vesting provision.

We believe that portability is very important, but we think that vesting, particularly immediate vesting, would not be very meaningful unless it was more than a paper guarantee and based on more than the return of an individual's own contribution. To have a liberal vesting provision in a plan, and not have sufficient assets to be able to make good on it is really misleading people, and it is better to have benefits that can be delivered.

Representative GRIFFITHS. Was this plan portable? And if it is, to what extent and how?

Mr. SOLENBERGER. The Studebaker plan had vesting after 10 years of service and attainment of age 40. In other words, an employee, regardless of service, who was aged 39, had no vested rights.

Representative GRIFFITHS. And if he had less than 10 years service, it could not be transferred?

Mr. SOLENBERGER. That is correct.

Representative GRIFFITHS. All right.

Mr. SOLENBERGER. In December 1963, when the company announced the discontinuance of automobile operations at South Bend, there were about 7,000 active hourly rated employees at the South Bend plant and the collective bargaining agreement then had 10 months to run until October 30, 1964. The pension plan was part of the collective bargaining agreement, and Studebaker did agree that whether the plant was completely shut down or not they would continue to make payments into the pension fund for the 10 months of 1964 until the contract ran out. I worked with their actuary in determining just what those payments were going to be, and they were made on the same basis as in prior years. This we insisted on in principle.

We then negotiated a termination agreement effective November 1, 1964, primarily, as Mr. MacMillan indicated, to take care of some loose-end problems in connection with the windup of the plan, to determine exactly how we would go about locating people, to get competitive bids from insurance companies and to select the lowest bidder to provide paid-up annuities.

I would like to call attention to what the situation was at the time we first faced the fact that we were going to have a termination. Using very round numbers, approximately 11,000 persons appeared to have some potential interest in the plan at that time. These could be roughly divided into three classes.

There were about 3,600 persons we could identify who would by the end of the contract period, November 1, 1964, be at least age 60 and have 10 years service, or would already be on pension. So we had a prospective 3,600 people for whom we would have to make pension provision immediately.

There were another 4,500 former employees and current employees who could be identified as potentially in the age 40 to 59 group on November 1, 1964. They would not yet have reached their 60th birthday. They would have passed their 40th and would have 10 years

service. All of those would have a paper commitment from the plan, a promise, if you like, entitling them to deferred vested pensions.

As Mr. MacMillan pointed out, a number of these were deceased. There were a few who for various reasons were determined finally not to be eligible. All those eligible who could be located were in on the distribution and some 4,000 of them did get something, about 15 percent of their full entitlement.

Finally, we had about 2,900 in this group of 11,000 who were on the plant seniority rolls, but were either under 40 or lacked the 10 years of service for vesting, and, therefore, clearly would not be entitled to anything under the priorities in the termination article of the plan.

I would like to point out, however, that had we had more than enough money for the vested, this last group would have been entitled to proportional benefits, because of their pension interest, on plan termination, even down to somebody with 1 year of service, before Studebaker could have received anything back. This was explicit in the provisions of the plan.

As soon as we determined that we had enough assets for all the people over 60, whether retired or not, they were jointly notified by the company and the union that they would have lifetime pensions, and that we were getting bids from insurance companies and would purchase their pensions outright. Thus, they would have a paid-up certificate guaranteed by the insurance company.

We got bids from 25 companies because experience has shown that in this kind of situation—and the UAW has run into this in other pension plan terminations—the difference between the lowest and highest bid may be considerable, and we feel that it is absolutely obligatory when you have a limited amount of money, to get the most for it. It is no time to play favorites with any insurance company that may have friendly relations with someone in either the company or the union.

We got competitive bids, and the low bidder was awarded the contract, and the spread between the low and high, I might add, was something in the neighborhood of three-quarters of a million dollars.

It was also clear early in 1964 that the balance of the available assets would not be sufficient to purchase any meaningful pension for the people between 40 and 59, and so we agreed and wrote into the termination agreement that they would receive lump-sum payments in lieu of their pension entitlement as far as the money would stretch. The average payment, based on 15 percent of the actuarial value of the accrued pension of each worker, amounted to \$600.

I want to say just a word about this vested group. They all had certificates issued by the board of administration, that is those who had already left Studebaker, stating that they had a vested right in the pension plan, but the certificate specified carefully that the right was subject to continuation of the plan and to the terms of the plan. There was, of course, no assurance of perpetuity for the plan, as is true of practically every pension plan in America.

The available statistics showed that this group were in their early 50's on the average, 51 or 52, and averaged just under 23 years of service with Studebaker, but averages of course, give only part of the picture.

We had on a committee of the local union in South Bend one employee who was age 59, just a few months short of 60, and had 43 years of Studebaker service, starting when he was 16 years old. He would get no pension and was aware of it, and nevertheless was in full agreement that the first call on the money had to be for those already on retirement. He was one of more than 20 members of the group close to the minimum retirement age, with service exceeding 40 years.

I have included in my prepared statement a table, indicating, tying in with the figures that Mr. MacMillan has furnished, giving the complete allocation of the fund.

You will notice that there was a final administrative expense of \$26,762 taken out of the fund. This represents actuarial and trustee fees for the final year, and I believe roughly \$16,000 was the annual fee of Chase-Manhattan Bank for managing the \$25 million trust fund, and the balance was for actuarial services.

The lump sum distribution was the remainder after purchasing annuities, paying pensions from the termination date until we could actually get the annuities in force, and paying the final administrative expenses.

(The prepared statement of Mr. Solenberger follows:)

PREPARED STATEMENT OF WILLARD SOLENBERGER

* * * * *

THE STUDEBAKER PLAN SITUATION ON TERMINATION

The Studebaker-UAW Pension Plan was terminated on November 1, 1964, not quite one year following the Company's announcement that it was discontinuing automotive manufacturing in the United States and closing its South Bend plant which had been employing nearly 7,000 hourly-rated employees. The collective bargaining agreement expired October 30, 1964, and a Pension Termination Agreement was executed in advance by the parties to provide for an orderly disposition of Pension Fund assets in accordance with priorities set forth in the Plan.

Prior to termination, the Company paid into the Fund the contractually stipulated contributions due for the first 10 months of 1964, during which the work force was almost entirely phased out. As of the termination date, Studebaker's funding obligations ceased and employees, former employees and retirees could look only to the assets built up in the Fund during the life of the Plan for discharge of their pension interests.

Mr. MacMillan has given you a factual statement of the general history of the plan, various amendments, aggregate Company contributions and asset distribution. Since we are in agreement on the factual points dealt with, I would like merely to add to the record a few additional items which may be helped in appraising the total picture.

Using very round numbers, approximately 11,000 persons appeared to have some interest in the Plan by reason of current seniority status or former employment with Studebaker when we made an initial review of the pension situation early in 1964. These could be roughly divided in three classes:

1. About 3600 were on pension or not yet retired but with possible pension eligibility on the basis that they would be age 60 by the projected termination date with at least 10 years of service.

2. Another 4500 employees and former employees were or would be in the age 40-59 bracket with at least 10 years of service which could qualify them for vested deferred pensions. (As Mr. MacMillan pointed out, a number of these were deceased and a few could not be located at time of final fund distribution last year.)

3. Finally, about 2900 were on the plant seniority rolls but were either under 40 or lacked service for vesting.

On the November 1, 1964, termination date, it was apparent that the assets of the fund would be adequate for the purchase of paid-up annuities for all

pensioners and for all eligible claimants age 60 or over on that date. Accordingly bids were solicited from among 25 different insurance companies for the purchase of paid-up annuities for this group, which numbered 3,457 persons at the time annuities were actually purchased March 1, 1965.

It was also clear that the balance of available assets, after deduction of final administrative expense and further pension payments prior to actual annuity purchase, could provide only a small fraction of the pensions due the 4,000 odd workers age 40-59 with "vested rights" under the Plan. Since no meaningful retirement income could be provided, provision was made to make lump-sum payments of the fund remainder of roughly \$2.4 million to this group. The average payments, based on 15% of the actuarial value of the accrued pension of each worker, amounted to \$600. Individual amounts ranged from about \$200 to \$1600.

Available statistics on this "vested group" of Studebaker employees show an average age of between 51 and 52 and an average service with the Company of just under 23 years. Averages, however, give only part of the picture. One of the men serving on the Local Union Committee was 59 years old with 43 years of Studebaker service since he entered the plant at age 16. He was one of more than twenty members of this group close to minimum retirement age and with service exceeding 40 years.

The following table, which includes figures tying in with those furnished by Mr. MacMillan, shows the total assets available in the fund at termination and the final allocation in detail.

TABLE I.—*Final allocation of assets of Studebaker-UAW pension fund following termination of pension plan Nov. 1, 1964*

1. Assets held by trustee Nov. 1, 1964.....	\$24, 721, 323
2. Interest earned from Nov. 1, 1964 until final distribution.....	227, 058
3. Total available for distribution.....	24, 948, 381
4. Net premium for annuities purchased Mar. 1, 1965 for eligible pensioners.....	21, 555, 131
5. Pensions paid from Nov. 1, 1964, until Mar. 1, 1965.....	918, 557
6. Final administrative expenses.....	26, 762
7. Lump sum payments in lieu of pension entitlement to employees and former employees age 40 to 59 with vested rights.....	2, 447, 931
8. Total distribution.....	24, 948, 381

CONCLUSION

The closing of the South Bend plants of Studebaker and the termination of the Studebaker-UAW Pension Plan have received national attention. But the situation of the plan in the years before its termination and the experience upon termination are in no way unique.

Available governmental statistics indicate that in each of the years 1964 and 1965, some 500 pension plans in the United States were terminated. Although data are not available on the numbers of employees affected or on the funding balance sheets, there can be little doubt that the discontinuance of these plans cancelled the pension expectations of many thousands of persons. The UAW, as one of the Unions which has pioneered in the development of industrial pension plans, is vitally concerned with measures which might help to strengthen the security of pension expectations for its own members and for wage earners generally.

The most important of such possible measures would be establishment of a broadly based mechanism to provide a pooled "back-up" or guarantee fund for qualified pension plans. The purpose of such a fund would be to assume at least some specified part of the contingent liability for benefits which cannot be met from available assets of a terminated plan where the cause of termination meets appropriate criteria.

The UAW favors and has strongly endorsed, by unanimous action of its most recent constitutional convention, enactment of a federal program of reinsurance of pension plans such as has been proposed by Senator Hartke in Senate Bill S. 1715. We believe government action is required because of the importance and extent of the problem faced and the need for the broadest possible coverage and spreading of risks and costs. Such action would be consistent with the

public policy considerations which have led to the favorable tax treatment of qualified pension plans.

A discussion of some of the actuarial and related issues involved in such a program was presented to the Chicago Actuarial Club last year by the UAW's actuarial consultant, Mr. Howard Young, and was printed in the Congressional Record—Senate of September 28, 1965 (pp. 24364–24365) by a motion of Senator Hartke. I call this to your committee's attention both for its illumination of some of the issues and the excellent summary it includes of this particular bill.

We recognize that an undertaking of this kind poses a number of technical and policy questions, but we believe they are in no way insoluble if given serious study and consideration within government and without. As you are undoubtedly aware, such study has been recommended by the President's Committee on Corporate Pension Funds (Cabinet Committee) and the President's Advisory Committee on Labor-Management Policy last year and, more recently, by the National Commission on Technology, Automation and Economic Progress in its report to the President and Congress.

We believe that studies directed toward a determination of the size and scope of the problem and the issues to be resolved should be undertaken promptly by appropriate agencies and groups with a view to facilitating informed debate and responsible examination of specific measures and alternatives.

Without diminishing the significance of Congressional action to strengthen and encourage the development of private pension plans, in conclusion I would like to remind the committee of the basic importance of an adequate Social Security system. This program provides benefits which are portable and vested after a very short period. There is, of course, no question as to those benefits ultimately being paid. Furthermore, its practically universal applicability means that benefits are not contingent upon employment in high paying jobs or highly profitable industries. Therefore, the improvement of the Social Security system to provide truly adequate benefits should be of highest priority; the role of private pension plans is to supplement that system and government arrangements should be developed which would stimulate the adoption and extension of those plans by assuring the security of benefit expectations, protecting the value of benefits from decreasing in comparison with the rest of the economy, and permitting greater uniformity of costs for comparable plans.

Representative GRIFFITHS. I would like to ask you, were the union officials of the Studebaker plant included in this pension fund?

Mr. SOLENBERGER. All of those who were Studebaker employees, of course, would be included under the plan, like any other Studebaker employees.

Representative GRIFFITHS. Who paid for the officials?

Mr. SOLENBERGER. Since they came under the plan—and this was a noncontributory plan, of course—all the contributions were made by Studebaker.

Representative GRIFFITHS. But the contributions were made on the basis of people employed in the plant; were they not?

Mr. SOLENBERGER. No.

Representative GRIFFITHS. They were not?

Mr. SOLENBERGER. The contributions were made to a plan that covered certain individuals and allowed service credit under certain conditions.

Now we granted service credit, for instance, on union leave of absence. We also granted service credit on military leave of absence, on sick leave up to a certain period of time, and in the case of short layoffs, there was a bridging of service—

Representative GRIFFITHS. But was it not valued at the amount paid per worker-hour?

Mr. SOLENBERGER. No.

Representative GRIFFITHS. How? Did you not measure it by employees? How did you measure it?

Mr. MACMILLAN. I think maybe I can add something to this.

No. 1, all of the participants under the plan, including union officers on leave, and the other categories that Willard has mentioned, were on one of the rolls of the company. They were either on a leave of absence roll, military leave roll, or something like this. So these were people who were in a sense employees of the corporation.

Now, in estimating the cost, the service of these people—their on-going service—was included in the calculations on which I said to the union in 1961: "This is going to cost us 14 cents an hour per hour worked."

Representative GRIFFITHS. Yes. Now, what about the employees of the union? Were they included in this?

Mr. SOLENBERGER. By employees of the union, you mean?

Representative GRIFFITHS. For instance, stenographers?

Mr. SOLENBERGER. Yes; there were a couple of girls in the local union office.

Representative GRIFFITHS. Were they included in this plan?

Mr. SOLENBERGER. No. They were not Studebaker employees. You had to have seniority with Studebaker.

Representative GRIFFITHS. Do you have a separate pension plan for the employees of unions?

Mr. SOLENBERGER. Most of our local unions have either some pension or severance provision for their own employees, and, of course, the international union has a pension program for its staff.

Representative GRIFFITHS. Does the international union have a pension plan for international officers?

Mr. SOLENBERGER. Yes.

Representative GRIFFITHS. Do you know anything about that plan?

Mr. SOLENBERGER. Yes; I know quite a bit about it.

Representative GRIFFITHS. What do they pay? I mean how is it set up? What do they pay and what are the benefits?

Mr. SOLENBERGER. Actually, the international union has a program for its staff—that is, international representatives and officers—and also a plan for the office employees who themselves are organized and bargain with the international union.

Representative GRIFFITHS. Are they all included in the same plan?

Mr. SOLENBERGER. No.

Representative GRIFFITHS. The employees are separate?

Mr. SOLENBERGER. Yes, but the plans are parallel. This is because the office employees are represented by a union which bargains for them and they determine what they want to have.

Representative GRIFFITHS. Are they represented by a UAW union?

Mr. SOLENBERGER. No.

Representative GRIFFITHS. Who represents them?

Mr. SOLENBERGER. The Office & Professional Employees Union, and they negotiate with the UAW. In this case we play the role of employer, drive the best bargain we can, and they negotiate very effectively.

Representative GRIFFITHS. How good a bargain can you drive when you are on the other side?

Mr. SOLENBERGER. Well, we have very experienced negotiators. I do not get into this field.

Briefly described, the international union has two plans, one of which is contributory and the other an interlocking noncontributory

plan which was added to provide retirement income. This is on a wage-formula basis.

Representative GRIFFITHS. How long does an international officer have to be an international officer before his pension plan vests?

Mr. SOLENBERGER. The UAW recently adopted an amendment to change the vesting which had been 10 years to 5, and I think this is a very desirable thing for pension plans to do.

Representative GRIFFITHS. How much money do you have in the fund?

Mr. SOLENBERGER. It is being funded on exactly the same kind of principle we have been talking about here. That is, there is a provision for funding the current service cost and amortization of past service over a period of 30 years—

Representative GRIFFITHS. Is it a contributory plan?

Mr. SOLENBERGER. It is in part contributory.

Representative GRIFFITHS. Do the international officers not object to this?

Mr. SOLENBERGER. The UAW staff originally had an opinion that they were not going to be around to retire and they wanted a contributory plan which not only would return their contributions, but would be so written that if they terminated or died before retirement, they could have a settlement in a lump sum of their entire equity in the plan, and they felt that this would be of more value than having a retirement income plan.

Representative GRIFFITHS. Have any other employees ever been told that the international employees have a different system than they have?

Mr. SOLENBERGER. Well, actually, it was somewhat the other way around. The international staff eventually came to the conclusion that since workers in the plants were going to have collectively bargained retirement incomes, and on a constantly improved basis, it was time the international staff should have some retirement income provisions, and so a supplementary plan was added to start providing this. It was partly in lieu of a salary increase and, also, the earlier plan was cut back.

Information on the plans was reported to the delegates to the international convention of the union.

Representative GRIFFITHS. What does an international officer draw after 5 years? What would his pension be?

Mr. SOLENBERGER. I suppose you mean in relation to pay?

Representative GRIFFITHS. Yes, his salary.

Mr. SOLENBERGER. As a percent?

Representative GRIFFITHS. Percent of his salary, what would it be?

Mr. SOLENBERGER. I would want to make a check on that.

Representative GRIFFITHS. Would you supply it for the record?

Mr. SOLENBERGER. Yes, I would be glad to.

(The material requested and later supplied appears on p. 132.)

Representative GRIFFITHS. What is the contribution of the union and what is the contribution of the officer to his salary?

Mr. SOLENBERGER. The contribution of the union, of course, is an actuarially determined one.

Representative GRIFFITHS. Yes, and how much is it per person?

Mr. SOLENBERGER. An officer or staff member contributes currently 3 percent of his salary.

Representative GRIFFITHS. The man is contributing 3 percent?

Mr. SOLENBERGER. Yes.

Representative GRIFFITHS. And the union contributes 3 percent?

Mr. SOLENBERGER. No. As I say, the balance of the contribution is determined actuarially.

Representative GRIFFITHS. You mean 3 percent against 97 percent by the union; is that it?

Mr. SOLENBERGER. No, I meant 3 percent of pay received is the staff member's contribution, and—

Representative GRIFFITHS. Oh, I see.

Mr. SOLENBERGER. Added to this would be the international union contributions determined actuarially for the plan as a whole.

Representative GRIFFITHS. Will you give me some examples for the record?

Mr. SOLENBERGER. Yes, I can furnish some.

(Following example was later supplied:)

EXAMPLE OF VESTED BENEFITS OF UAW OFFICER OR STAFF MEMBER TERMINATING
AFTER 5 YEARS SERVICE

The combined benefits of the current contributory and non-contributory plans would consist of:

A. Contributory benefit—computed as actuarial equivalent of an accumulation equal to $7\frac{1}{2}\%$ of total pay received (3% derived from staff member's own contributions and $4\frac{1}{2}\%$ derived from the International Union's contributions).

B. Non-contributory benefit—monthly deferred vested retirement benefit, starting at age 62, equal to $\frac{9}{10}$ ths of 1% of average monthly salary plus \$4.00 for each year of service.

For example, a staff member who earned \$11,000 annually for the 5 year period required for vesting could receive:

A. Contributory benefit—actuarial equivalent of \$4,125 (of which \$1,650 would be his own contribution and \$2,475 would be the International Union's contribution).

B. Non-contributory benefit—monthly deferred vested retirement benefit, starting at age 62, equal to \$61.25 (\$41.25 plus \$20.00). This benefit would be equal to 6.68% of \$916.67 monthly rate of salary.

Representative GRIFFITHS. Did Studebaker have another experience with a plan termination in the case of Packard?

Mr. MACMILLAN. Yes. I am not familiar with that, because I was a Studebaker employee. I am not familiar with it, but I believe Willard might speak to that.

I understand it was basically the same kind of thing, but the plan had not been in existence as long, and the benefits were different. But I believe it was handled in the same way.

Representative GRIFFITHS. Can you speak to that?

Mr. SOLENBERGER. I am fairly familiar with the Packard termination, though I am not briefed on it for this hearing.

The Packard plan was terminated in I believe, about 1958, and the assets in the fund at that time were insufficient to provide full benefits to people already on retirement at the time of the termination of the plan. They ultimately got 85 percent of their pensions, which at that time were at the monthly rate of \$2.25 per year of service on the basis of a 1955 contract. Those who were eligible to retire but had not yet

retired, in other words, aged 60 and up with 10 years of service, did not get on the pension rolls prior to the termination, and did not receive pensions.

There was a provision for vesting after 10 years and age 40, as in the Studebaker plan, but there was no money for anyone with vested rights of any kind. This was mainly because of the relatively short time the plan had been in force and unusually heavy initial liabilities for employees at advanced ages with long past service.

Representative GRIFFITHS. Are any of these plans reinsured?

Mr. SOLENBERGER. If by reinsured you mean is there any reinsurance of the risk of their terminating—

Representative GRIFFITHS. Yes.

Mr. SOLENBERGER (continuing). And repudiating the implied promises of the plan?

Representative GRIFFITHS. Yes.

Mr. SOLENBERGER. No. Unfortunately, there is no mechanism for doing this at the present time.

The UAW favors very strongly a Federal program of reinsurance such as has been proposed by Senator Hartke, in Senate bill, S. 1715. There are technical questions to be solved, but they are not insoluble. This is something which we think needs very serious and prompt study, because we think it is one avenue that would meet at least some of the most critical problems of terminated plans.

Presently, as far as pension expectations are concerned, whether a plan is handled through a trustee or through arrangements with an insurance company, in no case are benefits guaranteed at any given point beyond what has been provided for by money in hand, either as premiums or as contributions.

I know of no insurance company that wants to insure the risk of a particular employer's not staying in business and continuing contributions and unfortunately, in practically every pension plan in America, we are making some assumption—we have to—of continuity, of perpetuity really, and if this assumption breaks down at a time when we have unfunded liabilities, every plan will have to repudiate some of the promises it has made to the people who consider themselves covered by it.

Representative GRIFFITHS. I believe I asked one of you but would you answer again: Did a Packard or a Studebaker worker have portable rights between those two plans?

Mr. MACMILLAN. The plans were not connected.

Representative GRIFFITHS. I would like to express my appreciation. I enjoyed hearing it. I am sorry to ask you to explain over again the termination of this plan.

We have already found that the people who have good plans are willing witnesses. The others have something else that they have to do right at the time of the committee's meeting.

I appreciate very much your being here, and the committee will be in recess until 2 o'clock this afternoon, at which time we will hear the International Ladies' Garment Workers Union.

Thank you very much.

(Whereupon, at 11:25 a.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Representative GRIFFITHS. Gentlemen, we are going to begin if you are ready.

Will you please introduce yourselves and then proceed with your statement.

STATEMENTS OF LOUIS ROLNICK, DIRECTOR, HEALTH AND WELFARE DEPARTMENT, INTERNATIONAL LADIES' GARMENT WORKERS UNION (AFL-CIO) NATIONAL RETIREMENT FUND, AND HAROLD KORZENIK, UNITED KNITWEAR MANUFACTURERS LEAGUE

Mr. ROLNICK. Perhaps Mr. Korzenik should speak first.

Mr. KORZENIK. Madam Chairman, I am one of the trustees of the International Ladies' Garment Workers Union national retirement fund representative of the employers. My appearance here is in that capacity this afternoon.

My qualification arises from the fact that I am counsel to the United Knitwear Manufacturers League, a trade association of employers engaged in the manufacture of knitted outer apparel in Metropolitan New York, who are in contractual relations with the Knitgoods Workers Union, Local 155, ILGWU.

We are grateful for the interest of this committee in our fund and are pleased to have occasion to tell you all about it, its origin, its history, and its performance.

Beginning in 1944, some locals of the international were able to include in their collective agreements with employer groups with whom they bargained provision for the establishment of pension funds.

For example, the collective agreement covering the knitwear industry in Metropolitan New York, effective July 15, 1948, provided for the establishment of a pension fund wholly maintained by employer contributions. The local funds were administered by trustees equally representative of the bargaining employers and the union, and the administration was generally on a provincial basis.

Beginning 1963, local collective agreements incorporated provisions authorizing their retirement fund trustees to enter into a national pooled fund, and the resulting merger was finally accomplished by the ratification of an agreement providing for the confluence of the funds of each of the tributary local groups into what was then known as the eastern region retirement fund, which then covered about 115,000 workers in the States of Pennsylvania, Massachusetts, New Jersey, Connecticut, Rhode Island, Maine, upper New York State, Virginia, West Virginia, and Maryland.

On January 1, 1965, 40 of the previously established local retirement systems were merged into the presently constituted national retirement fund and the entity of each of them, including the nuclear fund, the eastern region retirement fund, disappeared and the resulting structure became known as the ILGWU national retirement fund.

As presently constituted, the national fund has, since its inception, been centrally administered in New York City.

Fortunately, from the outset we have had the gifted services of Mr. Louis Rolnick as the administrator of the fund. You will hear from

him with respect to the actual administration and operation of our retirement system.

The massive and simultaneous convergence of the accumulation of 40 local pension treasuries created an immediate challenge to the national fund's new management. It was no small achievement to invest and reinvest so large a sum profitably, safely, and quickly. All of this was well and timely done so that when we came to the end of our first year, December 31, 1965, we already showed a very satisfactory earnings record within the strict limitations of our conservative investment rules.

Our bylaws contain provision specifically qualifying appropriate investments for our funds. The commitments of our moneys are restricted to:

1. U.S. Government issues or securities for which liability is assumed by the Government;

2. Insured Federal savings and loan associations provided that not more than \$10,000 is placed in any one such institution;

3. First lien mortgages on real property, if guaranteed by the Federal Housing Administration or the Veterans' Administration, or if legally qualified for investment by fiduciaries under the laws of the State of New York, but in such case only upon express approval of the trustees or the executive committee;

4. Bonds of domestic corporations rated AAA or AA by at least two recognized financial advisory services, and then only if such bonds qualify as investments for fiduciaries under the laws of the State of New York, with a further limitation that not more than 4 percent of the net assets of the fund be invested in the issues of any one corporation, and provided further that no more than 30 percent of the net assets of the fund be invested in the general category of such industrial bonds, with still a further limitation that not more than 70 percent of the net assets of the fund be invested in qualified real estate mortgages or industrial bonds, that is in total.

I have gone into some detail in showing the prescribed investment limitations so that you may know the permanent elevated standards of our financial policies.

I should like now to make some observations on the portability of the retirement benefits now assured under the national fund. The women's apparel industry, while divided into plural and widespread segments, employs many skills in common.

For example, women who operate sewing machines can move easily from the manufacture of dresses to the production of sweaters or lingerie or bathing suits. As originally constituted, the limitation of retirement benefits to the tether of the local unit, impaired the free movement of workers and imposed penalties on employees who did move from one apparel trade to another. For a time this was remedied by resolutions of reciprocity adopted by many of the local retirement funds. But arrangement was cumbersome and less than universal.

We have now the greatest degree of industrial portability in the establishment of an omnibus fund covering substantially all of the organized industry so that the movement of skills is greatly facilitated and the resulting possibility of loss of benefits substantially eliminated. Administratively, the reciprocity arrangement has been greatly eased.

We count this as one of the major advantages resulting from the merged fund.

Although established by collective agreement, this project was made possible solely by the contributions of employers. They take great pride in the massed financial strength of the national fund and the assurance it gives about 450,000 employees of a more comfortable retirement.

The entrepreneurs in the women's apparel industry are often graduates of the crafts they employ. While many of the employers have prospered and grown to substantial magnitude and some have even attained the eminence of public participation, they nevertheless continue to be close to the people who work for them. It still is essentially small business.

It has been estimated that there are 27,500 apparel manufacturers in the United States, of whom 20,000 employ 50 or fewer persons. There are only 200 who engage more than 500 production workers. In this context, the establishment of the national fund is truly an organizational achievement. And so all the more is the national fund a source of deeply felt gratification.

Representative GRIFFITHS. Thank you very much.

Mr. Rolnick?

Mr. ROLNICK. I am Louis Rolnick, director of the Welfare and Health Benefits Department of the International Ladies' Garment Workers Unions, and administrator of the ILGWU national retirement fund.

May I first take the opportunity to express my pleasure and my appreciation at the opportunity to appear before this distinguished committee.

Representative GRIFFITHS. We are delighted to have you.

Mr. ROLNICK. Thank you.

The ILGWU national retirement fund is an industrywide structure covering all areas of the United States and Puerto Rico. It is a self-insured trust fund with assets of over \$231 million, as of December 31, 1965, and is administered by a board of trustees of 60 persons equally divided among employer and union representatives.

Representative GRIFFITHS. How many of them are women?

Mr. ROLNICK. I believe there is no more than one woman on the board.

Representative GRIFFITHS. Thank you. Go right ahead.

Mr. ROLNICK. The union trustees are designated by the various organizational subdivisions of the union, and the employer trustees in the main, by the major employer organizations in contractual relations with the ILGWU or its branches. The board is genuinely national, including representation from all sections of the country and representative as well of the various products found in the woman's garment industry.

The board is required by the bylaws to meet at least once a year and, in fact, meets more often when necessary. At the annual meeting general policy is established and detailed reports of the fund's activities, including a comprehensive financial report prepared by an independent auditor, are presented and discussed. This is truly a bipartisan enterprise. In every respect the division of responsibility and control between the employers and the union is equal.

There are four elected board officers; it is required that two be union trustees and the other two be chosen from among the employer trustees. If action is required between plenary meeting of the board, the executive committee is vested with power to act. That board consists of the officers and 10 additional trustees, again equally divided between management and the union.

The theme of joint administration, and an equal member number of employer and union representatives is continued in the composition of the various standing committees, namely, the numerous local retirement committees and the regional appeals committees.

In anticipation of possible deadlocks, the organizational structure includes an impartial chairman who represents the public interest, who is empowered to break deadlocks (which, incidentally, have yet to occur), and a chief appeals officer who is empowered to break deadlocks in the appeals committees.

Day-to-day administration has been entrusted to the union by the trustees at a total cost of 3.3 percent of income.

I take some personal and pardonable pride in that very low figure, and later on I will attempt to explain what has made this possible.

This has been the pattern of administration since the inception of retirement funds in this industry, and for some very pragmatic reasons.

The industry is composed, with minor exceptions, of thousands of small units scattered through the length and breadth of the land. Established lines of communications already exist between these units and the local union offices. Procedures for the payment to the union offices of contributions by the employers for other benefits funds and the corresponding accounting records and collection techniques already exist at the union offices.

In addition, the union maintains records which, although necessary for its own purposes, also assist in establishing the eligibility of individual applicants.

To duplicate the facilities, the records, and the personnel involved, to set up a parallel organization, would be a tremendous undertaking, wasteful and extremely costly.

Basic eligibility requirements are a minimum age of 62 for women, 65 for men, and 20 years of attachment to the industry out of the last 25 years immediately preceeding retirement. The minimum age requirement is waived for permanently disabled applicants.

The benefit amount for normal retirement is \$60 a month for most of the industry and \$70 a month for one branch of the industry. This is a differential which existed prior to the merger and has been continued during a transitional period. Benefits are actuarially reduced for early retirement. Benefits also include a lump-sum death benefit of \$500.

The fund and its predecessors have retired over 52,000 workers since the inception of the program, and as of December 31, 1965, has 37,453 retirees on the rolls. During the past few years new retirees average well over 4,000 each year.

Representatives GRIFFITHS. What is the average rate of death each year?

Mr. ROLNICK. About 1,500.

Representative GRIFFITHS. Thank you.

Mr. ROLNICK. Although the fund is centrally controlled, the trustees are proud of the successful efforts that have been made to retain local regional participation. This has been accomplished at a measured and programed cost, and has resulted in establishing the interest and involvement in the operation of the fund of literally hundreds of union and management representatives.

It has also met the objective of the trustees to personalize the administrative apparatus, and provide every opportunity for face-to-face contact with applicants for and recipients of benefits.

In short, considerable attention has been paid to meeting the twin objectives of realizing the advantages of the stability and combined financial resources achieved through centralization, and the humanization achieved through decentralization.

The trustees are vitally concerned with insuring the rights of the applicants. Applications are handled at local offices scattered throughout the country, where the applicant is counseled and assisted.

The local retirement committee then reviews the application and forwards its conclusions to the national administrator. He in turn reviews each application, and there are over 6,000 or 7,000 a year, thus insuring consistency in the application of the rules and regulations.

Representative GRIFFITHS. Does that mean that you rule out 2,000 or 3,000 each year?

Four thousand go on and there are 6,000 or 7,000 applications.

Mr. ROLNICK. It means that there are people who are rejected.

Representative GRIFFITHS. They are rejected. They are not eligible?

Mr. ROLNICK. Those who do not meet the eligibility standard. May I point out, however, this does not mean they are permanently rejected. It may mean they will have to wait another year or two before the eligibility is met, and this is true in many instances.

Representative GRIFFITHS. I understand.

Mr. ROLNICK. If he concurs with a favorable decision of a local retirement committee, the application stands approved. If he finds it necessary to dissent, the application is automatically placed before the appropriate regional appeals committee.

Each applicant is notified in writing of the action of the administrator. Where the local committee and the administrator concurred in an adverse decision, the applicant is notified of his right to appeal to the appeals committee, and he is urged to appear personally before that committee, and in most cases he does, and he is also invited to bring with him any representative that may assist him in presenting the information before the appeals committee, including legal counsel if he so desires.

The work of the appeals committee is under the general supervision of the chief appeals officer. This separate structure has been deliberately designed to insulate the appellate procedure from the office of the Administrator.

The appeals committees are vitally concerned with maintaining the integrity of the rules and the administration of equal justice to all applicants. The committees are equally concerned with uncovering every last shred of information which may have been overlooked and which would enable the committee to reach a favorable decision.

As might be anticipated from the previous observations made with respect to the operation of the fund, the appeals committee meetings

are far from an adversary proceeding between the committee members and the applicants.

The International Ladies' Garment Workers' Union is understandably proud of the role it has played in creating this great socially productive enterprise. The woman's garment industry has traditionally been the industrial home for the vast multitudes who have emigrated to our shores seeking bread and justice for themselves and opportunity for their children.

Additionally, the industry has in the past, and will continue to provide employment for the new underprivileged minority groups who restlessly seek full participation in our Great Society.

The retirement program of the ILGWU continues to play a significant role in helping to provide a life of dignity and security for the men and women in the industry, who during their working lives have made a meaningful contribution to the development of our American community.

Representative GRIFFITHS. Thank you very much.

May I ask how many women are there in the International Ladies' Garment Workers'?

Mr. ROLNICK. I think the ratio would be about 80-20, 80 percent women, 20 percent men.

Representative GRIFFITHS. Of these 52,000 workers who have drawn pensions, what was the ratio of men to women?

Mr. ROLNICK. I do not have that figure available now. I will be happy to get it for you. It will be somewhat less than that ratio, because the existing ratio was different in the early period when the pension fund became operative, so that we will find more men retired than the 80-20 ratio now represented by the active workers in the industry.

There will still be a considerably larger number of women who have retired rather than men, I would think.

(Information referred to was not available at time of publication.)

Representative GRIFFITHS. What is the effect of this qualification, 20 years of attachment to the industry out of the last 25 years immediately preceding retirement, in disqualifying women?

Mr. ROLNICK. Well, I would have to turn your statement around.

It is particularly because of the women in the industry that this qualification was made. If we had required the last continuous 20, there are women who come into the industry and then withdraw for the purpose of raising a family when their children are small, who then come back to the industry. So it is with these people in mind that that qualification was set up, as against the usual qualification of a continuous 20 years.

Representative GRIFFITHS. Why, if you are going to have 25 years, do you not have just 25 years, any 25 years?

That would have helped women more, because your rule means that she has to be back there by the time she is 42, does it not?

Mr. ROLNICK. No. This would mean that we would be counting those years which encompass a 25-year period.

Representative GRIFFITHS. Before she retires?

Mr. ROLNICK. Before she retires.

Representative GRIFFITHS. She retires at 62, so she has to come back to the place 20 years before she becomes 62.

Would you not be better off if you simply said 25 years and let any 25 years count? Suppose she worked 10 years, and then came back and worked 15 years. Does that woman not get a pension?

Mr. ROLNICK. If the total period involved is larger than the 25 years, that would be true. But if she had worked 10 years or less than 10 years, and then came back and it was within the total 25-year period, those 10 years would count.

Representative GRIFFITHS. Go over it once more.

She works 10 years. She quits. She returns and works 15. She has worked in all 25 years. Does she get a pension?

Mr. ROLNICK. How long had she been out?

Representative GRIFFITHS. Years.

Mr. ROLNICK. More than 5 years?

Representative GRIFFITHS. Perhaps.

Mr. ROLNICK. If it was within 5 years, she would be in. If she had been out for more than 5 years, she would be out.

Representative GRIFFITHS. What other ways do you have of disqualifying them?

Mr. ROLNICK. Well, substantially the only other ways that I can think of at the moment are that they must meet a minimum age, of course, as we pointed out. Regardless of the number of years, they must reach the age of 62. I would say that these are the only reasons for disqualification.

Representative GRIFFITHS. Do they have to retire to draw the pension? This is one of the conditions, is it not?

Mr. ROLNICK. Yes, I am sorry, they have to leave the industry entirely.

Representative GRIFFITHS. Could they come back as a manager?

Mr. ROLNICK. They can come back in any capacity.

Representative GRIFFITHS. Except as a union employee?

Mr. ROLNICK. Except as an employee in the industry from which they retired. They may work in another branch of the industry. If they were employed manufacturing dresses, they may now work manufacturing brassieres, if you will, or slips, but they may not continue in the same branch of the industry from which they had retired. Then they are limited to earning an income comparable to that allowed by social security.

Representative GRIFFITHS. Why do you object to their coming back in the same place, in view of the fact that the pension is obviously very inadequate?

Mr. ROLNICK. Well, we are rather proud of what we have already accomplished in an industry which has a history, in spite of I think the valiant efforts of the union, of being an industry of relatively low earnings over the years, particularly in the early days. And so I would not agree with you that it was obviously a particularly low pension.

I would hope, and we will try to certainly improve that pension as rapidly as we are able to do so.

Representative GRIFFITHS. Can they add social security?

Mr. ROLNICK. Oh, yes; this is not limited by social security. But let me try to respond to your question directly as to why we do not permit workers to remain in the industry.

Representative GRIFFITHS. Yes.

Mr. ROLNICK. For one thing, for a considerable period of time there has been the problem of finding enough work so that the workers who are willing to be active and who want to stay in the industry may find employment. So it is a question of trying to provide employment for those people who are not being aided by retirement benefits. That is a factor.

Secondly, I will be quite candid with you. You have actuarial considerations, in addition to human considerations, in the operation of any pension fund. You can only do what the amount of resources you have available to you can do, and this was an effort to get people to work a little longer before they retired, to help ease the financial burden for the fund, and to make possible the benefits, low as you may think them to be, that they now enjoy.

Representative GRIFFITHS. What branch of the industry gets the \$70 a month pension?

Mr. ROLNICK. This is the cloak-and-suit branch of the industry.

Representative GRIFFITHS. Men's?

Mr. ROLNICK. And in anticipation your question, it is not a men's industry today. It might have been in the beginning, and may I continue.

Representative GRIFFITHS. Surely.

Mr. ROLNICK. One of the reasons for the difference is that this was the first fund that started. Remember, we told you there were predecessor funds when we talked about going back to 1944. This was the first one.

The earnings of the workers in that industry are higher. The employers in that industry pay a larger contribution to the fund than employers in other branches of the industry, so there is a combination of facts other than the fact that you might have thought this to be a men's industry.

Representative GRIFFITHS. Now explain the investment policy to me.

What are you investing in really, besides the things he has named?

Mr. ROLNICK. Let me turn that back to Mr. Korzenik. He is the financial factor here.

Representative GRIFFITHS. Do I understand that you invest in housing for workers?

Mr. KORZENIK. Yes.

Representative GRIFFITHS. What is the return on all investments annually?

Mr. KORZENIK. Well, on the basis of our first year's operation, our long-term investments, that is those beyond a year, gave us as I recall a return of 4.75. Our overall return as I recall it was 4.33.

Mr. ROLNICK. May I add to that by telling you that our present return on investments for new money is now about $5\frac{1}{4}$ to $5\frac{1}{2}$.

I am sorry, Mr. Korzenik, I did not mean to interrupt.

Mr. KORZENIK. No, that is all right. I had about concluded.

The housing that you refer to of course is something we are very proud of. We have never permitted the sentiment or the social goal to interfere with our investment standards.

In other words, while the housing that we have promoted has been eminently desirable, the security is the same as if it were a factory or an industrial unit or anything else.

Representative GRIFFITHS. When you first prepared the plan, what percentage of employees did you anticipate that you would eventually pay a pension to?

Mr. KORZENIK. I do not think we projected a percentage on that basis. We had actuarial studies made around 1950 of the industry fund. You see, the pooled national fund is only a year old. The actuarial studies that we made at the inception were based upon the assumption that people who were then in the industry would continue, and when they arrived at qualification for retirement, become entitled to it, and our figures are on that premise.

Now, while there has been some turnover, it has not been equal, in other words, it is not a characteristic of the industry to have general turnover. The turnover generally occurs in the least skilled craft, floor girls and utility workers, who have no skills, who come in to see whether they would like to develop a skill, and if they show aptitude they are promoted, and as they go up, as they acquire skills, the turnover diminishes.

When a woman becomes an expert sewing operator, Merrow or Singer machine operator, she is very likely to continue until some outside influence such as a removal from the district or having a family that may intervene.

Representative GRIFFITHS. Did you not have an estimate as to how many of these people would eventually draw a pension?

Mr. KORZENIK. We proceeded on the assumption that all people—

Representative GRIFFITHS. All of them?

Mr. KORZENIK. We had their ages computed, and we stated what the obligations would be if these people continued with us. There may have been a percentage of an allowance or tolerance, but it was on the basis that that number—

Representative GRIFFITHS. Are the contributions then made on the assumption that every person employed will draw the pension?

Mr. KORZENIK. The contribution is made on the basis of a percentage of the payroll. Everybody on the payroll is calculated as—

Representative GRIFFITHS. But you must have some assumption as to the number of people that will eventually be paid.

Mr. KORZENIK. Well, as I say, at the outset the only assumption we could safely proceed on was that everybody who worked for us would, if he continued to work for us, arrive at an age qualifying him for a pension, subject, of course, to established mortality tables.

Representative GRIFFITHS. Then may I ask, are you cutting into the principal to pay the pensions? Or are you paying them only out of the interest?

Mr. KORZENIK. We are paying them only out of income. Income is twofold, contributions from employers and income from investments.

Mr. ROLNICK. May I interject at this point?

Representative GRIFFITHS. Yes.

Mr. ROLNICK. This may be a fresh figure I have in mind that you do not recall.

We now enjoy and have for several years a continuing surplus each year, which I think last year was about \$17 million, so the fund is growing in terms of its total resources. We are not dipping into our principal, and any sound retirement fund at this stage of the game would, I hope, enjoy the same position, because we have built up liabilities which will come at a future date, as you are suggesting.

If I can help in terms of your direct question, any actuarial projection or any commonsense projection takes into account the characteristics of the industry.

Certainly we realize that not everyone who is employed at the time the fund started would retire from the fund. We do have a great deal of turnover in the beginning, people drifting in and out of the industry at the beginning, young people coming in for a year, 2, 3, or 4 years leaving, but it is our intention, it was our intention, and I think we are substantially meeting that intention, that people who spent a lifetime in the industry, who made that contribution to the industry over a lifetime, would be able to retire and receive retirement benefits, and in my judgment that is precisely what we have achieved.

Representative GRIFFITHS. All right, you have cut out those who drift in and out when they are young?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. What about those who drift in and out when they are older? How many women come to work for you that are more than 40?

Mr. KORZENIK. Beginning at that age?

Representative GRIFFITHS. For the first time.

Mr. ROLNICK. I cannot give you that figure.

Representative GRIFFITHS. Under your plan you cut them out unless they are 37; do you not?

Mr. ROLNICK. No. Under our plan, if a woman comes into the industry at the age of 40, her first opportunity for retirement—

Representative GRIFFITHS. Is 65?

Mr. ROLNICK (continuing). Is 60.

Representative GRIFFITHS. Sixty? After 20 years?

Mr. ROLNICK. If she came in at 50 your point then becomes a bit more evident.

Representative GRIFFITHS. How many women come to work for you though at 40?

Mr. ROLNICK. Forty? I would think a substantial number of women comes to us for the first time at the age of 40. Now remember, those women would be retired at age 60.

Representative GRIFFITHS. What about age 50?

Those women do not have a chance, do they?

Mr. ROLNICK. I would think that most of the people who come in at that age do stay with us until the end.

Representative GRIFFITHS. But the question is, do they ever get a pension?

Mr. ROLNICK. Yes, if they come in at 45, they are eligible at age 65 instead of 62.

Representative GRIFFITHS. At 65?

Mr. ROLNICK. Instead of 62. That is the only difference.

Mr. KORZENIK. I think an observation at this point may be helpful.

Many of the women, and I have seen this at retirement committee meetings where personnel interviews result in questions about the reasons for retirement. It is quite intimate. The employer will recognize his employees or there will be some point of personal contact somewhere in the past, and there will be a sufficient conversation to indicate motivation and the kind of work they are doing, and so on.

It very often happens that a woman will come up or a man for that matter, and say she is afraid to retire. She enjoys working. She does not know how it will be if she does not work. She will then be maybe 65 or 66. I have seen cases going into the 70's.

Now, that does not mean that they were not able to retire when they reached 65 or younger. This is an engagement for people who are somewhat advanced in age. The effort is not very great. We have a 35-hour week. And it is an aptitude that many women have quite naturally, and so it is not a question of escaping from employment. So that they do not take retirement at the earliest possible moment.

Representative GRIFFITHS. Of course the firm makes money on them if they do not retire.

Mr. KORZENIK. Well, I suppose in the sense that an insurance company does where there is no fire or where there is no larceny, where that is the risk insured. Actually, though, we would be able to accommodate retirement of all people in our employ on the basis of the benefits that we pay.

Now, to show you the margin of safety, this is directed to the answer to the question you put before, the employer's contribution last year was close to \$33 million. The income on investments was a little over \$9 million.

Representative GRIFFITHS. How much did you pay out in pensions?

Mr. KORZENIK. We paid out close to \$25 million, which left a surplus of \$17 million to be added to the fund.

Now I know in the case of the local fund, before the pooling of the funds, we rarely exceeded in paying out more than half of what we took in. It was about 50 percent.

Representative GRIFFITHS. And for a man worker, does his widow have rights to the pension?

Mr. KORZENIK. She has a lump sum, a right to a lump-sum payment.

Representative GRIFFITHS. No other rights?

Mr. ROLNICK. There are no survivor rights.

Representative GRIFFITHS. No survivor rights?

Mr. ROLNICK. You are talking about a man who died before he retired?

Representative GRIFFITHS. Or after he retired.

Mr. ROLNICK. After there are no survivor rights. In many pension plans they have designed a reduced payment.

Representative GRIFFITHS. When do those rights vest?

Mr. ROLNICK. I wanted to comment on the line of your question.

We do not have vesting in a classic sense or even in an unclassic sense. The issue you raise of the woman who comes into the industry at age 50, for example, what vested rights does she build up; she does not build up vested rights.

Representative GRIFFITHS. If she lives to be 70 and continues to work, then she draws the pension?

Mr. ROLNICK. Then she draws the full pension.

We have as a consequence of the merger, the national structure we have erected dealt with the problem of portability. You do not lose eligibility rights as a consequence of moving from one section of the country to the other, and you do not lose eligibility rights merely by virtue of a particular plant's closing, because you may find employment in another plant.

Representative GRIFFITHS. Does the employer get back his money if the plant closes?

Mr. ROLNICK. No, the employer does not get back his money.

Representative GRIFFITHS. The employer has no rights whatsoever to get back any money?

Mr. ROLNICK. The employers have the pleasure of participating in a—

Representative GRIFFITHS. Subscribing to the fund?

Mr. ROLNICK. In a rather decent insurance fund. He does not get his money back, no.

Mr. KORZENIK. I think I should have said that.

Mr. ROLNICK. I think what you have here is a kind of industrial statesmanship, if you will. The employers in the industry and the union have seen this as an industrial picture with obligations and responsibilities to the industry as a whole and to the workers in the industry as a whole. I rather applaud that.

Representative GRIFFITHS. Are the union officers covered in this fund?

Mr. ROLNICK. No.

Representative GRIFFITHS. Do they have a separate fund?

Mr. ROLNICK. Union officers have a separate pension fund.

Representative GRIFFITHS. Is it paid for out of union dues?

Mr. ROLNICK. It is not paid for out of union dues. It is paid for by both the union officers now as employees out of their salaries. Theirs is a contributory plan. This is not a contributory plant. Union officers pay a portion of their salaries toward the plan, and the union now functioning as an employer pays a percentage to the plan as well.

Representative GRIFFITHS. Out of union dues.

What else do they have to pay it out of?

Mr. ROLNICK. Their income is from the dues of the members and the contribution to this fund is an expense of the administration of the union as well as the cost of paper, salaries, and other expenses.

Representative GRIFFITHS. How does it come about that these officers of the unions have contributory plans but for the workers, just the employers pay in?

I would think if it were good enough for the officers, it would be good enough for me.

Mr. ROLNICK. I think you would have to take a look at the difference in the earning opportunities of workers and the earning opportunities of union officers.

Representative GRIFFITHS. Of course, the real answer is that the officers have a plan where they really do have some protection throughout the lifetime of the plan, but these workers do not have any protection.

Mr. ROLNICK. The union officers have less protection than the workers in the industry.

Representative GRIFFITHS. In the International Ladies' Garment Workers?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. How soon does their pension vest?

Mr. ROLNICK. It does not vest.

Representative GRIFFITHS. It does not vest, but if they are contributing they can get some money back, can they not?

Mr. ROLNICK. They may get their contributions back. There is that difference, yes.

Representative GRIFFITHS. So to that extent it is a real benefit. It is of some real value. They get something.

Mr. ROLNICK. It is of real value to the individual that he may receive something.

Representative GRIFFITHS. But to anybody working under this plan, they have to be 62 years old before they get a cent?

Mr. ROLNICK. Well, in response to that question, again, if you examine the history of this industry, and the life of the industrial workers in this industry, I think you will find that most of the workers in this industry consider that we have created a genuine achievement in terms of our ability to provide an income for workers who have spent their lifetimes in the industry. I do not know quite why you deprecate this.

Representative GRIFFITHS. But you keep emphasizing lifetime and I agree with you. It is a lifetime. But look at the people who have worked in this industry, and for whom some type of money has been paid, who have no rights at all. Those are the people we are really worrying about in this hearing, the millions of people in this country who believe that they are going to get a pension that are never going to get one. And the money that is being collected—now my frank opinion is that you have a really substantial fund here.

Mr. ROLNICK. We have.

Representative GRIFFITHS. If you are not paying out even the income, how many people did you think were going to collect when you set up the fund? What percentage of all these workers did you assume were going to collect?

You could not have assumed that everybody was going to collect.

Mr. KORZENIK. May I talk to that.

Excuse me, were you going to answer the question?

Mr. ROLNICK. No, I was hoping you would, as a matter of fact.

Mr. KORZENIK. I would like to comment on this.

In the first place, I think the distinction you draw between the right of a union employee to the money he has paid in, a part of it, as opposed to the absence of such a right by the shop employee is obviously the difference between a fund created by the savings of the union employee who created those savings, as opposed to the employee in the mill who has not at all paid any part of it.

Representative GRIFFITHS. But this is being sold to most people on the presumption that it is a fringe benefit, but if you do not work until the pension vests, it is not a fringe benefit, it is a delusion.

Mr. KORZENIK. No, no; I think we are really missing the point of the fringe benefit we are talking about.

We are not saying that you will have savings laid up for you regardless of what happens. We never said that.

What we are saying is that if you get old in this industry, and if you have given your years to producing what this industry makes, we will then contribute a sum to making your retirement more comfortable.

Now if you do not live to be that old, if you do not serve this industry that long, if you never get to the point of claiming a pension, because you have gone into business for yourself, because you have gone into steel or into chemicals and are out of apparel, or if for any reason,

which is of your choosing, then you do not get the pension. This is of course a self-administered answer. This pension is a right which accrues only to people in the industry who arrive at an age at which they can enjoy it.

Representative GRIFFITHS. But of course you had to base your original pension benefit on the assumption that there would be many people on whom money would be paid who would make the choice against staying in the industry. That is the way you set up the pension.

Mr. KORZENIK. Now on the point of how many people we expected to retire, nobody in the world can really know this except on the basis of a guess—albeit educated, it is a guess.

Representative GRIFFITHS. Yes.

Mr. KORZENIK. Now the only way that we can safely proceed or at least the only way we could have safely proceeded in 1950 when we had the actuarial study made was on the assumption that the people then in the industry, with the seniority they then had, would come to the point of claiming their pension, again with due consideration for the forecast of established mortality tables.

Now that is why we have not in any year since the pension has been established exhausted the annual contributions that have come into the fund.

Representative GRIFFITHS. In any year since the pensions have been established have you reduced the contributions?

Mr. KORZENIK. No; we have not reduced the contribution.

Representative GRIFFITHS. Have you increased the contribution?

Mr. KORZENIK. No; it has been 2 percent, but we have increased it in dollars.

Representative GRIFFITHS. Because you have increased the wages?

Mr. KORZENIK. That is exactly so, and also the number of people who come in at the low-skill or no-skill level, whose contributions we know are going to be unpaid for those particular people, though the contributions will accrue for others who do stay with us. But if we take the purposes of the pension in view, and circumscribe the application of the pension to those purposes, I think we are doing exactly what we started out to do, and that is to reward people who give these years of service to this industry, with a retirement benefit.

Now there is one other observation that I would like to make and that deals with the question that you put about the less than 100 percent of the contributions that accrue being paid out. We are living in comparatively good times. We have experienced times that were not so affluent. We worry about such times, because if we have a visitation of something like the 1930's again, that will be really the time at which many people retire.

Representative GRIFFITHS. Since this committee was set up, we are not letting that happen again.

Mr. KORZENIK. I am confident of that assurance and I will be glad to take it back to people who are worried about it.

Mr. ROLNICK. May I spend another minute on this point without being too presumptuous?

Representative GRIFFITHS. Surely.

Mr. ROLNICK. I would hope that too much would not be made of the fact that we do have an excess each year. At this stage in the development of this fund, in the life of the fund this is not a symptom

of overfunding at all. We do not have too much money in this fund. We may anticipate in a 20-year period, 20 years from now, for example, and in dealing with pension funds we must think this way, I would estimate 100,000 people on our rolls as against our present close to 40,000. Now this is a built-in liability which we must reach toward when it finally occurs.

Representative GRIFFITHS. This is what we are considering, Mr. Rolnick?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. By 1980 there will be approximately \$280 billion untaxed in these pension funds, and the thing that we are considering is this:

When the pension is financed strictly from an employer contribution, it is added to the price of the product; so the general public pays once in that way. And then the general public makes a tax-free loan, for all practical purposes, to everybody in the pension plan who gets a pension.

Now, we are worrying about those people who are never going to get to participate in these pension funds except to the extent that they pay that added consumer price and that added tax dollar so that you people can have tax-free money.

Mr. ROLNICK. I would like to say that I somewhat share your concern. We are not adversaries on that position. I think there is a very real necessity for evaluating this situation with the tremendous influx and growth of the private pension plan system.

You are pointing out and looking at a problem which does exist, and which I think requires exploration in the public interest.

I would only suggest to you that it is difficult to apply one large brush in covering this situation. There are tremendous differences between the environment and the situation that exists between different pension funds.

Representative GRIFFITHS. I agree.

Mr. ROLNICK. There is obviously a tremendous difference in the risk, for example, of a particular person not getting his benefit when he seeks retirement in a single plant situation as compared to an industrywide fund. The fact that a particular plant may go out of business, having made promises, does not affect our situation as it does a single plant situation.

Representative GRIFFITHS. Because your people can move any place so long as they remain a member of the international?

Mr. ROLNICK. That is one reason.

Also, the total financial structure of the fund is not jeopardized by a single plant here or a single plant there. We have a total industrial situation in terms of the financial stability of the enterprise, and that makes a considerable difference and it should be weighed carefully, in my judgment, as your committee or other committees explores this situation.

Representative GRIFFITHS. I appreciate your opinion of what is enough, but that really is a question for everybody, not just the pension planners. What is enough for all of these plans?

Now let me ask you: To whom do you report on these pension plans? The Secretary of Labor; right?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. I presume that you set this up with the approval of the IRS?

Mr. ROLNICK. That is correct.

Representative GRIFFITHS. Have you been back again to the IRS at any point? Have they ever investigated the plan?

Mr. ROLNICK. We just set this up a year ago.

As you probably know as well, in New York State, with which I am familiar, and in I think most of the States, the State department of insurance plays a prominent role as well and we do report to the State insurance department and there are investigations made by the State insurance department.

Representative GRIFFITHS. Have they ever investigated you?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. Do they check up on an annual basis?

Mr. ROLNICK. It is not an annual basis.

We are required to report to them annually, but I believe, and please do not hold me to the figure, that they do physically investigate every 5 years.

Representative GRIFFITHS. What are the penalties that could be assessed against the trustees or against you as the administrator? You are criminally liable, I presume.

Mr. ROLNICK. May I check with Mr. Korzenik, who is an attorney.

Mr. KORZENIK. You are on bond.

Representative GRIFFITHS. But is he also criminally liable?

Mr. KORZENIK. Well, of course, I would not be the authority to decide that, but I should think that if he committed a crime he would be.

Representative GRIFFITHS. Are you as a trustee?

Mr. KORZENIK. Yes, a trustee is responsible for his duty to his trust, to show the care that a prudent man would exercise in the handling of it, the investment of it.

Representative GRIFFITHS. So if it were discovered there were anything fraudulent about your actions, you could be held criminally liable?

Mr. KORZENIK. Yes. May I ask a question?

Representative GRIFFITHS. Yes.

Mr. KORZENIK. Your question a little while back referring to tax-free dollars, did that mean tax-free earnings on the fund or tax-free contributions to the fund?

Representative GRIFFITHS. You have tax-free contributions and you are not taxed on the earnings either, are you?

Mr. KORZENIK. All right.

Now, it seems to me that whether the fund is made up of taxed money or untaxed money would not very much change the cost of the employer contributing to the fund. In other words, whether it is a tax or a contribution, it is a cost. So that at that level it would make no difference.

Representative GRIFFITHS. The point is, Mr. Korzenik, that all these funds I think represent a gift of about \$1 billion in taxes, and right at the present time we are trying to balance the budget. So we are going to have to make up that revenue loss from taxing somebody else.

Mr. KORZENIK. A gift to whom?

Representative GRIFFITHS. It is a gift to the fund itself.

Mr. KORZENIK. Well, maybe that is so, but let's see who the beneficiaries are.

Representative GRIFFITHS. The beneficiaries are going to be those who collect at a much later date. On those amounts they will never pay taxes.

Mr. KORZENIK. Who arrive at a pension.

The point I want to make clear is that so far as the cost of the product is concerned, that would not be affected except perhaps that it would go upward if it were a tax instead of a contribution, for this reason. It would require more money to afford these benefits than a tax-free contribution would, so that the cost would rise rather than fall if it were taxed.

Secondly, the benefit of having income from the fund untaxed obviously is in terms of an income that might not be there at all if the fund were not permitted to exist. In other words, the accrual—

Representative GRIFFITHS. But the money would have all been distributed elsewhere or you would have paid taxes on it as employers.

Mr. KORZENIK. But we would not have had a pension fund.

Representative GRIFFITHS. That is right, so that is why it is tax-free. We are giving you a tax-free loan, and the question is how much of this can we afford to do unless everybody participates? And what we are interested in is how many of these people are you cutting out of this fund, and for what reasons do you cut them out, and how much money are you accumulating, and is it an unreasonably large sum or is it not an unreasonably large sum.

Now I will take your word for it for the moment that you do not consider yours an unreasonably large sum, but nobody who has appeared here to date has considered that they have accumulated an unreasonably large sum, and nobody who has appeared here to date has been paying out annually any more than the interest on the fund.

Now, I will admit that these plans are comparatively new. In general they have been established since 1945. They are about 21 years. But about the same number of people reach 65 each year, I would assume, or 62 or whatever it is, and the fact that your fund does not permit any vesting does discriminate tremendously against those people who have worked for your companies as opposed to people who have worked 5 or 10 years and have a vested fund.

How were you elected a member of the trustees?

Mr. KORZENIK. The employer representatives, there are 30 of them on the board, are generally designated by the trade group representing the employers in the field.

I am counsel, and have been since 1946, to the United Knitwear Manufacturers League, which is one of the constituent organizations representing employers.

Representative GRIFFITHS. After the trustees have been designated, have they been afterward changed?

Are you designated for a period of a year, 2 years?

Mr. KORZENIK. Well, the designation of the employer representatives resides, the power to designate resides in the group making the designation. They are not elected by the board. They are designated by the constituent organizations making the election.

If my group decides to terminate my representation and to designate another, that would happen.

We recently had an unfortunate demise of a representative who was placed by the designation of the group who designated him originally.

Representative GRIFFITHS. People who enter into the group after you have been appointed, really have no right to object to their representation or have no vote?

Mr. KORZENIK. Oh, yes.

Representative GRIFFITHS. Do they?

Mr. KORZENIK. My tenure is not forever. It is terminable at the pleasure of the organization. It is not even for a year.

Representative GRIFFITHS. Do they vote on it?

Mr. KORZENIK. Yes. The organization is governed by a board of 15 trustees who make the designation, and they are elected by the membership.

Representative GRIFFITHS. Now, would you explain the 3.3-percent administrative cost? What are you paying?

Mr. ROLNICK. They represent the total cost of the administration of the fund.

Representative GRIFFITHS. How many employees do you have?

Mr. ROLNICK. I cannot give you an answer to that because, as I pointed out earlier, we are utilizing the existing local union officials, officers and the personnel in the offices so some portion of them are devoted to the operation of the fund.

Representative GRIFFITHS. Does some part of your funding go to pay local union officers?

Mr. ROLNICK. The fund pays to the union 3.3 percent of the income. The union then disburses, the local affiliates plus the national union then disburses moneys for salaries, for equipment, for materials, and I suppose in that sense some portion of that money is involved in wages for union officers and union staff, because they are spending some of their time on the operations of this fund.

Representative GRIFFITHS. You mean that the fund pays 3.3 percent of its money out to local union officers?

Mr. ROLNICK. No.

Representative GRIFFITHS. Did I understand you to say that?

Mr. ROLNICK. I hope I did not say that, and I hope you will not misunderstand me.

The union is responsible for the day-to-day administration of the fund. Employees are hired, employed. Materials are purchased. Paper is bought, checks are written. These are the costs of the operation, and it is borne out of the 3.3 percent.

Representative GRIFFITHS. Do you write the original check that pays the 3.3 percent?

Mr. ROLNICK. As administrator?

Representative GRIFFITHS. Yes.

Mr. ROLNICK. The treasurer of the fund writes the original check.

Representative GRIFFITHS. The many checks that go back to the local unions?

Mr. ROLNICK. Yes.

Representative GRIFFITHS. Very interesting.

Mr. ROLNICK. I would point out to you that under New York State law there is a specific provision requiring the consent of the State insurance department before any trust fund arising out of collective bargaining relationship between the union and the management, be-

fore such a fund may pay any moneys over to a union, it requires the approval of the State insurance department.

This approval is given after an investigation of the merits of the situation. This was given to us by the State insurance department after an investigation of the specific situation.

I think you would also accept the fact that 3.3 percent of income is a remarkably low administrative cost for the administration of a pension fund of this nature, and I would doubt that you will find similar comparable situations.

Mr. KORZENIK. May I comment on this?

Representative GRIFFITHS. Yes.

Mr. KORZENIK. The chairman of the fund at the outset said that if we could find a more economical way of administering the collection and assessment of the contributions, he would be glad to have it replace this proposal.

We accepted this proposal—when I say “we” I mean the employer representatives—because it was necessarily the most economical way, and it is necessarily so because the local union has the collective agreement which contains the contractual obligations for making the contribution. They, therefore, have in their files and in their offices all the details which would result in an accurate assessment of the liability. They get the payrolls, they know what the liability is, and if we were going to administer it separately, it would be prohibitive.

Secondly, they have a far more effective way of enforcing collection than we would have by independent agencies. The business agent who does not get paid, so far as I know when he talks about this as opposed to other business, will talk to an employer who is in arrears and see to it that he remedies the situation.

We have had, so far as I know, not a single lawsuit required to collect contributions.

Representative GRIFFITHS. Have you ever forgiven a payment into the fund?

Mr. KORZENIK. Never. There have been instances of insolvency, where there were no assets from which to collect.

Representative GRIFFITHS. But you have never forgiven payment?

Mr. KORZENIK. But we have never forgiven a payment or an obligation to pay.

Representative GRIFFITHS. Mr. Rolnick, do you favor improving on OASI, as an alternative to private pensions?

Mr. ROLNICK. I am troubled with the fact that you suggest that it be an alternative to private pensions. I think there is room and it is desirable that this rather unique system that we seem to have in this country of a combination of Government participation and private participation should be continued. I do not consider it to be an alternative situation.

I would like to see both improved, if I may say so.

Representative GRIFFITHS. Now may I ask once again, to make sure that we get the answer: What is the number of women who enter the business after they are 45, the number of women on whom money is paid but who never collect a pension?

Mr. ROLNICK. May I take these as notes? Because I do not have the information.

Representative GRIFFITHS. Yes. We will see that you get the exact question.

Mr. ROLNICK. May I have another minute?

(Information requested had not been supplied at time of publication of hearings.)

Representative GRIFFITHS. Of course.

Mr. ROLNICK. I was interested in your approach to the loss to the Treasury, because of the tax-free resources.

Now, I am far from qualified to discuss economic questions with you. I would take your judgment most of the time. But in this situation, I wonder if you are measuring, when you talk about this loss, the effect upon the economy generally resulting from the benefits that are paid to these people when they retire, and their resulting consumer buying power.

Representative GRIFFITHS. That is one of the excuses for suffering the loss.

Mr. ROLNICK. I did not mean to offer it as an excuse. I did not know it had been offered before.

But I would also suggest to you that I doubt whether these people would be self-sustaining, or many of them would not be self-sustaining, in the absence of this pension benefit when they get older, and I wonder what cost that would have been to the Public Treasury as against the losses you speak of.

Representative GRIFFITHS. Well, one of the problems in all these pension plans is the vast differences within them. And the fact that you are not giving the people the same type of rights.

We have had two pension plans come in here, where either a wife could leave to her husband or a husband could leave to his wife some survivor rights.

Now you have no survivor rights. The Federal pension system has no survivor rights for a woman whose husband is working.

Mr. ROLNICK. That is correct.

Representative GRIFFITHS. It is an amazing system.

Mr. ROLNICK. I want you to know that this union has always been in support of equal rights for women.

Representative GRIFFITHS. Good; thank you very much.

Mr. KORZENIK. May I express my appreciation for the opportunity to be heard this afternoon.

Representative GRIFFITHS. Thank you. We are delighted to have you.

(Whereupon, at 3 p.m., the committee recessed, to reconvene Monday, May 2, 1966, at 10 a.m.)

PRIVATE PENSION PLANS

MONDAY, MAY 2, 1966

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in room S-407, the Capitol, Hon. Martha Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths and Widnall; Senator Miller.

Also present: James W. Knowles, executive director; Nelson D. McClung, economist; Donald A. Webster, minority economist, and Hamilton D. Gewehr, administrative clerk.

Representative GRIFFITHS. The subcommittee will be in order. I particularly want to welcome you here today and point out that only the good arrive. I would like to read into the record some letters that I have received, and as you present the plan, I hope that you will be answering these questions.

I will not tell you from where this letter came because I don't want to hurt the man who wrote it, but this is what he said:

I read in my local paper today an article that a Senate-House Economic Subcommittee was conducting an explanatory hearing on the Western Conference of Teamsters Pension Trust Fund. Mrs. Griffiths, that is the best news I have heard in a long time. It is something we have needed for many years. It will be a wonderful service for the American Worker.

Mrs. Griffiths, I have been a union member practically all my life, and have just passed my 63rd birthday. I have paid my dues, assessments, donations and a percentage of my wages into the Union all these years. I had a coronary occlusion in August of 1965 and have been unable to work since then. My doctor says I am totally disabled. I went to make application for my pension at the Social Security office. They were very nice and courteous. Then I made proper application to ILA pension and welfare. After waiting about 60 days of investigation from Social Security, I was notified that I was not eligible for a pension.

I might say in parenthesis that it has been my finding that you have to be disabled from the neck down, practically paralyzed, to get anything out of social security.

I have been a member in good standing in the International Longshoreman Association about 30 years. They said I did not qualify for disability pension because I had to have 15 years of continuous service and 700 hours or more per year in the Industry.

The man then points out that his service wasn't continuous because he was over at Iwo Jima.

This is another letter:

Everyone over 40 feels that these company pension plans are used to deny people over 40 access to jobs. The company with the pension plan will not hire anyone over 40.

This is another letter :

I, for one, am one that lost out after 28 years. I still think I should have had something coming.

Now I hope that you explain how your plans take care of these problems. You may proceed with your testimony.

STATEMENTS OF THOMAS MAZZIOTTA, SUPERVISOR OF THE WELFARE AND PENSION FUNDS OF THE NEW YORK CITY DISTRICT COUNCIL OF CARPENTERS, AND JAMES B. MARTIN, CHAIRMAN OF THE BOARD OF TRUSTEES OF THE NEW YORK CITY DISTRICT COUNCIL OF CARPENTERS, AND DIRECTOR OF LABOR RELATIONS OF THE GENERAL CONTRACTORS ASSOCIATION; ACCOMPANIED BY WILLIAM PEARL, SENIOR CONSULTANT ON THE STAFF OF HAROLD FAGGEN ASSOCIATES, INC.

Mr. MAZZIOTTA. I am Thomas Mazziotta, supervisor of the welfare and pension funds of the New York City District Council of Carpenters. With me is Mr. James B. Martin, who is chairman of our board of trustees. He is also the director of labor relations of the General Contractors Association which represents a significant segment of the employers who are engaged in construction work in the Metropolitan New York City area.

I am also accompanied by Prof. William Pearl, a senior consultant on the staff of Harold Faggen Associates, Inc., consulting actuary to our funds. He is also a member of the faculty at Pace College, New York.

We appreciate the privilege of appearing before this distinguished subcommittee to discuss our pension plan. I am especially pleased to be here because I believe our fund has been one of the leaders in protecting the pension rights of members transferring to and from other funds. Last October, some 50,000 carpenters gained greater mobility and flexibility as our New York City District Council of Carpenters fund signed a reciprocal agreement with five other pension funds. Under this arrangement, pension benefits became portable for carpenters working different areas. For the first time, they have achieved a practical approach for preserving earned service credits by carrying pension benefit credits from county to county.

However, before discussing the reciprocal agreement I should like to briefly describe our pension plan in general.

The pension fund was established in 1955 as a result of collective bargaining negotiations between the New York City District Council of Carpenters and various employer associations. The following employer associations are currently represented on our board of trustees: General Contractors Association, Master Carpenters Association, Cement League, Manufacturing Woodworkers Association, Millwork Manufacturers Association, and Hollow Metal Door & Buck Association.

The district council is composed of approximately 40 individual unions all of which are subordinate locals of the United Brotherhood of Carpenters and Joiners of America.

Our pension plan is managed by a board of 10 trustees, 5 appointed by the district council, and 5 appointed by the employer associations.

All are united in a single, common objective—to obtain the best benefits in quantity and quality at the lowest cost.

We have been able to operate efficiently as a self-insured organization at a low administrative cost. Over the years, the relationship of administrative expenses of the plan has been generally less than 5 percent of annual income.

The fund has about 40,000 members, of whom approximately 30,000 are employed in New York State and a few hundred in New Jersey. The balance of the members are inactive, with about 3,500 currently on retirement. Fund members are employed as carpenters, dock-builders, piledrivers, divers, tenders, millwrights, floor coverers and timbermen. Members are also employed in the metal and wood product industries. The geographical area covered by the fund consists of the five boroughs of New York and part of Nassau County.

Eligibility for membership has never been based on union affiliation. All employees who are within the scope of the collective bargaining units are granted immediate participation from the first day of employment. An employee is covered regardless of whether or not he is, or ever has been, a member of the union. Continuous coverage and continuous accumulation of pension service credits are guaranteed even though a member may have worked for different individual employers, as long as those employers participate in our pension program.

Many safeguards have been built into the plan to assure nonforfeiture of participation. For instance, a member may leave the industry for as long as 3 years without losing participation rights. Even then, all he needs is a half year of eligibility credits during the 3-year period to keep his participation alive for an additional period. An employee maintains his participation if he cannot work in the industry because of physical or mental disability, or because he is serving in the U.S. Armed Forces. An employee is guaranteed permanent participation after he has passed his 60th birthday and has at least 10 years of credited service.

Certain members were granted nonforfeitable, automatic participation in the plan on the date it commenced to operate. For illustration, all members who were 60 years old on January 1, 1956, cannot lose their status. Similarly, members who were awarded a social security disability pension during 1956 or 1957 are guaranteed participation for life. Persons who had 25 years' employment within the jurisdiction of the union on January 1, 1956, or have accrued 25 years of credited service since then will continue to maintain participation regardless of whether they ever work again in the industry.

The pension fund is affiliated with the New York District Council of Carpenters welfare fund, which provides a broad and comprehensive program of welfare benefits for every member and his family. Eligibility requirements are extremely liberal and coverage is afforded to retired members and dependents in addition to those currently employed. The affiliated welfare fund provides death benefits, accidental death and dismemberment benefits, weekly loss of time benefits, hospital and surgical expenses, doctors' home, hospital and office visits and diagnostic X-ray and laboratory expenses. That fund has been a leader in introducing a novel prescription drug benefit which covers members and pensioners and their dependents for all but 50 cents of the cost of

any prescription dispensed by a licensed pharmacist. Broad dental expense benefits are also provided for members and pensioners and their dependents.

From the inception of our pension plan, no employee has contributed a penny to the fund. All benefits are entirely financed by contributions made by employers. The amount of contributions by the employers is part of the wage package developed in the collective bargaining process between the employers and the union. Currently, the participating employers contribute 5 percent of the gross payroll of all employees covered by the collective bargaining agreements. An additional 5 percent is contributed to the affiliated welfare fund.

A normal pension benefit is payable when a participant has reached his 65th birthday and has 25 years of past or future service or a combination of both.

Representative GRIFFITHS. May I ask you if you have figured out the price per hour? How much does this cost the employer per hour for the pension fund?

Mr. MARTIN. Five percent of his hourly wage.

Representative GRIFFITHS. What is the hourly wage?

Mr. MARTIN. Well, it varies from that of a timberman—I haven't got the scale in front of me, but it is probably the lower one—to that of the dock builder and carpenter and the foreman, and the general foreman.

Representative GRIFFITHS. How much is it?

Mr. MARTIN. The wage of the carpenter and the dock builder is \$5.80 an hour, of the timberman I would guess—I haven't got the figures in front of me—probably \$5.25, something like that.

Mr. PEARL. If I may, I think I can answer it. It is about a quarter, 25 cents an hour. That is how much they contribute.

Representative GRIFFITHS. So that if they are working an 8-hour day, the employer is putting \$2 a day into the pension fund.

Mr. MAZZIOTTA. The carpenter works a 7-hour day.

Representative GRIFFITHS. Then he puts \$1.75 into the pension fund per employee, per day.

Mr. PEARL. That is correct. Yes, when you figure \$5.80 an hour, 5 percent would be 29 cents. The average is about a quarter.

Representative GRIFFITHS. Thank you.

Mr. MAZZIOTTA. And may I say this. We have other—you know the manufacturers, woodworkers, and the Hollow Metal Door & Buck Association, their wages are much less than \$5.80 an hour.

Mr. MARTIN. Yes.

Mr. MAZZIOTTA. Some come to maybe \$3.40 an hour or less.

Representative GRIFFITHS. How many hours does a carpenter work in New York per year? What is the average?

Mr. MAZZIOTTA. I don't know. There hasn't been much work in New York area for the last year and a half. Is that right, Mr. Martin? It has been very slow.

Representative GRIFFITHS. Do you have a reciprocal agreement with the carpenters in any other State?

Mr. MAZZIOTTA. In any other State? Yes.

Representative GRIFFITHS. Would you have one in Michigan?

Mr. MAZZIOTTA. No, not in Michigan. We do have this reciprocity in Connecticut.

Mr. PEARL. Strictly local.

Representative GRIFFITHS. Connecticut and New Jersey?

Mr. MAZZIOTTA. We haven't in New Jersey but we have in Westchester, Nassau, Suffolk, and Rockland Counties, and Connecticut.

Representative GRIFFITHS. Would the effect of this be to keep carpenters from transferring into a place where there is work? For instance, may I say that Detroit is enjoying one of the greatest building booms in the country, but would a carpenter be less apt to transfer to Detroit because of this pension fund?

Mr. MAZZIOTTA. Well, yes. If a man has 15 or 20 years of credit, I imagine he wouldn't want to transfer out of New York for more than 2 years, because on the third year he might lose his participation in our fund. As a rule, the incidence of a carpenter moving to Detroit would be unlikely. But we had our problems in the various adjoining counties. For instance, take New York and Westchester Counties. If carpenters are working on one side of a street it may belong to the New York County. The other side could belong to Westchester. Naturally these people had to move in and out of these various counties in order to find employment. It was with this in mind that we arranged this reciprocal agreement with these various counties.

Representative GRIFFITHS. You may proceed.

Mr. MAZZIOTTA. Thank you.

Mr. MARTIN. I think it will probably be extended further and further, the areas. This is just the beginning of it.

Representative GRIFFITHS. Yes. It would really be a very good thing if you had a reciprocal agreement with every carpenters' group; wouldn't it, if you could do it?

Mr. MARTIN. I think so.

Mr. PEARL. We are in favor of it. They are experimenting now locally.

Representative GRIFFITHS. All right, proceed.

Mr. MAZZIOTTA. There are no age requirements in order for a member to become eligible for a disability pension benefit. All that is required is that the participant be in receipt of a social security disability pension and that he have 4 or more years of future service credit. No reduction is made for actuarial equivalency on account of age. The member receives 100 percent of the benefit as developed from the normal retirement formula as if he were age 65.

There are no provisions in the plan which can force a member to retire against his will. All retirements are voluntary, strictly at the option of the member.

A member's pension is determined on the basis of \$2.40 per month for each full year of past service credit and \$6 per month for each full year of future service. Past service credit is based on years of employment prior to 1956 within the working area covered by collective bargaining agreements between the union and the employers. There is no limit as to how far back this service may go. Past service credit has been granted for more than 50 years of service in a few cases.

A full year of future service pension is predicated on the basis of \$7,600 or more of gross earnings. Earnings are divided into units of twentieths so that proportionate units of credit are given for each \$380 earned.

In establishing eligibility for pension as distinguished from the amount of the pension, future service credits are awarded more liber-

ally. To obtain a full year of eligibility credit, a member needs to earn only \$2,200 in gross wages. Every unit of \$220 in gross wages produces one-tenth of a year of eligibility credit.

A member receives his pension in addition to, and completely independent of, any benefit he receives under old age and survivors insurance. It is in no way subject to reduction or adjustment on account of social security benefits. Once a member becomes a pensioner, his benefit is never subject to forfeiture. His pension will be sent to any part of the world to which he may move. If he desires, he may work for an employer, other than one who contributes to this fund, for any amount of pay he can earn.

Representative GRIFFITHS. May he also work for one who contributes to the fund?

Mr. MAZZIOTTA. Yes, but he cannot earn more than \$150 per month.

Representative GRIFFITHS. All right, thank you. Proceed.

Mr. MAZZIOTTA. He may even work for a contributing employer, as long as he receives less than \$150 per month. The plan further provides that a member can go off pension and return to active employment and increase his future pension by earning additional credits. There are no waiting periods to hamper a member from going on and off pension at will.

Death benefits are payable before and after retirement. When a member becomes employed under the plan, his beneficiary becomes entitled to a death benefit equal to \$10 for each \$380 of gross wages earned, with a maximum of \$200 for each year of future service credit.

After retirement, the same amount of death benefits is payable, subject to a reduction equal to the amount of pension payments. In addition thereto, the plan provides for a 3-year guaranteed pension payable to the spouse of a deceased pensioner. Thus, no matter how many years of pension had been previously paid, the surviving spouse is guaranteed continued full pension payments for 3 more years.

The assets of the plan now amount to approximately \$37 million. Investments are supervised by the Manufacturers Hanover Trust Co. of New York. About 60 percent of the fund is invested in bonds of the U.S. Government, public utilities, and industrial corporations. The other 40 percent is invested in common stocks of publicly held corporations with wide diversification by industry and territory. At the end of 1965, the yield on the bonds was 4.37 percent. The yield on the common stocks was 3.95 percent. The yield on our total portfolio was 4.19 percent. Not shown by these figures is the fact that there has been a substantial unrealized appreciation in the value of stocks. As of December 31, 1965, the market value of stocks exceeded book value by more than \$4 million, or 30 percent more than cost.

Now that I have given you a thumbnail sketch of our pension fund, I should like to describe the essential features of the reciprocal agreement with our five neighboring pension funds.

Representative GRIFFITHS. Just a moment, please. Mr. Widnall would like to make an inquiry.

Representative WIDNALL. Mr. Mazziotta, or any of the others at the table, are any of you familiar with the new participation note program that the Federal Government is going to have? It looks as though the participations may run at about 5 $\frac{5}{8}$ percent. Wouldn't you be

inclined to sell your Government bonds now at 4.37 percent and buy the 5 $\frac{5}{8}$ -percent notes?

Mr. PEARL. It is under consideration.

Mr. MARTIN. Our financial advisers talked to us about that 2 weeks ago at our meeting. We asked them how much they had taken. They said all they could lay their hands on. So, I wouldn't be a bit surprised that it would enter into our portfolio.

Representative WIDNALL. That is all. Thank you.

Representative GRIFFITHS. Proceed.

Mr. MAZZIOTTA. Although the agreement was executed on October 25, 1965, its terms were made retroactive to January 1, 1965. For the record, I should like to mention the names of the other funds as follows: Westchester County, N.Y., Carpenters pension fund; Nassau County Carpenters pension fund; Suffolk County Carpenters pension fund; Norwalk Carpenters Union pension fund, Connecticut; pension fund, Local 964 United Brotherhood of Carpenter & Joiners, Rockland County.

Beginning January 1, 1965, each member of any of these pension funds receives full credit for all pension contributions made on his behalf, regardless of which of the reciprocating funds receives the money from his employer. This means he will be free to work in the area of any of the reciprocal funds and the credits he earns in all the reciprocating funds will be taken into account in determining his eligibility for benefits and the amount of pension he will receive when he retires. To protect his rights our fund has requested that its members submit written notice to both our fund and the pension fund of the area in which it is working, whenever he becomes employed outside the jurisdiction of our fund.

Previously, a member was entitled only to benefits earned in his own district based upon contributions paid into his home fund. Thus, if he temporarily worked in the areas of one of the neighboring funds, contributions made on his behalf to the fund of that area never found their way into the home fund. He rarely developed enough credits in the neighboring fund to obtain benefits there. Under the circumstances, a number of carpenters had worked as many as 30 or 40 years in the areas of two or more funds but never fulfilled the eligibility requirements of any of them. If one did manage to earn enough credits to qualify in one area, the amount of benefit was often a small fraction of what he should have been entitled to. Furthermore, most plans have provisions which cancel all previous pension credits if there has been a stipulated period of break in service. Typically, a break in service of more than 3 successive years is enough to cause forfeiture of all previously earned benefit credits. It seemed inequitable to apply this rule in cases where, during the 3-year period, the member had not stopped working as a carpenter but had merely become employed in a neighboring county where work was more plentiful. Sometimes the affected member had not even changed his employer. His change of work location was dictated by the business fortunes of his employer, who may have successful bid on a contract in a location outside the area of the member's home fund.

The growing need for portability was emphasized in the report issued last year by the President's Committee on Corporate Pension Funds, headed by Secretary of Labor, W. Willard Wirtz. We are

happy to have taken steps to meet this need for our members and believe we have set the stage for broader reciprocity between local and regional groups and closer management cooperation throughout the country.

However, aside from the question of the effect of a pension plan on the mobility of workers, there is a more direct consideration which argues against the type of plan which deprives a worker of his pension rights, if he leaves a particular employer or area. That is the simple fact that the pension credits are properly his. He has paid for them through services performed, at a lower level of wages than he should have been able to obtain, if the plan had not been established.

Representative GRIFFITHS. Just a moment, please. Mr. Widnall, would you like to ask some questions before you leave?

Representative WIDNALL. Mrs. Griffiths, I am very apologetic. I came in late this morning. I was held up and I do have to leave now. I have got to go down to the White House for a bill signing. Gentlemen, I appreciate your coming here before the committee. I wish I could stay to hear the full testimony. I will read it through carefully. From what I have heard so far, I think you are to be congratulated on doing a very fine job for your own people in the pension field. Certainly you have been leading the way, among the unions, toward a better future for all retirees.

Mr. MAZZIOTTA. Thank you, sir.

Mr. PEARL. Thank you, Mr. Widnall.

Representative GRIFFITHS. Proceed.

Mr. MAZZIOTTA. He has paid for them through services performed, at a lower level of wages than he should have been able to obtain, if the plan had not been established. To take them away, because of the effect of technical rules and artificial territorial barriers, amounts to a confiscation of a part of the member's earnings.

To establish a method of correcting these unfair and inequitable results, the managements of contracting organizations in all six of the participating districts worked closely with the United Brotherhood of Carpenters in arriving at the terms of the reciprocal agreement.

The concept of operation described in the reciprocal agreement is simple and practical. Under the agreement, each participant belongs to a home fund as determined by certain equitable rules. When a participant works outside the area of his home fund, the employer routinely makes contributions to the reciprocal fund having jurisdiction in the area of work. Each reciprocating fund becomes the custodian of all money contributed on behalf of the participant and notifies the home fund of the amounts collected.

Whenever a participant or his beneficiary makes application to the home fund for any benefit, it is the obligation of the home fund to determine whether the applicant is eligible for the benefit on the basis of all employer contributions received on behalf of the participant by all the reciprocating funds. His benefits and eligibility are determined under the rules of the home fund, as if all employer contributions had been received by the home fund. If the participant or beneficiary is thereby found to be eligible for a benefit, the home fund makes demand on all the reciprocating funds for all moneys received by such funds on behalf of the participant.

Before adopting this reciprocal agreement, a number of alternative approaches were studied and analyzed. We felt that, for application on a large scale, this was the most practical for the following reasons:

1. It is fair to the individual carpenter. Aside from giving notice when he works out of the home fund jurisdiction, he has only one office and one pension plan to contend with.

2. The pensioner receives one check instead of possibly three or four each month, depending on how many jurisdictions he worked in.

3. The operation of this plan will not seriously affect the stability of any fund. We realize that any reciprocal agreement will cost money in the sense that contributions received for outside carpenters will no longer be "found" money. But we feel that the actuarial cost of this "loss" can be within the assumptions used by each actuary. Furthermore, no money is paid over to the home fund, until a participant or beneficiary actually starts receiving a benefit. All other contributions received for "outside" carpenters will continue to be gains in surplus.

4. It is simple to operate and requires no periodic reviews.

5. It is extremely flexible and will not require changes in the event that other pension funds desire to join the reciprocal agreement at a later date.

Our type of reciprocal agreement need not be limited to carpenters' pension funds. It can be just as effectively applied to almost any craft or trade. Inasmuch as no moneys are transferred until the applicant actually applies for a benefit, it has a minimal impact on the actuarial solvency of the participating funds.

Differences in structure, rate of benefit, eligibility requirements, or methods of operation among the reciprocating funds do not affect the manner in which the home fund applies the contributions transferred to it. Once the moneys from the reciprocal funds are integrated into the program of the home fund, the nature of the reciprocal fund and the terms of its pension plan cease to be of significance.

We can, therefore, conceive of reciprocal arrangements among pension plans of different crafts or trades in the construction industry. From an organizational point of view, we see no major problems. However, we have no information as to whether the incidence of crossing over by members from one craft to another is great enough to warrant the extension of such arrangements. It is possible that enough workers have been involved in multiple union memberships during their lifetimes to make reciprocal agreements among mixed crafts worthwhile. The development of such agreements would be advantageous to the worker who does not stay long enough in any one of the construction trades to obtain a pension but, in the aggregate, has had sufficient contributions paid on his behalf to qualify for benefits.

We do not believe that any reciprocal agreement can cure all the problems of vesting and portability. However, we think it is an effective method for dealing with this problem on a regional level and we believe it can be extended throughout the United States. Nor do we believe that this reciprocal agreement is the last word. Anytime an agreement is reached by six boards of trustees, each of which

has its own legal staff, there is bound to be a great deal of skepticism and compromise.

It was only as a result of the determined leadership of Mr. Charles Johnson, the cochairman of this fund and the president of the New York District Council of Carpenters, as well as general representative of the International Brotherhood of Carpenters, that we have been able to come this far this fast. As time passes, I am sure this agreement will be improved and its benefits will be extended.

Again I thank you for this opportunity to come here and relate our experiences. If there are any questions, I shall try to answer them.

Representative GRIFFITHS. Thank you very much. And you did answer some of the questions that I had asked.

Mr. MAZZIOTTA. Right.

Representative GRIFFITHS. I am very grateful to you. How many people were in this plan when it was first conceived and negotiated?

Mr. MAZZIOTTA. Our reciprocal plan?

Representative GRIFFITHS. Yes.

Mr. MAZZIOTTA. Approximately 50,000.

Representative GRIFFITHS. And are there now only 40,000?

Mr. MAZZIOTTA. In the New York District Council plan there are approximately 40,000, of which about 30,000 are active. Now in the reciprocal plans, I should say there are about 55,000 to 60,000.

Representative GRIFFITHS. Were they all in when the plan was conceived and negotiated?

Mr. MAZZIOTTA. In our reciprocal?

Representative GRIFFITHS. Yes.

Mr. MAZZIOTTA. Yes; well it was negotiated last year, in 1965.

Representative GRIFFITHS. And only 3,500 people are currently on retirement, is that right?

Mr. PEARL. May I interject. I think we are mixing up or applying two rules. We are talking about the number of people in the New York Carpenters' plan. That is one thing.

Representative GRIFFITHS. How many are there in this plan?

Mr. PEARL. There are approximately 30,000 active there.

Representative GRIFFITHS. How many in the carpenters' plan who are drawing pensions?

Mr. PEARL. I am talking about the district carpenters' plan, the one that Mr. Mazziotta is supervisor of. Of the people there, 3,500 of them are on pension, a little better than 10 percent.

Representative GRIFFITHS. What is the average age of the persons covered by the plan?

Mr. PEARL. I don't have any statistics handy.

Representative GRIFFITHS. I read some years ago that the average age of a carpenter in this country is 53.

Mr. PEARL. That is about right.

Representative GRIFFITHS. How large a pension are these people paid? How high could they go?

Mr. MAZZIOTTA. Right now some are receiving about \$155 to \$160.

Representative GRIFFITHS. What is the least they get?

Mr. MAZZIOTTA. If nothing was ever contributed for the member, the minimum pension at 65 is \$60. On a disability pension we have a minimal pension of \$25. You take a man who is working for 4 years

in our trade, and if he becomes disabled, he could get a pension from us. Incidentally, once they go on pension, they are covered, under our welfare plan for life.

Representative GRIFFITHS. How many people have left the plan since it was negotiated?

Mr. MAZZIOTTA. Well, as far as the carpenters are concerned, not many leave because it is a skilled trade. We also have unskilled labor in our fund. There is a bigger turnover there. They may work for 2 years or so and just drop out. They drop out of the trade because they are unskilled.

Representative GRIFFITHS. What percentage of covered employment is unskilled labor?

Mr. MAZZIOTTA. I would say 5 percent.

Mr. PEARL. It is very minimal.

Mr. MAZZIOTTA. Yes, perhaps only 3 or 4 percent.

Mr. PEARL. It is essentially a skilled craft.

Representative GRIFFITHS. What are the duties of the trustees?

Mr. MAZZIOTTA. Well, our trustees attend all meetings. Mr. Martin is more qualified to answer that question. He has been one of our trustees for the last 15 years.

Mr. MARTIN. I think the paragraph about Mr. Charles Johnson probably could be emphasized a good deal more because his voice and the voice of the union are louder and more convincing in talking to his fellow unionists than the voice, say of the employer. This didn't occur overnight. This was a matter of years. But once it has been established I think it will proceed much faster with other areas.

It was a natural occasion or what would you say, a feeling that a person who had, some union who had a pension plan should hold on to their funds in every way they could, and not transfer them. But he has overcome all that, and I think that will pass.

My impression of all the years that I have sat with the Carpenters' welfare fund and pension plan is that the employers have the same idea as the union trustees, that is to give the best we can safely to the men. Of course, the construction industry, of which I have been a member for maybe over half a century, is a little bit closer in affiliations with the men themselves. There is very little absentee landlordism.

Representative GRIFFITHS. Can you advise the Hanover Trust as to what investments they can make?

Mr. MARTIN. Well, yes, we do. We have advices from them which we are not bound to accept, but generally we do follow their advice.

Representative GRIFFITHS. But you have sufficient power to tell them that something is not an acceptable investment?

Mr. MARTIN. That is right.

Representative GRIFFITHS. You want it in something else?

Mr. MARTIN. That is right.

Mr. PEARL. I may add that at a meeting Hanover submits its recommendations, and the trustees always pass upon them after due study. In other words, the Manufacturers Hanover Bank may not make an investment without the OK of the trustees.

Representative GRIFFITHS. Have you always OK'd Hanover's suggestions?

Mr. MARTIN. No. I would say there were occasions when we have not always done it, but they have been very few and far between.

Representative GRIFFITHS. As it turned out, which was better, Hanover or the trustees?

Mr. MARTIN. I think the record of the—of course, we haven't had the Manufacturers Hanover very long—I think probably our investments in the very beginning, we were very careful. We put them all in Government bonds, and, of course, you know the result there was not too wonderful in the beginning.

Representative GRIFFITHS. Two percent.

Mr. MARTIN. But we have worked on it, and I think the thing that has impressed us in the pension plan is the necessity of growth, to have a dollar that the man would get 10 or 20 years from the time he put it in, that it would be pretty nearly equal to the change in the dollar.

Representative GRIFFITHS. Does the management ever have any residual rights in the fund? Supposing something happens, could the management get any of the money back that they paid in?

Mr. MARTIN. No.

Mr. PEARL. They may not under the agreement.

Mr. MARTIN. Under the trust agreement the moneys will be used to pay every claim until the money is exhausted, but they have no way of obtaining it individually.

Representative GRIFFITHS. You are the actuary?

Mr. PEARL. Yes, we are.

Representative GRIFFITHS. What if the actuaries estimated too high a requirement. Does the management never have a chance to get any of that money back?

Mr. PEARL. It does not.

Representative GRIFFITHS. Why not?

Mr. PEARL. Because the law doesn't allow them. As actuaries we know that they are not allowed to get it.

Representative GRIFFITHS. The law?

Mr. PEARL. That is right. First of all, there is a law in New York.

Representative GRIFFITHS. The law of New York?

Mr. PEARL. Right, that does not permit them to give anything. It is a violation of section 37(1) of the insurance law, and furthermore, the terms of the trust agreement itself say that no money can go back to management or to the union.

Representative GRIFFITHS. How many times has the insurance commissioner of New York investigated this fund?

Mr. PEARL. At least twice. They have had two formal examinations that I know of.

Representative GRIFFITHS. When?

Mr. MAZZIOTTA. Every 5 years.

Mr. PEARL. One as of 1960 and one as of 1964.

Representative GRIFFITHS. Why in 1964?

Mr. PEARL. Because statutorially they must be examined once every 5 years.

Representative GRIFFITHS. What do they examine for?

Mr. PEARL. I am formerly from the insurance department, so I can tell you practically anything you want to know about that.

Representative GRIFFITHS. All right.

Mr. PEARL. The law says that the examiner may come in and examine any phase of the fund's operations. He makes a verified report to the superintendent containing the facts, and such conclusions and recommendations as may be reasonably warranted from such facts. There is practically no area that he cannot examine pertaining to the fund's activities.

Representative GRIFFITHS. What would happen if he found that there is something wrong with the fund? What rights does he have?

Mr. PEARL. There is a procedure.

Representative GRIFFITHS. All right, what is it?

Mr. PEARL. The examiner makes a report, to which the fund is given an opportunity to object. Before final determination of the facts, there may be informal conferences or even formal hearings. Then the report is filed. Thereafter, it is submitted to compliance section, to see that the recommendations are complied with.

Representative GRIFFITHS. And what if they refuse to comply?

Mr. PEARL. There are penalties in the law. There have been cases where people have gone to jail, and there have been cases where they have been fined. This does not apply to the Carpenters, I am very happy to say.

Representative GRIFFITHS. What if the insurance commissioner had said, "Gentlemen, you can't invest in Government bonds at 2 percent. There are other and better investments." Could he have done that?

Mr. PEARL. Theoretically he has the right to do it, but he would not.

Representative GRIFFITHS. He might be afraid to do it?

Mr. PEARL. Not that he would be afraid to do it; it is more because he is not assuming management's functions. This is an area that the Department will not go into. In other words, they do not make decisions for the trustees as long as they have properly exercised their fiduciary capacities. Under the law the trustees are liable as fiduciaries. This is a very strong liability.

Representative GRIFFITHS. Do you mean to tell me that they can use any judgment, no matter how poor, and he would not raise any objection?

Mr. PEARL. No. The objection would then concern itself as to whether they invested in a U.S. Government bond, which is very safe, or whether they could have invested perhaps in something else which was somewhat nearly as safe but at a much greater yield. The Department will not make that decision.

Representative GRIFFITHS. All right, supposing they had invested in mortgages on land in Florida that was underwater, would he object?

Mr. PEARL. Absolutely. I have personally objected to that, and I can refer you to the records on such matters. That was the subject of a definite objection.

Representative GRIFFITHS. What would happen if one of the participating funds became insolvent or was terminated? Would this reduce the pension for the members of other funds?

Mr. PEARL. Not necessarily. We haven't thought it out that far. We have only been in a situation of this sort for a half year.

First, the home fund establishes the amount of money that is available to the pensioner, and then it collects a share from the reciprocating funds. The reciprocating funds are all subject to supervision by

governmental authorities and guided by their actuaries. In any event, the bulk of the pension is paid by our fund which would be the home fund.

It may have a very minimal effect, if any. I think that is about it.

Representative GRIFFITHS. It is not going to have a minimal effect upon the ability to pay, is it?

Mr. PEARL. No, the money is paid by the home fund. We are talking about our fund at the moment.

Representative GRIFFITHS. Yes.

Mr. PEARL. We assume we are not going to go broke. We know we have reserves and so forth.

Representatives GRIFFITHS. Have you made a reserve sufficient to take care of the situation, that if one of these funds went broke that you could pay?

Mr. PEARL. Well, we haven't reached that stage where we have that many participants in the reciprocal arrangement.

Representative GRIFFITHS. When you had made your decisions on the amount of money that should be paid in, what did you anticipate that you would pay out and when?

Mr. PEARL. When you say amount of money, are you talking about our home fund?

Representative GRIFFITHS. Yes.

Mr. PEARL. It is a matter of collective bargaining. What money they have is arranged in consequence of collective bargaining. This is done by the union and the employers. They have arranged it at present to be 5 percent.

Representative GRIFFITHS. Everybody comes in here and says this, but it must have some relation to the obligation.

Mr. PEARL. Yes; to us it is all important as actuaries. We have to then, like anybody else, budget the money that is coming in, but we have no control nor has the fund itself control over the money that will come in, because it is determined by an agency outside of the fund.

We have to look at it this way.

There are three entities involved. We have the employers, the union, and the pension plan. Each is separate from the other, although many of the people are the same. Now the pension plan operates completely separately from the others, and neither of them can influence it except through the meetings that they have. The amount of money is not determined by the pension plan. It is determined by the union and the employers who get together and determine the amount of money. The pension plan has no control except to make a recommendation.

Representative GRIFFITHS. But what I can't understand and what I have not been able to understand with the other testimony is this. Are all of you saying to me that you don't decide upon any particular benefit, nor do you estimate the kind of money you are going to get? What the union does is just with brute strength and say, "Look, we want this much money or we will strike you."

Are you saying that this is the way these things are negotiated, or are you telling me that when you do the negotiation, that the union and the employer have some idea of what pension benefits are going to be paid out?

Mr. PEARL. They do.

Representative GRIFFITHS. Therefore, you must have some idea of how much money you will need to pay that pension.

Mr. PEARL. May I give you some of the mechanics?

Representative GRIFFITHS. I would like to listen to the trustee and this gentleman from the union.

Mr. MARTIN. Of course, that is what we have the actuaries for, to see that we don't go overboard.

Representative GRIFFITHS. Right.

Mr. MARTIN. And we have a pretty good estimate of what money we will take in except, unfortunately, in the last year or so there has been a lot of work that has been held up through difficulties of public figures about approving it, so that our income has been depleted a bit. However, it has never reached the stage that we can find out, in talking to the actuaries, where we are in danger.

Now the question of whether one of the reciprocal funds might suddenly find itself strained, that, of course, is under the same strictures that we are. They are subject to actuarial figures. They are subject to the State department of insurance, so that the possibility is pretty small. This fund started, I think, in 1953, but I don't think we paid any benefits until maybe 1956 or something like that, until we had a cushion, and the cushion has remained very well.

My recollection of the talks we had with the actuaries a figure of around 3 to 3½ percent of income from capital would be sufficient to carry us, even if all of the fellows went on pension. It would still have a substantial amount of money. I feel that the program that we work under is a very conservative one. It started off at \$30 a month for a pension, \$30 a month, think of that, \$1 a day. So we have been careful about it.

Representative GRIFFITHS. Particularly, if you have been collecting \$1.75 a day you certainly were careful.

Mr. MARTIN. Yes, and the union trustees have it more in mind even than we have, because they have 40,000 people looking at them from their membership. It is pretty hard to understand how some union locals maybe don't adjust themselves to coming into this reciprocal plan. But once it has been established, and working, I think they will all feel that this is a very good thing to keep them off the hot seat with their members.

Representative GRIFFITHS. Now I want to ask the actuary, if you have had this trouble that you didn't anticipate, what were you basing your theories on when you determined how much money was to be paid? Let's have him answer.

Mr. PEARL. I would like to express the fact that an evaluation or a review is made each year based upon whatever is current in trends. The situation changes from time to time.

Now in the beginning it seemed like a very small benefit for a lot of money coming in, but remember that we were embracing what is called past service. Many, many people were brought into the plan for whom a nickle wasn't paid. We didn't want to leave them by the wayside. This had to be figured out costwise, especially in the beginning. As the plan matures, you can then make provision for better benefits, and that is attested to by the fact that there have been many, many increases in benefits, and a reduction in eligibility requirements,

the objective being to pay out as many benefits as the fund can afford. Very little is held back, just enough for a cushion.

Representative GRIFFITHS. You are convincing me that you are not looking at the contribution from the standpoint of what do you need. You are just taking the contribution and then deciding what you are going to pay.

Mr. PEARL. Partly.

Representative GRIFFITHS. What percentage of people did you estimate when you began would ever receive a pension?

Mr. PEARL. What we do—and I don't know the figure—we have a turnover assumption based upon statistics.

Representative GRIFFITHS. What was the turnover assumption?

Mr. PEARL. I haven't the figures here.

Representative GRIFFITHS. Can you supply them?

Mr. PEARL. I will be very happy to supply them; yes.

Representative GRIFFITHS. I would like to know if history has proved your assumption was correct?

Mr. PEARL. What we do is adjust them as history develops. That is standard.

Representative GRIFFITHS. That is what I was afraid of.

Mr. PEARL. In other words, as we go we make a new assumption, but not every moment. You have to see how it is going to develop. But I would like to add one thing to clarify something. It isn't as cut and dried as it appears. When the union goes into negotiation—and this is typical of many of our clients—they ask us in advance what a unit of a dollar that they bargain for will buy. Now we put our mathematics department on the matter, knowing the composition of the group, and we give the people who are in negotiation all the alternatives that are possible under the circumstances, and this helps guide them in their negotiation. I am sure that Mr. Martin has received figures like that in the past. We do that in practically all cases, so that they do not bargain in the dark.

Representative GRIFFITHS. You do this for both sides? You supply figures for both sides, do you?

Mr. PEARL. Well, we supply it to the fund which is our client.

Representative GRIFFITHS. All right. Now, do you have anybody else do this estimating for you?

Mr. MARTIN. We have the projected construction program ahead of us. That indicates how much labor is going to be used, what the costs of that labor will be, and what 5 or 4 percent will bring in. For instance, we have in New York probably 1 billion and three-quarters of work anticipated, but we are trying to break the logjam. Even this morning they are having a meeting of the council regarding what—a half-billion-dollar project with the Port of New York Authority, or rather the port of New York which takes in Jersey also, the trade center. That will run \$250 million in labor probably, if it goes through.

They have the Triborough Bridge and Tunnel Authority of a tunnel and a mid-Manhattan expressway. They have a lower Manhattan expressway. They have a shore development up along the Bronx shore, many arterial highway jobs.

I am talking only from a heavy construction standpoint, the people who do the dams, the tunnels, free air, compressed air. Now all of that

produces other work, produces the buildings that go up. Places that have to be demolished, new buildings are built up for them. That situation in downtown New York will be, I think, of tremendous help. That will in turn produce more development in that area, even going so far as thinking of having a new passenger port or passenger service for ships.

Representative GRIFFITHS. Are these Federal or State funds?

Mr. MARTIN. Yes; some are Federal funds. Only recently the Bureau of Public Roads wrote to New York State telling them that they had better not hold up the things too long. It wasn't the State so much, but I suppose normal developments come in that hold up work. It is quite possible they might lose some of the money.

Representative GRIFFITHS. If there are Federal funds, then all taxpayers are paying this 25 cents an hour.

Mr. MARTIN. Say that again?

Representative GRIFFITHS. If they are Federal funds, then all taxpayers are paying this 25 cents an hour into the pension fund. Then they have higher taxes because you pay this in tax free. When you figure your bid, and figure in this pension fund. You figure a percentage of profit on it, don't you?

Mr. MARTIN. I hope so, although some don't. That is right.

Representative GRIFFITHS. What is to prevent a pension fund, faced with a large loss of funds to other pension funds, from dropping out of the agreement?

Mr. PEARL. You mean reciprocal agreement?

Representative GRIFFITHS. Yes.

Mr. PEARL. They have a contractual arrangement for about a year. They have certain notice requirements, like any other group. They have stated a specified means of leaving the group.

Representative GRIFFITHS. What are the specifications? Do you have them here?

Mr. MAZZIOTTA. I have one of our reciprocal agreements.

Representative GRIFFITHS. If you want to drop out, how can you do it?

Mr. MAZZIOTTA. You can drop out, within a 4-year period. However, it is subject to arbitration. It is all in this agreement.

(The document referred to follows:)

RECIPROCAL AGREEMENT

Agreement made this 25th day of October, 1965, by and between the New York City District Council of Carpenters Pension Fund, Westchester County, N.Y., Carpenters Pension Fund, Nassau County Carpenters Pension Fund, Suffolk County Carpenters Pension Fund, Norwalk Carpenters Union Pension Fund, Pension Fund Local No. 964 United Brotherhood of Carpenters and Joiners, and such other Carpenters' Pension Funds as may become signatories to this agreement now or hereafter, in pursuance of the terms of this agreement, and who will ratify, accept and adopt, all of the terms and conditions of the said agreement, and agree to be fully bound thereby, and all of whom are hereinafter referred to as the "Reciprocating Pension Funds."

The foregoing Pension Funds and various other Pension Funds now or hereafter intending to and becoming parties signatory to this agreement, and all of whom are Pension Funds which have been or will be established to provide pensions for eligible carpenters and others working under collective bargaining agreements to which each of their Carpenters District Councils or Local Unions is a party thereto, and all of which labor organizations are affiliated with the United Brotherhood of Carpenters and Joiners of America, AFL-CIO, and who

have entered into collective agreements with employers, or who may in the future enter into further collective bargaining agreements with employers, embracing the performance of work by carpenters and others within the framework of such collective bargaining agreements, and which agreements now or hereafter entered into among other things provide or will provide that such employers are or shall be required to make contributions to the said funds designated in each instance and respectively by such collective agreements, and which pension funds are hereinafter referred to as the "Home Pension Fund."

Each of the "Reciprocating Pension Funds" provide and will continue to provide pension and other kindred benefits for the eligible beneficiaries and/or participants in the said respective funds.

Certain of the beneficiaries and/or participants in any one of the "Reciprocating Pension Funds" have been, now are or may be employed by employers engaged in work in the area of one or more of such "Reciprocating Pension Funds" other than the "Home Pension Funds", and the said employers, pursuant to the said respective collective bargaining agreements, now or hereafter entered into, have heretofore made, now make, or will continue to make contributions to one or more of such "Reciprocating Pension Funds" other than the "Home Pension Fund", upon the basis of the employment of the said beneficiaries and/or participants who may not, did not, do not, and/or would otherwise not receive pension benefits therefrom from the said "Reciprocating Pension Funds", or from the "Home Pension Fund" in which they are beneficiaries and/or participants because they are not members of the bargaining unit within the framework of the collective bargaining agreement with such District Council and/or Local Union, as required by the "Home Pension Plan", or because such contributions made or to be made by the employers for and on behalf of the said beneficiaries and/or participants, had not been or will not otherwise be paid to or received by the Home Pension Fund in which they are beneficiaries and/or participants, and by virtue of which circumstances therefore they will not have achieved the necessary eligibility and the requisite amount of dollar contributions made to accredit them for pension benefits.

All interested principals herein realize that as a result of the foregoing, participants and/or beneficiaries may be or are prevented from receiving pension benefits which should otherwise normally flow from the contributions made by employers to the "Home Pension Fund" while the contributions are made to the "Reciprocating Pension Funds" other than the "Home Pension Fund", having the collective bargaining agreement in the area in which such participants and/or beneficiaries are employed, instead of to the Home Pension Fund.

The aforementioned parties desire to stabilize the foregoing conditions, and recognize that it would be to the best interests of all the beneficiaries and/or participants of the various funds to provide benefits for such eligible beneficiaries and/or participants on the basis of employer contributions to any or all of the said reciprocating pension funds.

Now, therefore, in consideration of the mutual covenants herein contained, and by virtue of the execution of these presents, of each of the parties signatory hereto in reliance upon and in full faith of the signatures of the co-signatories hereto, it is therefore agreed as follows:

1. For each participant, one of the "Reciprocal Pension Funds", parties hereto, shall be designated as his Home Pension Fund.

a) A participant who, on January 1, 1965, is a member of one of the reciprocating pension funds shall have that fund designated as his "Home Pension Fund" provided he has a total of five years service credits, either past service or future service, or a combination of both, whether earned or credited.

Where a participant is, on January 1, 1965, a member of more than one of the said "Reciprocating Pension Funds", signatory to this agreement, and he has a total of five years of service credit, that Fund shall be designated his "Home Fund" in which he has the most years of service credits, either past service or future service or a combination of both.

b) Where a person does not have the required five years of service on January 1, 1965 then, that Fund in which he first accumulates five full years of pension service, either past or future or a combination of both shall be designated as his "Home Pension Fund." Until a person establishes his "Home Pension Fund" under this paragraph, the Pension Fund associated with his Local Union or District Council shall be deemed his "Home Pension Fund" for record keeping and accounting purposes only.

c) Should a participant have qualified for benefits or earned a vested right in one of the "Reciprocating Funds" prior to January 1, 1965, then that Fund shall be designated as his "Home Fund", regardless of the other provisions of this paragraph. Where such participant has qualified for benefits or earned a vested right in two or more of the "Reciprocating Funds" prior to January 1, 1965, then that Fund shall be designated his "Home Fund", regardless of the other provisions of this paragraph, in which he has the most dollar amount of vested benefit for which he has qualified or has a vested right.

2. After January 1, 1965 a participant may change his "Home Pension Fund" only if he moves his residence permanently into the area of another "Reciprocating Pension Fund" and requests such change in writing. The written request for such change must contain a waiver with respect to all past and future service credits earned in all Reciprocating Funds prior to the date of change and shall constitute a waiver of his right to transfer of any monies contributed to any of the Reciprocating Funds on his behalf prior to said date, as provided in paragraph 8 herein.

A participant whose Home Fund is designated under Paragraph 1(c) above may not avail himself of the privilege of changing his Home Fund.

3. When a participant becomes employed in the area of a Reciprocating Pension Fund, other than his Home Pension Fund, he shall give reasonable prompt written notice of such employment to his Home Pension Fund and to the other Reciprocating Pension Fund to which contributions on his behalf will be made while he is so employed.

In the absence of such notification, the participant waives all claims against both funds for failure to receive contributions on his behalf.

4. Each Reciprocating Pension Fund which collects employer contributions for or on behalf of an employee who is a beneficiary and/or participant in a Home Pension Fund other than the Pension Fund which receives such contributions, shall be the custodian of the principal amount of all such monies if the transfer is required under the provisions of Paragraph 6 hereafter.

Each year, the receiving fund shall report to each Home Fund the amounts received by it for and on behalf of Home Fund participants. At the same time, it shall keep such permanent records as may be necessary to account for these funds at the time of transferral.

5. The Home Pension Fund, in evaluating whether there has been a break in employment sufficient to cancel accrued pension credits in accordance with its rules, shall accept and credit the employee's record of work as disclosed by the books and accounts as reported in paragraph 4 of every other Reciprocating Pension Fund.

6. Whenever a participant or a beneficiary of a participant makes application to the Home Pension Fund for any benefit and the Home Pension Fund determines that such applicant is eligible for the benefit on the basis of all employer contributions received on behalf of the participant by all the Reciprocating Pension Funds, then and only then, the Home Pension Fund shall make demands on all other Reciprocating Pension Funds for all monies received by such Funds on behalf of the participant, subject to the limitation contained in paragraph 9, herein, and such monies shall be transmitted forthwith to the Home Pension Fund.

7. In determining the amount of benefit to be paid to an eligible applicant, the Home Pension Fund shall apply the monies received from all other Reciprocating Pension Funds to the credit of the applicant to the same extent and limit as would have governed if the same amount of money had been contributed to the Home Pension Fund when it was contributed to the other Reciprocating Pension Fund.

8. No participant shall be eligible to receive a Pension or any other benefits from more than one of the Reciprocating Funds; in view of the fact that the various Reciprocating Funds hereunder will transfer the moneys of all participants as provided for hereunder.

9. Anything herein to the contrary notwithstanding, employer contributions made to a Reciprocating Pension Fund prior to January 1, 1965, will remain the property of the pension fund which first received such contributions and will not be forwarded to any other pension fund. However, the Home Pension Fund will take the amounts of such contributions into account in determining whether the applicant is eligible for benefits but not in determining the amount of such benefits, except that such contributions made to that Reciprocating Pension Fund which is the Home Pension Fund when the eligibility for benefits is established shall be taken into account for all purposes.

10. The Reciprocating Pension Funds shall cooperate in the exchange of information and records related and pertinent to the matters set forth in this Agreement and shall furnish each other with copies of any Amendment that may be made to their respective pension plans.

11. The provisions of this Agreement shall be deemed effective as of the 1st day of January, 1965.

12. The provisions of this agreement shall be binding upon the parties hereto for a period of four years from January 1, 1965, and from year to year thereafter unless any one of the Reciprocating Pension Funds notifies all the other Reciprocating Pension Funds, in writing, by certified or registered mail, return receipt requested, at least six months prior to the expiration date of any anniversary period as set forth hereinabove, of their desire to so terminate this agreement. In the event that such notice is given, it shall be incumbent upon the Reciprocating Pension Fund thus terminating its affiliation with other Funds, as a condition for the full and effective severance of such Fund from the provisions of this agreement, to give a full and complete accounting of all moneys, without transferring the said moneys received by it for and on behalf of any employees whose Home Pension Fund is other than the one retiring from this arrangement. Any and all other approvals which may be required from the Treasury Department and/or the Insurance Department of the State of New York or any other Federal, State or City Agency, shall be pre-requisite, and serve as a condition precedent before such severance shall become fully and finally effective. In the event of a termination of any of the participating Pension Funds, it shall be necessary as a condition thereto that arbitration be had under the terms of the arbitration provisions contained in Article 14 hereinafter so as to determine the necessary accounting upon such termination with the authority on the part of the arbitrator to make an award covering both the accounting procedures and the ultimate liability if any on the part of the parties to the proceedings as well as the rights of all those participants and/or beneficiaries whose Home Pension Fund is other than the Fund applying for termination, and such other Reciprocating Pension Fund shall be made party to the said proceeding, and be given full and complete notice thereof in order to properly protect the rights of the Funds as well as those of the beneficiaries and/or participants.

13. Anything to the contrary notwithstanding, this agreement other than in the respect specifically provided for otherwise, shall not in any way affect the prerogatives, management rights, or the conduct of the trustees of the respective Reciprocating Pension Funds, as contained in their respective Trust Agreements, Pension Plans, By-Laws, etc.

14. Any controversies or claims which may now or hereafter arise out of or relating to this agreement, its termination or construction, or the performance or the breach thereof, shall unless amicably adjusted among all of the said parties, be submitted to a Board of Arbitrators at the request of any of the parties, in the following manner: One of the arbitrators shall be appointed by the Trustees of each of the Reciprocating Pension Funds within sixty days after notice given by any one of the other Reciprocating Pension Funds, that it desires arbitration of the controversies claimed to exist, and which notice shall be given by registered mail return receipt requested to the trustees of other Reciprocating Pension Funds, and request that the other Reciprocating Pension Fund or Funds, likewise appoint a second arbitrator within the time limit set forth herein, and failing in this, and in that event, that an appointment of an arbitrator shall be made by the American Arbitration Association in behalf of such other Fund or Funds, in pursuance of the rules and regulations of the American Arbitration Association. If the two said arbitrators are unable to agree within thirty days after their full and complete designation and authorization to act, then the American Arbitration Association, in pursuance of its rules and regulations, shall appoint an umpire, who, together with the two first appointed arbitrators, shall meet and proceed in accordance with the rules and regulations of the American Arbitration Association, and then make their award, which shall be binding, final and conclusive upon the parties. The remedy of arbitration, as specified herein, shall be in the exclusive remedy for the adjudication and/or determination of such claims or disputes which may arise as per the foregoing; except that if by provision of law or regulation of any government or state agency or other remedy or procedure is provided, then

in those instances, the right of such state, law or edict or administrative order shall in such specific instance transcend.

15. The effectiveness of this agreement is conditioned upon the submission of the necessary resolutions from each and every one of the reciprocating pension funds now or hereafter becoming signatory to this agreement, and legally certifying the right and authority for the representatives of the said fund to execute this agreement on behalf of the said several and respective Reciprocating Pension Funds, and shall further be subject to a prior approval of the Treasury Department of the United States, the Insurance Department of the State of New York, through its Welfare Fund Bureau, and such other governmental or state agencies, whose prior approval of or notice to the terms and provisions of this agreement may be required.

16. Other pension funds now or hereafter established under the terms of collective agreements with the United Brotherhood of Carpenters & Joiners of America, AFL-CIO, or any of its affiliate District Councils or Local Unions, may become parties to this agreement with the unanimous consent of all signatory Reciprocating Funds. This, however, shall not prevent and/or preclude any Reciprocating Fund, party to this agreement, from entering into another Reciprocal Agreement with any other pension fund or plan provided, however, that such other agreement does not adversely affect the rights or duties of that fund or other funds, and is not in conflict or derogation of the within agreement or in any way affects the operation thereof as is intended by the spirit and tenor of the said agreement.

17. This agreement shall be binding upon and inure to the parties signatory to this agreement, and their legal successors and assigns.

In witness whereof, the parties hereto have hereunto set their hands and seals the day and year first above written.

NEW YORK CITY DISTRICT COUNCIL CARPENTERS PENSION FUND,
By CHARLES JOHNSON, Jr.
JAMES B. MARTIN.

WESTCHESTER COUNTY, N.Y., CARPENTERS PENSION FUND,
By BRUNO CANEVA.
DONALD A. MARTIN.

NASSAU COUNTY CARPENTERS PENSION FUND,
By EDWIN E. REGNELL, Jr.
ARNOLD A. COCKER.

SUFFOLK COUNTY CARPENTERS PENSION FUND,
By EDWIN E. REGNELL, Jr.
GEORGE BABCOCK.

NORWALK CARPENTERS UNION PENSION FUND,
By RAYMOND J. DE ROSA.
LAURENCE J. BOTTOM.

PENSION FUND, LOCAL NO. 964 UNITED BROTHERHOOD
OF CARPENTERS AND JOINERS,
By PATRICK CAMPBELL.
FRANCIS AMASCOLA.

Mr. MAZZIOTTA. This is our reciprocal agreement among all the funds.

Representative GRIFFITHS. We will put it in the record. Thank you very much. You said the trustees were appointed, is that right?

Mr. MARTIN. I am appointed by the membership of the General Contractors Association.

Representative GRIFFITHS. When were you appointed?

Mr. MARTIN. At a meeting of the executive committee of the General Contractors Association.

Representative GRIFFITHS. Now do they reappoint you every year?

Mr. MARTIN. No.

Representative GRIFFITHS. You are just appointed.

Mr. MARTIN. I serve until they remove me or I do it myself.

Representative GRIFFITHS. Other people have come into the fund, haven't they, since you were appointed?

Mr. MARTIN. You mean other contractors?

Representative GRIFFITHS. Yes.

Mr. MARTIN. Come into our association?

Representative GRIFFITHS. Yes. Have they or not?

Mr. MARTIN. Not in any great number. Very few. Most of our members are maybe one or two generations away from the pick and shovel themselves. It is pretty much a family business.

Representative GRIFFITHS. How are your trustees appointed?

Mr. MAZZIOTTA. The union trustees?

Representative GRIFFITHS. Yes.

Mr. MAZZIOTTA. By the union. However, if one passes away, then—

Representative GRIFFITHS. You put somebody else in?

Mr. MAZZIOTTA. It is usually the officers of the district council.

Mr. MARTIN. Of course, I could be removed if the members are dissatisfied with me.

Representative GRIFFITHS. Do the carpenters have international pensions?

Mr. MAZZIOTTA. The general offices of the international have, but it hasn't got anything to do with New York.

Representative GRIFFITHS. Are the local officers a part of this pension fund?

Mr. MAZZIOTTA. I think we have one local officer who is an officer of our fund, and he is vice president of the international.

Representative GRIFFITHS. But is any local officer entitled to draw a pension under this fund?

Mr. MAZZIOTTA. Under our fund here?

Representative GRIFFITHS. Yes.

Mr. MAZZIOTTA. No.

Mr. PEARL. They have a separate plan?

Mr. MAZZIOTTA. Yes.

Representative GRIFFITHS. And in their plan, are pensions for local officers financed from union dues?

Mr. MAZZIOTTA. We have 40-odd locals in New York.

Now all the—we will call them business representatives—are part of the district council fund.

This includes all the employees of the fund and all the employees of the various locals, and it is separate and distinct from this fund.

Representative GRIFFITHS. I see. And is it a contributory one?

Mr. PEARL. Yes.

Mr. MAZZIOTTA. On both sides, the union pays for the employee a certain percentage.

Representative GRIFFITHS. And they pay so much.

Mr. MAZZIOTTA. And above and beyond a certain amount, the employee pays a certain percentage.

Representative GRIFFITHS. Why do you have a contributory plan for local officers?

Mr. MAZZIOTTA. It is an entirely different plan.

Representative GRIFFITHS. Yes; but why? Everybody has this situation. If I were a member, I would figure that what was good enough for the officers was good enough for me.

Mr. MAZZIOTTA. The State insurance department in New York has raised questions concerning the participation of union employees and officials in the carpenter's pension fund.

Representative GRIFFITHS. But still why do they want a contributory plan? Isn't one of the real answers that you have some rights in the contributory plan?

Mr. MAZZIOTTA. Yes.

Representative GRIFFITHS. You have got to work 25 years to get some rights in this one, don't you?

Mr. MAZZIOTTA. In the carpenter's plan you require 25 years of credits.

Representative GRIFFITHS. Or be 65.

Mr. MAZZIOTTA. Or if you are disabled you can retire at any age.

Representative GRIFFITHS. But you have to be in 25 years and be 65?

Mr. MAZZIOTTA. Well, in our plan——

Mr. PEARL. It can be 20 years.

Mr. MAZZIOTTA. It is still 65 years of age.

Representative GRIFFITHS. How long does it take an officer to acquire a vested right?

Mr. MAZZIOTTA. They have to be 65. That is the retirement age.

Representative GRIFFITHS. Suppose they were just elected at 60.

Mr. MAZZIOTTA. When they are 65, they can receive a pension because once they are 65 and still employed, they qualify to apply for a pension benefit.

Representative GRIFFITHS. Do they retire at 65?

Mr. MAZZIOTTA. No, usually they continue working.

Representative GRIFFITHS. What kind of pension do they draw?

Mr. MAZZIOTTA. Well, it is all according to the number of years of credits a participant has acquired. Take me for instance, I am not a union official. If I worked 30 years for the pension fund and welfare fund, perhaps I could eventually receive \$400 or \$500 a month pension benefit.

Representative GRIFFITHS. Well, I'll tell you, I think that public officials and union officers all should have a retirement date. There should come a day when you can't work any longer.

I am very grateful to you for coming in and explaining your plan, and I do congratulate you. It is a good plan, and I want to make it quite clear once again we have found we have no trouble getting the good plans to come in. They are all pleased to make a statement.

But it is some of these plans that aren't planned so well that we have a little trouble getting to come in.

Mr. PEARL. Thank you very much. It has been a privilege to appear here.

Representative GRIFFITHS. This committee will reconvene at 2 o'clock.

(Whereupon, at 11:20 a.m., the committee was adjourned, to reconvene at 2 p.m., of the same day.)

AFTERNOON SESSION

STATEMENTS OF HAROLD H. SCHROEDER, ASSISTANT VICE PRESIDENT OF THE AMERICAN TELEPHONE & TELEGRAPH CO., AND LOUIS KNECHT, SPECIAL ASSISTANT TO THE PRESIDENT OF THE COMMUNICATION WORKERS OF AMERICA, AFL-CIO; ACCOMPANIED BY WILLIAM BITTLE, SENIOR RESEARCH ASSOCIATE, CWA

Representative GRIFFITHS. This committee will be in order. I am very happy to welcome you here, and I would like to say again that we are hearing about the good plans. You may proceed, gentlemen, in any order in which you care to.

Mr. SCHROEDER. My name is Harold H. Schroeder. I am an assistant vice president of the American Telephone & Telegraph Co. and I appear on behalf of the Bell System. The Bell System consists principally of the American Telephone & Telegraph Co., 21 regional telephone operating companies, Western Electric Co., and Bell Telephone Laboratories. Each company has a separate pension plan and separate funds separately administered. These plans cover approximately 800,000 active employees and about 90,000 employees retired on service pensions. There are 30 banks as trustees. Since the plans are substantially identical, I will describe the American Telephone & Telegraph Co. plan and then furnish statistics covering all of the funds.

In giving you a description of the A.T. & T. pension plan and how it operates, I am omitting many details because of time limitations. Copies of our booklet, "Plan for Employees' Pensions, Disability Benefits, and Death Benefits," have been furnished to the committee.

(Document referred to follows:)

PLAN

FOR

EMPLOYEES' PENSIONS

DISABILITY BENEFITS

and DEATH BENEFITS

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

**EFFECTIVE JANUARY 1, 1913, WITH AMENDMENTS TO AND INCLUDING
THE AMENDMENT EFFECTIVE SEPTEMBER 10, 1964**

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**SUMMARY OF
PLAN FOR EMPLOYEES' PENSIONS,
DISABILITY BENEFITS AND DEATH BENEFITS**

Effective January 1, 1913, with Amendments to
and including the Amendment Effective September 10, 1964

The purpose of this Summary is to give an over-all view of the benefits provided as simply as possible. Many qualifications important in particular situations are omitted here but are of course found in the Plan itself, the text of which begins on Page 9.

PENSIONS - (Section 4 of Plan)

Eligibility - Age, Term of Employment, and Approvals

Pensions are provided for employees upon their retirement when the various conditions summarized below have been met.

<u>Kind of Pension</u>	<u>Minimum Age</u>	<u>Minimum Term of Employment</u>	<u>Committee Approval Required</u>
<u>Service Pensions</u>			
Class A	65 men and women	15 years	No
	55 women } 60 men }	20 years	No
Class B	50 women } 55 men }	25 years	Yes
Class C	None	30 years	Yes
<u>Disability Pensions</u>			
Class D	None	15 years	Yes, as to fact and extent of disability.*

*If employees qualify for Service Pensions, these are granted instead. Disability pensions are discontinued if disability ceases. Disability from on-the-job accident is provided for separately under Accident Benefits.

Summary

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Pension Amounts

The amounts of pensions payable depend upon rate of pay, length of service, and entitlement to Social Security benefits, and are as follows:

Regular Formula for Service Pensions

- During the retirement period after eligibility for Social Security Old Age Insurance Benefits (O.A.I.B.). Eligibility is currently at age 62.

The monthly amount which when added to one-third of the employee's O.A.I.B. will equal 1% for each year of employment of the employee's average monthly rate of pay for his final 5 years of employment.

Example - One-third O.A.I.B. is \$41; Term of employment is 40 years; Average monthly wage for last 5 years is \$600; Thus \$199 plus \$41 = \$240 (40% of \$600).

- During the period before entitlement to O.A.I.B.

The monthly amount equal to 1% for each year of employment of the employee's average monthly rate of pay for his final 5 years of employment.

Regular Formula for Disability Pensions

- While entitled to Social Security Disability Insurance Benefits (D.I.B.) and before age of eligibility to Social Security Old Age Insurance Benefits (O.A.I.B.).

The monthly amount which when added to one-third of the employee's D.I.B. will equal 1% for each year of employment of the employee's average monthly rate of pay for his final 5 years of employment, e.g., 25% for 25 years of employment.

- While not entitled to a D.I.B. or after age of eligibility to an O.A.I.B.

The monthly amount equal to 1% for each year of employ-

Summary

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ment of the employee's average monthly rate of pay for his final 5 years of employment.

Minimum Pension Amounts - Service and Disability Pensions

If 1% for each year of employment of the employee's average monthly rate of pay for his final 5 years of employment is less than the appropriate monthly amount shown below, the appropriate amount below will be substituted in determining the pension before age 62, between ages 62 and 65, and after age 65. (One-third of the Social Security O.A.I.B. or D.I.B. will also be taken into account in the same way as indicated under the preceding Regular Formula headings.)

While pensioner is under age 65	- \$ 85
While pensioner is age 65 or older, and	
- term of employment is 20-29 years	- \$115
- term of employment is 30-39 years	- \$120
- term of employment is 40 years or more	- \$125

Exceptions - These minimum amounts are proportionately reduced for employees retiring on service pension with less than 20 years' service at age 65 and may not apply in the case of part-time employees or for disability pensions where service is less than 20 years.

Annuitant's Pension

Any employee eligible to retire on and after October 31, 1963 with a pension designated "Class A" in the first section of this Summary may elect, at least 90 days before retirement, to receive a smaller monthly pension, so that at his death after retirement 1/3 of the reduced pension will be paid to the person the employee has designated. Such a payment will be made for the remainder, if any, of that person's lifetime after the employee's death, but will not begin before that person becomes age 55. A person to whom such a pension is paid is called an annuitant. An employee may so designate only one annuitant. An annuitant may be only the employee's

Summary

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spouse or the employee's mother or father. If an election is made, the employee may not rescind it under any circumstances, but it will be cancelled if either the employee or the person designated dies before the day the employee's pension was to begin.

If a man eligible to retire with a pension designated "Class A" in the first section of this Summary dies on or after October 31, 1963 and before he retires, his surviving wife will be entitled to receive an annuitant's pension for the remainder of her lifetime after age 55 equal to the amount she would have received had he filed an election in her favor and retired immediately before he died.

The right to an annuitant's pension does not give the annuitant any other added rights under this Plan or other programs of the Company.

ACCIDENT DISABILITY BENEFITS- (Section 5 of Plan)

These benefits for disability caused by on-the-job accidents begin on the first day of disability.

Total Disability - Full pay 13 weeks (longer after 15 years of service) half pay for remainder of disability.

Partial Disability - For first 13 weeks (longer after 15 years of service), 100% of loss in earning capacity; for remainder of disability, 50% of loss in earning capacity. Period of payments not to exceed six years in all.

For employees with 15 years or more of service, the periods stated as 13 weeks are increased to the full pay periods in the schedule of Sickness Disability Benefits below.

NOTE: These payments include Workmen's Compensation amounts.

SICKNESS DISABILITY BENEFITS - (Section 6 of Plan)

These benefits commence on the eighth calendar day of absence on account of sickness or accidental injury occurring outside

Summary

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of employment and are as follows:

- a. Term of Employment 1 to 2 years - half pay 9 weeks.
- b. Term of Employment 2 to 5 years - full pay 4 weeks;
half pay 9 weeks.
- c. Term of Employment 5 to 10 years - full pay 13 weeks;
half pay 13 weeks.
- d. Term of Employment 10 to 15 years - full pay 13 weeks;
half pay 39 weeks.
- e. Term of Employment 15 to 20 years - full pay 26 weeks;
half pay 26 weeks.
- f. Term of Employment 20 to 25 years - full pay 39 weeks;
half pay 13 weeks.
- g. Term of Employment 25 years or more - full pay 52 weeks.

DEATH BENEFITS - (Section 7 of Plan)

Beneficiaries - Payments are mandatory for -

- A wife living with the employee or pensioner at the time of death, or
- A husband supported by the employee or pensioner and incapable of self-support, or
- Dependent children under 18 (or older if incapable of self-support).

- Payments are discretionary for -

Other relatives, such as mother, father, brother or sister if dependent on employee or pensioner provided there is not also a mandatory beneficiary.

If there are no qualified beneficiaries, payment *may* be made toward expenses connected with last illness, and up to \$500 for funeral expenses.

Schedule of Benefits for active employees

To mandatory beneficiaries -

Summary

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When death occurs from sickness (or accident off duty)

Term of Employment	Maximum Payments
6 months but less than 2 years	4 months' wages
2 but less than 3 years	6 " "
3 " " " 4 "	8 " "
4 " " " 5 "	10 " "
5 years or more	12 " "

Regardless of term of employment, if death occurs from an accident on duty -

- 3 years' pay (limit \$30,000 or the amount of sickness death benefit, if larger)
- funeral expenses up to \$500.

NOTE: The accident death benefits specified above include payments required by Workmen's Compensation Laws.

To discretionary beneficiaries, the amount of payments is also discretionary.

Schedule of Benefits for employees retired on pension

To mandatory beneficiaries -

If date of retirement is on or after October 31, 1963, one year's wages, as of the date of retirement.

If date of retirement is prior to October 31, 1963, one year's wages, reduced by 10% for each *full* year elapsed since retirement and up to October 31, 1963, but not less than the amount of one year's pension.

To discretionary beneficiaries amounts of payments are also discretionary.

Manner of Payment - The Death Benefits described above will be paid as specified by the Committee, except that the Death Benefit payable to a mandatory beneficiary will be paid in from 2 to 120 equal monthly installments if the employee or

Summary

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pensioner has filed a written direction to that effect. Death Benefits will cease in all cases upon the death of the beneficiary.

EFFECT OF PAYMENTS PROVIDED BY LAW

Under some circumstances as provided in Section 8, Paragraphs 27 and 28 of the Plan, benefits and pensions are subject to certain adjustments on account of payments provided by law.

APPLICATIONS FOR BENEFITS

Applications for benefits shall follow the approved instructions of the Company. If such instructions are not readily available, applicants should promptly communicate with the Secretary of the Employees' Benefit Committee, to whom should also be addressed other communications with reference to the Plan.

RETIREMENT AGE

By action of the Directors of the Company a rule has been adopted which requires that every officer or other employee becoming 65 years of age shall retire at the end of the month in which that age is reached. Provision is made, however, that by specific action of the Directors the operation of this rule may be delayed from year to year with respect to any employee who is performing such services for the Company that continuation in active employment is deemed for the best interests of the service. Pensions will be voted to those persons retired by the operation of this rule who are eligible to pensions under the Plan at the date of retirement.

EMPLOYEES' RECORD OF SERVICE

Each employee on entering the service of the Company will be given a copy of this pamphlet and, at that time or at such later time as is the practice of the Company, will be required to furnish for the files of the Committee, on a form supplied for that purpose, information regarding his previous service.

Summary

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LEAVE OF ABSENCE, LAY-OFF AND TRANSFER

Attention is called to the provisions in regard to absences from the service contained in Paragraphs 4, 5 and 6 of Section 8 of the Plan. In order that all employees may be treated fairly, the Company has established routines which must be observed if the continuity of the employee's service is to be preserved in case of transfer from one Company to another and in case of any absence from the service without pay. Failure on the part of the employee to inform himself of these routines and to observe them may result in loss of credit for previous service. Employees may obtain information regarding the routines from their immediate supervisors or from the Secretary of the Employees' Benefit Committee.

Section 1. Undertaking

Section 2. Definitions

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**PLAN FOR EMPLOYEES' PENSIONS,
DISABILITY BENEFITS AND DEATH BENEFITS**

Effective January 1, 1913, with Amendments to
and including the Amendment Effective September 10, 1964

Section 1. UNDERTAKING

The American Telephone and Telegraph Company undertakes in accordance with these Regulations, to provide for the payment of definite amounts to its employees when they are disabled by accident or sickness or when they are retired from service, or, in the event of death, to their dependent relatives, or, in certain cases, to their annuitants.

Section 2. DEFINITIONS

1. In these Regulations the word "Plan" shall mean the Plan for Employees' Pensions, Disability Benefits and Death Benefits, as set forth in these Regulations.
2. The word "Company" shall mean the American Telephone and Telegraph Company, a New York corporation, or its successors.
3. The words "President" and "Board of Directors" or "Board" shall mean the President and Board of Directors respectively of the Company.
4. The word "Committee" shall mean the persons appointed by the Board to administer the Plan.
5. The word "Employees" shall mean those persons who receive a regular and stated compensation from the Company other than a pension or retainer.
6. The expression "term of employment" shall mean period of continuous employment in the service of the Company, or of the Company and one or more Associated or Allied Companies with which agreements have been or shall be made for interchange of benefit obligations as provided in Section 9 of these

Section 2. Definitions

Section 3. Committee

Section 4. Pensions

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Regulations, or in the service of any Bell Company predecessor of any of the above Companies. Service in companies subsidiary to, allied with or predecessors of an Associated or Allied Company will be considered, in determining "term of employment," as service in the Associated or Allied Company, in all cases authorized by appropriate action on the part of the Associated or Allied Company and approved by the Committee of the American Telephone and Telegraph Company.

Section 3. COMMITTEE

1. There shall be a Committee of five (5) appointed by the Board to serve during its pleasure, which Committee shall be called the Employees' Benefit Committee. This Committee shall be charged with the administration of the Plan.
2. The Committee shall have the specific powers elsewhere herein granted to it and shall have such other powers as may be necessary in order to enable it to administer the Plan.
3. It shall determine conclusively for all parties all questions arising in the administration of the Plan.
4. It shall be empowered to authorize disbursements according to these Regulations.
5. It shall adopt such By-Laws and rules of procedure as it may find necessary, subject to the approval of the President.
6. It shall be empowered to employ a Secretary and such other assistants as may be required in the administration of the Plan.
7. The expenses of the Committee in administering the Plan shall be borne by the Company.

Section 4. PENSIONS

1. a. All male employees who have reached the age of sixty years and whose term of employment has been twenty or more years and all female employees who have reached the age of fifty-five years and whose term of employment has been twenty or more years and all employees who have reached

Section 4. Pensions



the age of sixty-five years and whose term of employment has been fifteen or more years shall if they so request, or may at the discretion of the Committee, be retired from active service and, upon such retirement, shall be granted service pensions.

b. Any employee whose term of employment has been thirty years or more, or any male employee who has reached the age of fifty-five and whose term of employment has been twenty-five or more years, or any female employee who has reached the age of fifty years and whose term of employment has been twenty-five or more years may, if the case is approved by the Committee as appropriate for such treatment, be retired from active service and, upon such retirement, shall be granted a service pension.

c. Any employee who has become totally disabled as a result of sickness or of injury, other than by accidental injury arising out of and in the course of employment by the Company, and whose term of employment has been fifteen years or more, shall upon retirement by reason of such disability be granted a pension, which pension is designated a "disability pension"; provided, that if, at the time of such retirement, the employee is qualified for a service pension under sub-paragraph (a) or (b) above, a service pension shall be granted instead of a disability pension. A disability pension shall continue so long as the employee is prevented by such disability from resuming active service with the Company. If the employee recovers sufficiently to resume active service, the disability pension shall be discontinued and if the employee reenters the service of the Company at that time, the period of absence on disability pension shall be considered as a leave of absence and not as a break in the continuity of the employee's service.

2. The annual pension allowance for each employee retired with a pension on account of age, length of service or disability shall be as follows:

Section 4. Pensions

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For each year of his term of employment, one per centum (1%) of the average annual pay during the five years next preceding retirement, provided, however, that the Committee may, at its discretion, base such pension upon the average annual pay of the five consecutive years of service during which the retired employee was paid the highest rate of wages; provided, however, that the use of five consecutive years of service in computing the pension allowance of an employee retired prior to the end of February, 1959, shall not increase his pension allowance, as computed prior to the end of February, 1959, by more than One Hundred Dollars (\$100) per month. The minimum pension for all persons on pensions and who may be retired on pensions under this Plan shall be determined as follows:

a. Except in cases covered by sub-paragraph (b) of this Paragraph 2, the minimum pension for a retired employee who has attained age 65 shall be One Hundred and Twenty-Five Dollars (\$125) per month if at the date of retirement he had a term of employment of 40 years or more, One Hundred and Twenty Dollars (\$120) per month if at the date of retirement he had a term of employment of 30 years or more but less than 40 years, One Hundred and Fifteen Dollars (\$115) per month if at the date of retirement he had a term of employment of 20 years or more but less than 30 years, and such proportion of One Hundred and Fifteen Dollars (\$115) per month as his term of employment bears to 20 years if at the date of retirement he had a term of employment of 15 years or more but less than 20 years, and the minimum pension for any other retired employee receiving a pension shall be Eighty-Five Dollars (\$85) per month.

b. In the case of pensions granted under Paragraph 1(c) of this Section to employees of less than 20 years' service, and in cases in which, in the opinion of the Committee, the days or hours constituting the employee's normal service have not been adequate to constitute full-time service during the number of years required to establish eligibility to pen-

Section 4. Pensions



sion in the class under which the employee is retired, or to establish eligibility to a minimum pension specified in (a) above, the payment, at the discretion of the Committee, may be less than the applicable minimum amount specified in (a) above, but not less than the amount otherwise payable under the provisions of this Plan.

The pensions herein specified are subject to all applicable provisions of this Plan, including adjustment as provided by Paragraph 28 of Section 8 on account of benefits under the Federal Social Security Act.

- 3. a. An employee who retires on or after October 31, 1963, under the provisions of Paragraph 1(a) of this Section and who has given written notice upon a form prescribed by the Committee at least 90 days prior to retirement or on or before November 30, 1963, whichever is later (or, in case retirement is not at the employee's request and is before the employee has attained age 65, within 90 days after action by the Committee on retirement) may elect to have his service pension made payable in reduced amounts to him for life and in lesser amounts thereafter to a surviving annuitant for life. The surviving annuitant may only be a spouse or parent who shall be designated by name in such election. In the event of such election, the amount of service pension otherwise payable under this Plan to the retired employee shall be reduced by an amount computed on an actuarial basis by the Committee as of the time of retirement, taking into account the age of the employee and of his designated annuitant. The amount to be paid the annuitant for as long as such annuitant survives such employee shall be computed as of the time of retirement of such employee on an actuarial basis as a level amount equal to one-third of the reduced service pension payable to the employee; provided that no such payment shall be made to a designated annuitant until he shall have attained the age of 55 years. For the purpose of computing one-third of such reduced service pension as a level amount, there shall be taken into account, where applicable, the

Section 4. Pensions

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fact that such retired employee would after retirement become entitled to a related benefit under the Federal Social Security Act for which adjustment would be made in accordance with Paragraph 28 of Section 8, but there shall not be taken into account any benefit to which an annuitant is or may become entitled under the Federal Social Security Act.

b. An election once made shall be irrevocable and the retired employee's pension shall be the reduced amount referred to in Paragraph 3(a) of this Section regardless of whether his annuitant survives him, except that in the event of the death of a designated annuitant prior to retirement of an employee, such election shall be deemed to be revoked, in which event, subject to the conditions and limitations (including those as to time) above specified in this Paragraph, such employee may designate another qualified annuitant.

c. In the event of the death prior to retirement of a male employee who has attained the age and term of employment specified in Paragraph 1(a) of this Section, and who has a surviving wife, such surviving wife shall be entitled to receive the amounts payable to the annuitant as if such employee had been retired on service pension on the date of his death. Except as provided in this Paragraph 3(c), no pension payment shall be made to an annuitant of an employee if such employee dies prior to retirement.

4. Pensions shall be payable monthly or at such shorter periods as the Committee may determine in each case.

5. Except as provided in Paragraph 3 of this Section service pensions granted to employees shall continue from date of retirement to death of pensioner.

6. Regular employment under a salary with this Company or with any company with which arrangements for interchange of benefit obligations, as described in Section 9 of these Regulations, have been made directly, or indirectly, shall suspend

Section 4. Pensions

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the right of a retired employee to pension payments during the period he continues in such employment.

7. If an officer of this Company is retired on a service pension and thereafter becomes regularly employed for compensation (except as provided in Paragraph 6 of this Section) the service pension of such retired officer shall be reduced during the term of such employment, or over a period equal to the term of such employment, by the amount of compensation received therefor, unless the Committee with the approval of the Board of Directors shall otherwise determine.

8. The Committee shall notify all employees of their eligibility to retire on service pensions at their own request, as they become eligible.

9. In order to meet its obligations to pay service pensions (defined in Paragraphs 1(a) and 1(b) of this Section) granted to take effect under the Plan, the Company, effective Jan. 1, 1927, established a trust fund to be known as the "Pension Fund." It undertakes to maintain this Fund by periodic charges to operating expenses and payments to the Fund in such amounts that when employees are retired or become eligible to retire at their own request under the Plan there will be available in the Pension Fund an amount sufficient to provide for them (and for their annuitants in accordance with Paragraph 3 of this Section) pensions in the amounts stated in the Plan. The Company, effective September 10, 1964, has also established a trust fund to be known as the "Second Pension Fund" for payment of certain death benefits as set forth in Paragraph 9 of Section 7. It undertakes to maintain this Fund by periodic charges to operating expenses and payments to the Fund in such amounts that there will be available in the Fund an amount sufficient to provide death benefits which may be payable from the Fund under the Plan. The Pension Fund and the Second Pension Fund shall be held by a trustee or trustees for, respectively, service pension and death benefit purposes only and shall be disbursed as directed by the Company from time to time. In case of termination of the Plan, or in case of

Section 4. Pensions

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revocation or other termination of any trust agreement for service pension or death benefit purposes executed under the Plan, the Company undertakes to preserve the integrity of the Pension Fund and the Second Pension Fund as trust funds to be applied solely to service pension and death benefit purposes and to take such action as may be necessary or appropriate to insure the application of the entire fund or funds to such purposes. All service pensions granted to take effect under the Plan shall be paid from the Pension Fund either directly or through the purchase of annuities from an insurance company as the Company may determine.

10. In the event of termination of the Plan, the balances in the Pension Fund and in the Second Pension Fund shall, for purposes of this Paragraph 10, be considered together as "Pension Fund" and shall be applied as follows:

First: To making adequate provision for the payment of the full amounts of the service pensions previously granted to retired employees (including the full amounts payable to designated annuitants of retired employees) if such employees or such annuitants are on the pension roll as of the termination date; for the payment of the full amounts which may be payable in the future to designated annuitants of employees who have retired and who are on the pension roll as of the termination date; for the payment of the full amounts of the service pensions to which employees eligible, as of the termination date, for retirement at their own request have then become entitled, such pensions to start upon the employee's retirement from active service, including the payment of the full amounts which may be payable to designated annuitants of such eligible employees, following the death of such eligible employees after their retirement, such amounts to be computed in accordance with the provisions of Paragraph 3(a) of this Section on the basis of the

Section 4. Pensions

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service pensions to which such eligible employees have become entitled as of the termination date; and for the payment of the full amounts payable in accordance with the provisions of Paragraph 3(c) of this Section to the widows of employees so eligible for retirement if such employees die before retirement, such amounts to be computed in accordance with the provisions of Paragraph 3(a) of this Section on the basis of the service pensions to which employees so eligible for retirement have become entitled as of the termination date.

Second: To making provision (but only from that portion of the Pension Fund representing the balance in the Second Pension Fund) for the payment of death benefits attributable to deaths occurring prior to the date of termination which would have been payable from the Second Pension Fund, and for the payment, upon the deaths of retired employees who are on the pension roll as of the date of termination and of employees eligible as of that date for retirement at their own request, of death benefits which would have been payable from the Second Pension Fund, had the Plan not been so terminated.

Third: To making provision, to the extent permitted by the balance, if any, remaining in the Fund after the foregoing provision shall have been made, for the payment of deferred pensions starting at age sixty-five and continuing until the death of pensioner, computed as hereinafter specified, to all employees who have become eligible, as of the termination date, for retirement on service pension with the approval of the Committee, but not at their own request. If the remaining balance in the Fund shall be insufficient, in the judgment of the Company, to provide the full amount of the computed deferred pensions to employees in this

Section 4. Pensions

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group, the amount of the pension to each employee in the group shall be reduced pro rata.

Fourth: To making provision, to the extent permitted by the balance, if any, remaining in the Fund after the foregoing provision shall have been made, for the payment of deferred pensions starting at age sixty-five and continuing until the death of pensioner, computed as hereinafter specified, to all employees who have not yet become eligible as of the termination date for retirement on service pension at their own request or with the approval of the Committee, but who have completed a term of employment of ten or more years on that date and would, if continued in active service until the end of the month during which they would attain age sixty-five, complete a term of employment of twenty years on or before the end of that month. If the remaining balance in the Fund shall be insufficient, in the judgment of the Company, to provide the full amount of the computed deferred pensions to employees in this group, the amount of the pension to each employee in the group shall be reduced pro rata.

Fifth: In the event that there is any remaining balance in the Pension Fund after making provision deemed adequate for the full amount of the pensions hereinbefore specified as payable in case of termination of the Plan, such balance shall be applied solely for service pension purposes in an equitable manner consistent with the purposes of the Plan.

The deferred pensions, specified in this Paragraph 10 as payable to employees who have not yet become eligible as of the termination date for retirement on service pension at their own request, shall be computed, without allowance for any payment upon the death of the employee, in accordance with the provisions of Paragraph 2 of Section 4, subject to the provisions of Paragraphs 27 and 28 of Section 8, except that the term of

Section 4. Pensions

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employment used in the computation shall end as of the date of termination of the Plan, the average annual pay used in the computation shall in every case be the average annual pay for the ten year period ending on the date of termination of the Plan, and the provisions relating to minimum pensions shall not apply. The payment of such deferred pension shall not be contingent upon the employee's continuing in the service of the Company after the termination of the Plan. In all cases such deferred pensions shall be computed on the basis of the employee's age and term of employment as shown by the Company's records as of the termination date. The Company reserves the right to make provision out of the Pension Fund for any or all pensions specified in this paragraph through the purchase of annuities from an insurance company or in such other manner as the Company may determine. In the case of all pensions for which provision is made through the purchase of annuities from an insurance company, the delivery of an annuity contract to each employee (or annuitant) to whom such pensions are payable shall serve to absolve the Company and the Pension Fund from any further obligation for the payment of such pensions. In the case of all pensions for which provision is not made through the purchase of annuities from an insurance company, the Company's judgment as to the adequacy of the alternative provision made shall be final. If such alternative provision made, as of the termination date, for deferred pensions to employees not then retired or eligible for retirement at their own request should thereafter at any time appear, in the judgment of the Company, to be inadequate or more than sufficient to continue the payment of the amounts previously estimated to be payable, the remaining payments on all such pensions shall be adjusted pro rata in accordance with the remaining provision available. In lieu of the deferred pensions starting at age sixty-five as provided for in this paragraph, the Company reserves the right to offer to all or specified groups of employees the option of a reduced pension starting at an earlier age, or such other form of payment as may be consistent with the employee equities involved. The Company's judgment as to the amounts and

Section 4. Pensions

Section 5. Accident Disability Benefits

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methods of such alternative payments and the groups to which such options are to be offered shall be final. If any pension payable under the provisions of this paragraph amounts to less than Ten Dollars (\$10) per month, the Company reserves the right to pay to the employee (or annuitant) upon the date the pension becomes payable the commuted value of such pension in a single lump sum.

11. All Disability Pensions (defined in Paragraph 1(c) of this Section) shall be a charge to the operating expense accounts of the Company when and as paid.

Section 5. ACCIDENT DISABILITY BENEFITS

1. All employees of the Company shall be qualified to receive payments under these Regulations on account of physical disability to work by reason of accidental injury (not including the accidental injuries specified in Paragraph 13 of Section 8 of these Regulations) arising out of and in the course of employment by the Company. Such payments are hereinafter referred to as Accident Disability Benefits.

2. Accident Disability Benefits shall be as follows:

a. Total Disability—Full pay for any period of total disability during the first thirteen weeks of disability, and half pay for any period of total disability after the first thirteen weeks of disability.

b. Partial Disability—For any period of partial disability during the first thirteen weeks of disability, 100% of the difference between full pay at time of injury and wages which, in the judgment of the Committee, the employee is capable of earning; for any period of partial disability after the first thirteen weeks of disability, 50% of difference between full pay at time of injury and wages which, in the judgment of the Committee, employee is capable of earning, provided, however, that no payments for partial disability shall be made after the expiration of six years of disability payments.

Section 5. Accident Disability Benefits

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c. Beginning January 1, 1940, the thirteen-week periods specified above in sub-paragraphs (a) and (b) shall, for accident disability cases originating on and after said date, be increased to conform to the schedule for full-pay periods set forth in Paragraph 2 of Section 6, if the term of employment is 15 years or more.

“Full pay” and “half pay” for the purposes of this paragraph shall be based on the number of hours per week commonly regarded as constituting full time service, not including overtime, and shall be computed at the employee’s rate of pay at the time the disability began.

3. If after a period of total disability the disability becomes partial or after a period of partial disability the disability becomes total, the amount of the benefits shall be changed accordingly.

4. In ascertaining the period during which Accident Disability Benefits shall be paid, the period of disability shall be taken as commencing upon the first day on which, because of disability, a full day’s wages is not paid. Successive periods of disability from accident shall be counted together if from the same accident and separately if from different accidents.

5. Accidental injuries shall be considered as arising out of and in the course of employment only where the injury has resulted solely from accident during and in direct connection with the performance of duties to which the employee is assigned in the service of the Company, or which he is directed to perform by proper authority, or in voluntarily protecting the Company’s property or interests, and there must be a clear and well-established history of the cause and circumstances of injury accidentally inflicted, and they must be sufficient to produce the alleged injury, and there must be satisfactory evidence that such injury renders the employee unable to perform his duty in the service of the Company.

6. In case of accidental injury to any employee arising out of and in the course of employment by the Company, resulting in

Section 5. Accident Disability Benefits

Section 6. Sickness Disability Benefits

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permanent loss of a bodily member or loss of its use, special benefits, in lieu of all other benefits on account of such injury, may be awarded by the Committee, provided, however, that such special benefits shall not exceed the payment hereinafter authorized to be paid in case of death from accidental injury, except by specific authority from the Board.

7. In case of accidental injury to any employee arising out of and in the course of employment by the Company, the necessary expenses for "first aid" shall, on approval of the Committee, be paid by the Company. In addition the Company will pay for necessary surgical treatment, but no employee shall have authority to contract any bills against the Company or the Committee and nothing herein shall be held to mean or imply that the Company will be responsible for such bills as an employee may contract or his surgeon may charge. Bills for surgical treatment must be itemized before they will be considered by the Committee. The decision as to whether in any case surgical treatment was necessary and as to what constitutes surgical treatment shall rest with the Committee. At its discretion the Committee may authorize payment of other expenses necessary for the proper care and treatment of the employee, during such period as the Committee may determine.

8. All Accident Disability Benefits and related expenses shall be a charge to the operating expense accounts of the Company when and as paid.

Section 6. SICKNESS DISABILITY BENEFITS

1. All employees of the Company shall, after a term of employment of one year, be qualified to receive payments under these Regulations on account of physical disability to work by reason of sickness. Such payments are hereinafter referred to as Sickness Disability Benefits. Such payment shall terminate when disability ceases and shall in no case extend beyond the periods hereinafter mentioned. For the purposes of these Regulations, sickness shall include injury other than accidental

Section 6. Sickness Disability Benefits

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injury arising out of and in the course of employment by the Company:

2. Beginning April 1, 1957, the sickness disability benefits in sickness disability cases originating on and after said date shall be as follows:

- a. If term of employment has been 1 to 2 years—
half pay 9 weeks.
- b. If term of employment has been 2 to 5 years—
full pay 4 weeks; half pay 9 weeks.
- c. If term of employment has been 5 to 10 years—
full pay 13 weeks; half pay 13 weeks.
- d. If term of employment has been 10 to 15 years—
full pay 13 weeks; half pay 39 weeks.
- e. If term of employment has been 15 to 20 years—
full pay 26 weeks; half pay 26 weeks.
- f. If term of employment has been 20 to 25 years—
full pay 39 weeks; half pay 13 weeks.
- g. If term of employment has been 25 years or more—
full pay 52 weeks.

“Full pay” and “half pay” for the purposes of this paragraph shall be based on the number of hours per week constituting the employee’s normal service under his contract of hiring, not including overtime, and shall be computed at the employee’s rate of pay at the time the disability began, provided, however, that the benefits shall at no time exceed the pay which the employee would receive, based on his rate of pay and the general schedule of hours per week constituting a full week’s service at the time the disability began.

3. Sickness disability benefits shall begin on the eighth calendar day of absence on account of disability, provided, however, that if an employee has received sickness disability benefits for any period and is again absent on account of sickness within two weeks after the termination of such period, any benefits on

Section 6. Sickness Disability Benefits

Section 7. Death Benefits

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account of such further sickness shall begin on the first day of absence instead of on the eighth day.

4. Successive periods of sickness disability shall be counted together as one period in computing the period during which the employee shall be entitled to benefits, except that any sickness occurring after an employee has been continuously engaged in the performance of duty for thirteen weeks shall be considered as a new sickness and not as part of any disability which preceded such period of thirteen weeks.

5. Employees shall not be entitled to receive sickness disability benefits for time for which any wages are paid them by the Company.

6. All Sickness Disability Benefits shall be a charge to the operating expense accounts of the Company when and as paid.

Section 7. DEATH BENEFITS

1. In the event of the death of any employee, occurring on or after December 19, 1956 and resulting from accidental injury arising out of and in the course of employment by the Company, hereinafter referred to as death by accident, there may be paid (and, in the circumstances described in sub-paragraph 4(a) of this Section, there shall be paid) an Accident Death Benefit, the maximum amount of which shall be three years' wages, as defined in Paragraph 8 of this Section, but which shall not exceed Thirty Thousand Dollars (\$30,000); provided, however, that if the maximum Sickness Death Benefit which could have been paid under the provisions of the next succeeding paragraphs had said employee died from sickness rather than from accidental injury, is in excess of said limit of Thirty Thousand Dollars (\$30,000), said limit shall be increased to the amount of said maximum Sickness Death Benefit. Payment of the Accident Death Benefit, subject to the conditions imposed in Paragraph 5 of this Section and Paragraphs 27 and 28 of Section 8 and elsewhere in these Regulations, shall be made to the employee's beneficiaries as provided in Paragraph 4 of

Section 7. Death Benefits

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 this Section. In addition to the Death Benefit the necessary expenses of the burial of the deceased employee, not exceeding Five Hundred Dollars (\$500), shall be paid.

2. In the event of the death of any employee, occurring on or after March 1, 1958 and resulting from sickness as defined in Paragraph 1 of Section 6 of these Regulations, hereinafter referred to as death by sickness, if the employee's term of employment has been six months or more there may be paid (and, in the circumstances described in sub-paragraph 4(a) of this Section, there shall be paid) a Sickness Death Benefit which shall not be in excess of Five Hundred Dollars (\$500), or an amount computed according to the following schedule, whichever is greater:

Employee's Term of Employment	Maximum Sickness Death Benefit
6 months but less than 2 years	4 months' wages
2 but less than 3 years	6 " "
3 " " " 4 "	8 " "
4 " " " 5 "	10 " "
5 years or more	12 " "

Payment of the Sickness Death Benefit, subject to the conditions imposed in Paragraph 5 of this Section and elsewhere in these Regulations, shall be made to the employee's beneficiaries, as provided in Paragraph 4 of this Section.

3. a. In the event of the death of any person who at the time of death is receiving a pension under these Regulations, the Committee in its discretion, but subject to the following provisions of this Paragraph 3, may authorize a Death Benefit to the wife (or husband) or dependent relatives of the pensioner the total amount of which shall not exceed the maximum amount which could have been paid as a Sickness Death Benefit under the terms of Paragraph 2 of this Section if the pensioner had died on his last day of active service.

b. If such pensioner leaves any beneficiary bearing the relationship to the deceased and conforming to the other

Section 7. Death Benefits

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conditions stated with respect to the death of an employee in sub-paragraph 4(a) of this Section, such Death Benefit shall be paid in accordance with the following:

- i. If the pensioner retired on or after October 31, 1963, the Death Benefit shall be the amount of the maximum Sickness Death Benefit that could have been paid if he had died on his last day of active service.
- ii. If the pensioner retired before October 31, 1963, the Death Benefit shall be not less than the amount specified above in sub-paragraph (i) reduced by ten per centum (10%) of such amount for each full year which has elapsed since his retirement, and not less than his annual pension allowance as determined under Paragraph 2 of Section 4, whichever amount is greater.

No Death Benefit shall be payable upon the death of an annuitant receiving a payment under Paragraph 3 of Section 4 of these Regulations.

4. The persons who may be beneficiaries of the Accident or Sickness Death Benefit or of payments on the death of a pensioner hereunder are limited to the wife (or husband) and the dependent children and other dependent relatives of the deceased. The amount to be paid in each case and the beneficiary or beneficiaries who shall receive the same, and the share which each shall receive, shall be determined by the Committee, subject to the following provisions and to the provisions of Paragraphs 3 and 5 of this Section.

- a. In the event of death by accident the maximum Accident Death Benefit specified in Paragraph 1 of this Section, or in the event of death by sickness, the maximum Sickness Death Benefit specified in Paragraph 2 of this Section, shall be paid, subject to the provisions of sub-paragraph (c) of this Paragraph 4, to the wife of the deceased employee if living with him at the time of his death; to the husband of the deceased employee, if physically or mentally incapable of self-support and actually supported in whole or in part

Section 7. Death Benefits

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by the deceased employee at the time of her death; or to the child or children of the deceased employee under the age of eighteen years (or over that age if physically or mentally incapable of self-support) who were actually supported in whole or in part by the deceased employee at the time of death. If the employee leaves both wife (or husband) and a child or children, as here described, the Committee, in its discretion, may pay the Death Benefit to or for any one or more of such possible beneficiaries in such portions as it may determine.

b. If there be no beneficiary of the deceased employee as described above in sub-paragraph (a), then, in the event of death by accident, an Accident Death Benefit in an amount not to exceed the amount specified in Paragraph 1 of this Section, or in the event of death by sickness, a Sickness Death Benefit in an amount not to exceed the amount specified in Paragraph 2 of this Section, may be paid to any other person or persons who may be beneficiaries, as defined in the first sentence of this Paragraph 4, and be receiving or entitled to receive support from the deceased employee at the time of his death.

Subject to the limitations expressed in this sub-paragraph (b) the Committee shall have full authority to determine to whom payments shall be made and the amount of the payments, taking into consideration the degree of dependency and such other facts as it may deem pertinent.

c. If the employee or pensioner shall have made written request and shown a good cause therefor, the Committee may pay all or a portion of the Death Benefit to a person or persons included in sub-paragraph (b) above, and reduce, by the amount thus paid, the amount which is payable to the persons included in sub-paragraph (a), provided in the opinion of the Committee good cause for such action still exists at the time of the employee's or pensioner's death.

d. Upon the death of an employee or pensioner, if there be no beneficiary qualified to receive an award under the pro-

Section 7. Death Benefits

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visions of this Section, or if the amount of such award authorized by the Committee be less than the maximum specified in Paragraph 1, 2 or 3 of this Section, as the case may be, the Committee may authorize such payments as may be required to defray the necessary expenses incident to the death of the employee or pensioner and the disability immediately preceding, together with, in the case of death by sickness, the necessary expenses, not exceeding Five Hundred Dollars (\$500), of his burial, provided, however, that the aggregate amount so paid shall not exceed the maximum benefits specified in said paragraphs.

5. Unless otherwise specified by the Committee the Death Benefit at the death of an employee or pensioner shall be paid in monthly sums equal to the monthly wages or monthly pension paid at the time of his death. In the discretion of the Committee, however, such sums and times of payments may be varied. Notwithstanding the foregoing and subject to the provisions hereinafter included in this Paragraph 5, an employee or pensioner may file with the Committee a written direction that a death benefit payment which may become payable to a beneficiary qualified under Paragraph 4(a) shall be paid, when such amount has been determined, to said beneficiary in equal monthly installments over a period to be specified in such written direction but not to exceed 120 months and benefits shall be paid in accordance with such direction.

In the event of the death of a beneficiary who is receiving or is entitled to receive installment payments under this Section, such payments shall cease. In the discretion of the Committee, however, and within the amounts which the deceased beneficiary would have received if he had survived, the Committee may authorize payments in connection with the disability, death and burial of the deceased beneficiary under conditions similar to those described in sub-paragraph (d) of Paragraph 4 of this Section, or may authorize payments to some other person eligible as a beneficiary of the deceased employee or pensioner under the provisions of Paragraph 4.

Section 7. Death Benefits

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Upon the death of an employee or pensioner, the Committee, without awaiting determination of the beneficiary or beneficiaries, if any, to whom the award will be made, may pay an amount equivalent to the wages, disability benefits or pension which the deceased was receiving, to the end of the payroll period in which the death occurs, and such payment may be made to the wife of the deceased, or to some other suitable person selected by the Committee. Such payment, if made, shall constitute a part of the award. In addition the Committee, in its discretion, may authorize payment, before the final settlement, of a part of the award not exceeding Five Hundred Dollars (\$500), to meet urgent expenses incident to the death and the immediately preceding disability of the deceased. If any of the persons to whom an award may be payable cannot be found or cannot be conveniently communicated with or are incompetent to authorize use of any part thereof for the burial of the deceased and the payment of necessary expenses incident to his death and preceding disability, the Committee in its discretion may make such payments, as a part of the award, as in its judgment may be reasonable for the proper burial of the deceased and the payment of necessary expenses incident to his death and disability immediately preceding.

6. A Death Benefit shall not be payable in the case of any person who dies after he has ceased to be an employee of the Company, unless such person became disabled by reason of accident or sickness while an employee and continued disabled, until death, to such a degree as to be unable to engage in any gainful occupation. In such cases a Death Benefit may be paid, in the discretion of the Committee, provided it has been furnished from time to time with such proof of continued disability as it may have required and provided it has been permitted to make, or have made by a physician, such examinations of the disabled person as it has deemed necessary in order to ascertain his condition. The amount of the Death Benefit, if any, shall not exceed the amount which could have been paid if the disabled person had died on the day he ceased to be an employee of the Company.

Section 7. Death Benefits

Section 8. General Provisions

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7. All claims for Death Benefits must be made in writing within one year of the death on which the claim is based. In case notice in writing of the existence of a wife (or husband), child or other dependent relative of a deceased employee or pensioner shall not be served on the Committee within one year after such employee's or pensioner's death, the Committee shall not be required to recognize any claim made by or in behalf of any such person.

8. "Wages" for the purposes of this Section shall mean wages for full time service (not including overtime), computed at the employee's rate of pay at the date of death, provided, however, that if the employee normally serves the Company on less than a full time basis, benefits in case of death by sickness shall be computed on the basis of the time constituting the employee's normal service under his contract of hiring.

9. Sickness Death Benefits payable pursuant to Paragraph 2 of this Section 7 to the initial beneficiary or beneficiaries on account of deaths of employees occurring on or after September 10, 1964, who leave beneficiaries bearing the relationship to the deceased and conforming to the other conditions stated in sub-paragraph 4(a) of this Section 7 and Death Benefits payable pursuant to Paragraph 3(b) of this Section 7 to the initial beneficiary or beneficiaries on account of deaths of service pensioners occurring on or after September 10, 1964, exclusive of any amount payable under sub-paragraph (ii) of Paragraph 3(b) in excess of the minimum set forth therein, shall be paid from the Second Pension Fund. All other amounts payable under this Section shall be a charge to the operating expense accounts of the Company when and as paid.

Section 8. GENERAL PROVISIONS

1. Neither the action of the Board of Directors in establishing this plan for employees' pensions, disability benefits and death benefits, nor any action hereafter taken by the Board or the Committee shall be construed as giving to any officer, agent or employee a right to be retained in the service of the Company

Section 8. General Provisions

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or any right or claim to any pension or other benefit or allowance after discharge from the service of the Company, unless the right to such pension or benefit has accrued prior to such discharge. Except in the event of termination of the Plan, no employee or annuitant shall have any right to a service pension by reason of service less than that specified in Paragraphs 1(a) and 1(b) of Section 4 of these Regulations, nor any right in the Pension Fund unless a service pension authorized by the Committee under the Plan has not been paid, nor any right against the Company to any benefit under the Plan other than the amount to which the employee or annuitant has theretofore become entitled and which the Committee has directed be paid to that employee or annuitant under the Plan. In the event of termination of the Plan, no employee or annuitant shall have any right in the Pension Fund or against the Company except as herein provided.

2. Assignment of pensions or other benefits under these Regulations will not be permitted or recognized.

3. In all questions relating to the term of employment and rates of pay of employees, the decision of the Committee, based upon these Regulations and upon the records of the Company, shall be final, provided, however, that as to service prior to June 1, 1914, the Committee shall have discretion to base its decisions upon the general intent of these Regulations and upon such information as may be obtainable from any source. As to service on or after June 1, 1914, this discretion shall not exist and the Committee shall base its decisions strictly upon the facts in the case as shown by the records of the Company.

4. Any absence from the service without pay, other than absence during a period of disability benefits, or leave of absence or temporary lay-off as defined in Paragraphs 5 and 6 of this Section, shall be considered as a break in the continuity of service unless the Board of Directors specifically authorizes the Committee to consider such absence as a leave of absence,

Section 8. General Provisions

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and if any person is reemployed after such a break in the continuity of his service, his term of employment shall be reckoned from the date of such reemployment.

5. Leave of absence shall not constitute a break in the continuity of service, but in the case of any such absence prior to June 1, 1914, which was of more than six months' duration, the period of absence shall be deducted in computing term of employment. On and after June 1, 1914, leave of absence, for the purposes of these Regulations, shall mean leave formally granted in conformity with the rules of the Company, as adopted from time to time, and, except in the case of leave granted by the Board of Directors as provided in Paragraph 4 of this Section and leave on account of continued disability following the expiration of a period of disability benefits, such leave must be obtained at or before the time the absence begins. A leave of absence for a period not exceeding one month, except a leave following expiration of disability benefits, may be granted in accordance with the rules of the Company, without approval by the Committee, and the period of absence shall be credited in computing term of employment, and the employee shall retain eligibility to benefits during the absence. Leave of absence for any period in excess of one month shall not be effective unless approved in writing by the Committee, and in any case in which such approval is given, the Committee shall indicate whether or not the period of absence is to be deducted in computing term of employment and whether during the absence the employee shall be eligible to benefits under these Regulations. Absence following the expiration of a period of disability benefits shall be considered as a break in the continuity of service unless the employee is granted a leave of absence by the Committee, provided, however, that in its discretion, the Committee may consider any such absence as a leave of absence, if satisfactory evidence is furnished that the disability was continuous during the entire period of absence.

6. Temporary lay-off on account of reduction of force shall not be considered as a break in the continuity of service, but

Section 8. General Provisions

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when the total absence from such cause exceeds six months in any twelve consecutive months, the entire period of the last temporary lay-off which extended the total absence beyond such six months in any twelve consecutive months shall be deducted in computing term of employment, and all subsequent periods of lay-off shall be so deducted until the employee shall have been continuously engaged in the performance of duty for a period of twelve consecutive months. On and after January 1, 1946, a period of lay-off shall be considered as temporary if the employee is reemployed, under such conditions as the rules of the Company, as adopted from time to time, may require, within two years. If the employee is not thus reemployed, the continuity of his service shall be deemed to have been broken. No benefits under these Regulations shall be payable during a period of lay-off.

7. Every employee who shall be absent from duty on account of sickness or injury must at once notify his immediate supervisor, and the employee shall not be entitled to benefits for time previous to such notice, unless delay shall be shown to have been unavoidable and satisfactory evidence of disability is furnished.

8. All claims for disability benefits, to be valid, must be made within sixty days from the date of accident or from the first day of absence on account of sickness.

9. Disabled employees wishing to leave home shall obtain from the Committee written approval of absence for a specified time and furnish it satisfactory proof of disability while absent, otherwise no benefits shall be paid for such period of absence.

10. It shall be the duty of disabled employees, when their condition and location do not prevent, to call on the Committee or the Committee's representative at such times as the Committee may require.

11. A disabled employee shall not be entitled to benefits if he declines to permit the Committee to make or have made by a physician, from time to time, such examinations as the Com-

Section 8. General Provisions

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mittee may deem necessary in order to ascertain the employee's condition, or if he fails to give proper information respecting his condition, or if he prevents the necessary examination by absenting himself from home without arranging with the Committee, or giving satisfactory reasons for not doing so and furnishing the necessary evidence, or if he fails to comply with notice to meet the Committee, at its offices or elsewhere, when his condition and location permit of his doing so.

12. Disabled employees must take proper care of themselves and have proper treatment. Benefits will be discontinued to employees who refuse or neglect to follow the recommendations of the Committee.

13. Death or disability resulting from infection of a cut, abrasion, scratch, puncture, or other wound not immediately disabling and not reported at the time of the occurrence causing the injury, or from sunstroke or frostbite, shall not be classed as due to accident, except at the discretion of the Committee.

14. Payments under the Plan shall be made in conformity with the financial methods of the Company and on orders of or bills prepared by the Committee or such other persons as may be designated by the Committee.

15. Disability benefits will ordinarily be paid at the same intervals of time as would govern the payment of wages to the employee if he were in the performance of duty, but at the discretion of the Committee benefits on account of continued disability may be paid monthly and on account of disability for short periods when the amounts are ascertained.

16. In case of any grave injury or chronic sickness, if the employee requests that a lump sum be paid in full settlement of all claims under the Plan and against the Company on account of such injury or sickness, the Committee may, in its discretion, make full and final settlement with the employee by commuting the benefit payments into a single lump sum payment, which payment shall be the present value computed on a fair basis, of the benefits to which the employee would become

Section 8. General Provisions

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entitled during such period as his disability may reasonably be expected to continue.

17. Disability benefits or pensions accrued but unpaid at the death of an employee, pensioner or annuitant may, in the discretion of the Committee, be paid to the wife of the deceased person or to some other suitable person selected by the Committee, for use in payment of expenses incident to the death of the deceased person or the disability immediately preceding, or for the benefit of any one or more persons who were dependent upon him at the time of his death.

18. Benefits payable to an employee, pensioner or annuitant unable to execute a proper receipt may be paid to a relative or other proper person, selected by the Committee, to use for the benefit of the employee, pensioner or annuitant and the receipt of such person shall be a sufficient discharge.

19. After an employee has received the maximum Sickness Disability Benefits herein provided for an employee of his term of employment, he shall not be eligible to further benefits on account of sickness until he shall have performed his duties as an employee of the Company for a continuous period of thirteen weeks. If an employee who has received Sickness Disability Benefits shall subsequently become disabled by reason of accidental injury arising out of and in the course of employment by the Company, or if an employee who has received Accident Disability Benefits shall subsequently become disabled by reason of sickness, the period during which benefits are payable on account of such subsequent disability shall not be affected by the preceding period of disability.

20. Benefits shall not be payable for both accident and sickness at the same time to the same person.

21. Granting a pension to an employee or retiring him from employment without a pension during a period of disability benefits shall not terminate or decrease his disability benefits. Granting a pension during a period of disability benefits, however, shall not entitle the employee to any payments on account of

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the pension, while the disability benefits continue, unless the amount of the pension is greater than the amount of the disability benefits, in which case only such amount shall be paid on account of the pension as may be necessary to make the total amount paid to such employee on account of the disability benefits and the pension equal to the amount he would have received if the pension alone had been paid.

22. "Rate of Pay" as used in these Regulations shall mean the time rate at which the employee is entitled to receive payment for services under the contract of hiring, provided, however, that if the employee's compensation is ordinarily computed on other than a time basis, the employee's average compensation (not including compensation for overtime) for so much of the preceding three months as he has been in the service of the Company, may be taken as determining the rate of pay, provided the rate thus computed is not less than the employee's time rate.

23. If an employee of this Company is an employee also of one or more other companies which have adopted plans for employees' pensions, disability benefits and death benefits, similar to that herein described and which have entered into arrangements with this Company, directly or indirectly, for an interchange of the benefit obligations to which the companies may be subject under such plans, any pension, disability benefits or death benefit to which such employee, his beneficiaries or his annuitant may become entitled under the plans shall be computed on the basis of the total combined pay which the employee is receiving from all such companies and, except in the case of injury or death due to accident arising out of and in the course of employment by any of such companies, shall be pro-rated among the companies on the basis of the pay the employee was receiving from each company, and this Company shall only pay its share thus determined. Any maximum or minimum amounts fixed by these Regulations for pensions, disability benefits or death benefits shall apply to the total amount payable by all companies and not to the portion payable by this Company.

Section 8. General Provisions

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24. In case of accident resulting in injury to or death of an employee which entitles such employee, his beneficiaries or his annuitant to benefits under these Regulations, he or they may elect to accept such benefits or to prosecute such claims at law as he or they may have against the Company. If election is made to accept the benefits, such election shall be in writing and shall release the Company from all claims and demands which the employee, his beneficiaries or his annuitant may have against it, otherwise than under these Regulations, on account of such accident. If any persons other than the beneficiaries under these Regulations might legally assert claims against the Company on account of the death of the employee, no part of the death benefit under these Regulations shall be due or payable until there have also been delivered to the Committee good and sufficient releases of all claims, arising from or growing out of the death of the employee, which such other persons might legally assert against the Company. The Committee, in its discretion, may require that the elections and releases above described shall release any other company, connected with the accident, with which arrangements have been made, directly or indirectly, for interchange of benefit obligations, as described in Section 9 of these Regulations. The right of the employee to accident disability benefits under these Regulations shall lapse if election to accept such benefits, as above provided, is not made within sixty days after injury, or within such greater time as the Committee shall, by resolution duly entered on its records, fix for the making of such election.

25. Should claim other than under these Regulations be presented or suit brought against the Company or against any other company with which arrangements have been made, directly or indirectly, for interchange of benefit obligations, as described in Section 9 of these Regulations, for damages on account of injury or death of an employee, nothing shall be payable under these Regulations on account of such injury or death except as provided in Paragraph 26 of this Section; provided, however,

Section 8. General Provisions

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that the Committee may, in its discretion and upon such terms as it may prescribe, waive this provision if such claims be withdrawn or if such suit be discontinued.

26. In case any judgment is recovered against the Company or any settlement is made of any claim or suit on account of the injury or death of an employee, and the amount which would otherwise have been payable under these Regulations is greater than the amount paid on account of such judgment or settlement, the difference between the two amounts may, in the discretion of the Committee, be distributed to the beneficiaries who would have received benefits under these Regulations, except that no party to any such suit against the Company shall be entitled to any portion thereof.

27. In case any benefit or pension, which the Committee shall determine to be of the same general character as a payment provided by the Plan, shall be payable under any law now in force or hereafter enacted to any employee of the Company, to his beneficiaries or to his annuitant under such law, the excess only, if any, of the amount prescribed in the Plan above the amount of such payment prescribed by law shall be payable under the Plan, except as provided in Paragraph 28 of this Section; provided, however, that no benefit or pension payable under this Plan shall be reduced by reason of any governmental benefit or pension payable on account of military service. In those cases where, because of differences in the beneficiaries, or differences in the time or methods of payment, or otherwise, whether there is such excess or not is not ascertainable by mere comparison but adjustments are necessary, the Committee in its discretion is authorized to determine whether or not in fact any such excess exists, and in case of such excess, to make the adjustments necessary to carry out in a fair and equitable manner the spirit of the provision for the payment of such excess.

28. A benefit or pension payment under this Plan shall be reduced by one-third the amount of any related benefit which the recipient would be entitled to receive under the Federal

Section 8. General Provisions

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Social Security Act, as in effect at the time the payment is made (computed on the basis of employment included in his "term of employment" as defined in this Plan, and wages as defined under applicable Federal law, shown by the Company's records), subject to the following conditions:

a. A service pension determined under Section 4, whether in a specified minimum or other amount, shall be adjusted by one-third the amount of the old-age insurance benefit to which a person would be entitled by reason of his above-described employment and wages (1) under the Federal Social Security Act as amended in 1950 in the case of a person retired on or before August 31, 1952, and (2) under the Federal Social Security Act as in effect on the date of his retirement in the case of a person retiring after August 31, 1952; provided, however, that such adjustment shall not exceed the amount of adjustment, as so computed, under the Federal Social Security Act as in effect at the time the service pension payment is made.

b. A disability pension determined under Section 4, whether in a specified minimum or other amount, shall be adjusted by one-third the amount of the disability insurance benefit to which a person would be entitled by reason of his above-described employment and wages (1) under the Federal Social Security Act as in effect November 1, 1963, in the case of a person retired on or before that date, and (2) under the Federal Social Security Act as in effect on the date of his retirement in the case of a person retiring after November 1, 1963; provided, however, that such adjustment shall not exceed the amount of adjustment, as so computed, under the Federal Social Security Act as in effect at the time the disability pension payment is made.

c. No adjustment shall be made to any death benefit provided under this Plan except with respect to the extent to which the benefits then payable under the Social Security Act exceed those payable under the Act as in effect on Novem-

- Section 8. General Provisions
- Section 9. Interchange of Benefit Obligations
- Section 10. Changes in Plan

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ber 16, 1949, and then only to the extent that the amount of any adjustment otherwise required under this subparagraph (c) exceeds Two Hundred and Fifty Dollars (\$250).

29. The Committee shall publish annually to the employees a report of the operations under the Plan.

Section 9. INTERCHANGE OF BENEFIT OBLIGATIONS

Agreement may be made by this Company with any Associated or Allied Company for an interchange with that Company of the benefit obligations to which such Company may be subject under a plan for employees' pensions, disability benefits and death benefits. The general provisions of such agreement will be:

- a. That advance provision for the payment of service pensions shall be made by such Associated or Allied Company in such amounts as may be necessary to provide for and fulfill all requirements of the Plan as in effect from time to time.
- b. That an employee's term of employment, as hereinbefore defined, shall include employment not only in this Company, but also in any other Company with which reciprocal agreements under this Plan shall have been made by this Company.
- c. That in case of consolidation or merger with another Company having a similar employees' benefit plan, the Pension Funds of the Companies consolidated or merged shall be combined.

Section 10. CHANGES IN PLAN

The Committee, with the consent of the President and subject to the approval of the Board of Directors, may from time to time make changes in the Plan set forth in these Regulations, and the Company may terminate said plan, but such changes or termination shall not affect the rights of any employee, without his consent, to any benefit or pension to which he may have previously become entitled hereunder.

Mr. SCHROEDER. Copies of the plan summary and of the plan text are given to all employees on hiring. I am also furnishing the members of the committee with the 1965 annual report which was sent to each employee's home.

(Report referred to is reprinted herein :)

ANNUAL REPORT OF THE EMPLOYEES' BENEFIT COMMITTEE, AMERICAN TELEPHONE & TELEGRAPH Co., MARCH 1, 1966

Payments by the Company to provide pensions and other benefits were \$38.8 million for 1965 and again were higher than for the preceding year. The amount of the increase over 1964 was nearly \$3.5 million, or 9.8%.

Of the total \$27.6 million or 71% was for benefits under the Plan for Employees' Pensions, Disability Benefits and Death Benefits. The Comptroller's statement, itemizing these payments, is included in this report.

The remaining \$11.2 million was paid out by the Company as follows: to the Federal Government in Social Security taxes to provide old age, disability and survivor benefits, nearly \$5.5 million; for sickness and other benefits not under the Plan about \$1.9 million; Group Life Insurance nearly \$2.0 million; the Basic Medical Expense Plan over \$1.3 million; and finally for the Extraordinary Medical Expense Plan over \$.5 million. Separate reports have been made on these last three programs.

PENSIONS AND DEATH BENEFITS

473 employees retired in 1965 with pensions. Service pensions accounted for 458 and 15 were disability pensions. At the year end there were 4,539 retired employees of the Company receiving pensions. Total pension payments in 1965 were \$10,871,440. Widows of active and retired employees numbering 34 were receiving service pensions amounting to \$3,271.19 per month. In 1965, the Company paid into the trust funds \$21,297,466 to provide for future service pensions. This is 9.3% of the basic payroll.

Sickness death benefit payments from the trust funds to beneficiaries of deceased active and retired employees amounted to \$834,735. The Company paid into the trust funds during 1965, \$3,685,777 to provide for future death benefit payments. This is 1.61% of the basic payroll. Payments of sickness death benefits from Company operating expenses for 1965 amounted to \$132,481.

The report of the Trustees of the Trust Funds established by the Company for the year ended December 31, 1965 follows :

Balance in funds, Dec. 31, 1964-----	\$235, 729, 528
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Additions to funds during 1965 :	
Payments into funds by company-----	24, 983, 243
Investment earnings including gain or loss on disposal of securities-----	9, 492, 048
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Total additions-----	34, 475, 291
Disbursements for pensions and death benefits during 1965-----	11, 316, 960
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Total-----	23, 158, 331
Balance in funds, Dec. 31, 1965-----	258, 887, 859
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Comprises :	
Government obligations-----	5, 982, 705
Obligations of telephone companies (not A. T. & T. Co.)-----	37, 731, 093
Public utility, industrial, and finance obligations-----	163, 871, 491
Other obligations-----	11, 839, 815
FHA mortgages-----	192, 199
Common stocks-----	36, 621, 401
Cash, accrued interest, and dividends-----	2, 649, 155
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Total-----	258, 887, 859

NOTE.—Obligations are shown on amortized basis and common stocks at cost.

PRIVATE PENSION PLANS

ACCIDENT BENEFITS

There were 27 lost time on-duty accidents during the year 1965. This is 11 less than during 1964.

SICKNESS BENEFITS

During 1965 the Company paid out \$2,124,060 in sickness disability benefits under the Plan. This is \$228,798 more than in 1964, an increase of 12.1%. There were 2,557 cases in 1965, 108 more than in 1964.

PAYMENTS OUTSIDE THE PLAN

Sickness payments made by the Company during the first seven days of absence amounted to \$1,848,234. This is \$118,312 more than the 1964 payments, an increase of 6.8%. Other payments outside the Plan amounted to \$34,674 in 1965.

EMPLOYEES

The average number of employees of the Company during 1965 was 32,212. Of this number 28,014 were credited with one or more years of service and hence were eligible to receive sickness disability benefits under the Plan.

COMMITTEE OBSERVATIONS

For 53 years the Plan for Employees' Pensions, Disability Benefits and Death Benefits has been a source of protection to employees against many of life's financial hazards. Since its benefits are geared to the employee's wages, there is a built-in improvement factor. Many features also have been improved from time to time as comparisons with other industry plans indicated changes could be justified. Now, in combination with Social Security and the other company plans, the protection enjoyed by employees and retired employees is much greater than in 1913. At the same time, the Plan has continued to fulfill its business purpose.

It is gratifying that employees generally are avoiding unnecessary use of the provisions for disability benefits. Continued attention to safety will help still further.

DEPARTMENT BENEFIT COMMITTEE—LONG LINES DEPARTMENT,
C. A. ROOT, JR., *Secretary*.
R. T. DUGAN, *Chairman*.

DEPARTMENT BENEFIT COMMITTEE—GENERAL DEPARTMENT,
R. B. PERKINS, *Secretary*.
H. H. SCHROEDER, *Chairman*.

EMPLOYEES' BENEFIT COMMITTEE,
R. E. ROYES, *Secretary*.
A. S. ALSTON, *Chairman*.

Benefits payments for the year 1965

Payments by company into trust funds:	
For Service pensions.....	\$21, 297, 466
For death benefits.....	3, 685, 777
Other payments by company:	
Disability pensions.....	189, 214
Payments after death of pensioners ¹	109, 119
Accident disability expenses.....	26, 785
Accident disability benefits.....	16, 407
Sickness disability benefits.....	2, 124, 060
Death benefits—Accident.....	7, 848
Death benefits—Sickness ¹	132, 481
State insurance.....	21, 934
Total.....	27, 611, 091
Payments by company to the Federal Government for benefit purposes under the Social Security Act.....	5, 482, 650
Total.....	33, 093, 741

¹ Excludes amounts paid from the 2d pension fund.

A. L. SCOTT,
Vice President and Comptroller.

FEBRUARY 15, 1966.

Mr. SCHROEDER. I intend to deal with the subject by first stating the background of the plan, describe its administration and provisions, method of funding and the way the funds are invested.

BACKGROUND FACTS

A.T. & T. has had a pension plan since 1913 and thus has had over 50 years' experience in the field. At first the plan was financed on a pay-as-you-go basis by the company. In 1927 we set up a trust fund with assets dedicated to the payment of pensions. We pledged that the company would always maintain the trust fund at an amount adequate to provide for the future pensions of all employees either retired or eligible to retire at their own request.

The cost of the plan is and has always been borne exclusively by the company.

The plan has always applied to all employees of the company from the first day of their employment, although its benefits, except those for accidents on the job, have required various terms of employment to qualify.

"Term of employment" basically means continuous employment, without a break. Absence without leave constitutes a break, but there are exceptions for disability and lay-off, and a number of situations in which leave for various periods is routinely given. When employees who have had a break in service are reengaged, they automatically become entitled to credit for their previous periods of service after 5 years of subsequent employment.

GENERAL MEANS OF FINANCING

From 1913 through 1926, all benefits under the plan were financed on a pay-as-you-go basis.

As indicated earlier, in 1927 the plan was amended to establish a trust fund, called the pension fund, to make advance provision for "service pensions." The trustee, a bank designated by the board of directors of the company, invests the money in the fund in accordance with general guidelines established by the board.

In 1964, we set up another trust fund to provide for certain death-benefit payments. We are funding these on a basis similar to that used for service pensions. The Internal Revenue Service has deemed these benefits to be "incidental and related to" the pension plan.

All other benefits payable under the plan are charged as current operating expenses, including pensions granted for disability before the employees attain eligibility for service pension. No administrative expenses of the company or trustee are charged to the funds.

ADMINISTRATION

The plan is administered by the employees' benefit committee now composed of five vice presidents appointed by the board of directors. There are two departmental benefit committees of five members each, which exercise certain delegated administrative powers within their respective departments. The employees' benefit committee has final authority under the plan, and employees may appeal to it any decision of the departmental committees.

Although the plan was established by company action, since 1947 union agreements have contained provisions relating to the plan. The terms of the current union agreement with respect to the plan are contained in attachment 2.

The union can and does submit grievances of individual employees as to treatment under the plan, and it bargains with the company on changes in the plan.

RETIREMENT AND SERVICE PENSION ELIGIBILITY

The company has had in effect since July 1, 1930, a rule requiring the retirement at age 65 of all officers or other employees, whether or not eligible for pension. Exceptions require the approval of the board of directors in each case, and are almost never made. No exception has ever been made in the case of any officer.

Retirement with an undiscounted pension at an employee's request, or in the discretion of the employees' benefit committee is provided at the following minimum ages and terms of service:

Minimum age:	<i>Minimum service</i>
Men, 65; women, 65-----	15 years.
Men, 60; women, 55-----	20 years.

Undiscounted service pensions are also available at the following minimum ages and terms of service but require the approval of the employees' benefit committee:

Minimum age:	<i>Minimum service</i>
Men, 55; women, 50-----	25 years.
Men, none; women, none-----	30 years.

All of the above are service pensions payable for life from the pension fund. Once granted, they cannot be revoked.

DISABILITY PENSION ELIGIBILITY

When an employee becomes totally disabled and his disability continues beyond the 12 months' duration of his sickness disability benefits he is entitled, if he has 15 or more years' service, to a disability pension which continues during his disability. There is no minimum age for entitlements and, in nearly all cases the disability pension continues for life. If, however, the employee at the expiration of benefits is eligible for a service pension, that is granted instead. Disability pensions are charged as operating expenses of the company as paid.

SERVICE PENSION AMOUNTS AND INTEGRATION WITH SOCIAL SECURITY

Prior to eligibility to social security old-age insurance benefits the basic service pension formula is 1 percent per year of service of the average rate of pay for the last or highest 5 consecutive years of service, subject to the minimum pension of \$85 a month.

When a service pensioner becomes eligible for an OAIB, the service pension becomes an amount which when added to one-third of his OAIB equals the 1-percent formula amount or equals the minimum amount, whichever is greater. The calculation of the OAIB amount includes only Bell System wages and employment, and is on the basis

of the law in effect as of the date of his retirement. This means that a pension does not decrease when social security increases after an employee's retirement.

Minimum pension amounts

	Before age 65	From age 65
Service 20 to 29 years.....	\$85	\$115
Service 30 to 39 years.....	85	120
Service 40 years and over.....	85	125

These higher minimums apply to people on existing pensions when they reach age 65. The general method of integration of our plan with social security is often called the "offset method." Its history has significance. The plan from its beginning provided for offset in full for any governmental benefit. When social security old-age insurance benefits commenced in 1940, the plan was liberalized to provide for a one-half offset instead of a full offset. In 1952, the plan was further liberalized to limit the offset for service pensions to half the old-age insurance benefit payable to an individual under the law in effect at his retirement. In 1963, the proportion of social security to be taken into account was reduced from one-half to one-third.

DISABILITY PENSION AMOUNTS

Disability pensions are calculated similarly to service pensions.

DEATH BENEFITS

The death benefit amount for active employees with 5 or more years' service and for employees retiring on pension since 1963 is the equivalent of a year's wage.

These death benefits are paid only if the employee or pensioner is survived by a wife, dependent husband, a child under 18, or another dependent relative.

SURVIVOR ANNUITY

An employee entitled to retire on pension at his own request may elect an actuarially reduced pension for his life in order to provide an annuity to a spouse or parent. The survivor's annuity is one-third of the employee's reduced pension. Election is required 90 days before retirement.

If a male employee dies before retirement and after attaining the age and service required to retire at his own request, a survivor annuity is automatically payable to his widow.

Representative GRIFFITHS. What about a female employee?

Mr. SCHROEDER. That provision does not apply to females.

Representative GRIFFITHS. Why not?

Mr. SCHROEDER. The studies of female employees using survivor annuities where they had the option indicated they seldom used it, and we have since found that to be true in our own case. Only about 1 percent of our female employees who are eligible to the option take it, where they have the right to take it, so we felt that it probably wouldn't be a useful benefit.

Representative GRIFFITHS. How many of those that had the right were already widows by the time they had the right to take it?

Mr. SCHROEDER. None of them.

Representative GRIFFITHS. None?

Mr. SCHROEDER. That is right.

Representative GRIFFITHS. They wouldn't have had the right?

Mr. SCHROEDER. They had the right in case they had a parent for example, but people of retirement age don't usually have living parents.

Representative GRIFFITHS. Proceed.

Mr. SCHROEDER. To resume my reading—

RELATIONS TO OTHER PENSION PLANS

As I have said, each of the companies in the Bell System has a pension plan which is essentially identical to the pension plan of the A.T. & T. Co. An unusual feature of these plans is that they include provisions for complete interchangeability of service credits, so that an employee going from one of these companies to another carries with him all of the service credits he has toward a pension and other benefits. This facilitates transfers anywhere within a very substantial part of the telephone industry while protecting the employees' pensions.

ESTIMATE OF PERCENT OF EMPLOYEES WHO WILL RECEIVE PENSIONS

We estimate that approximately two-thirds of our present employees will receive pensions or other benefits, on termination. Approximately 60 percent of our current work force will eventually receive pensions based upon age and service. Another 5 percent will die in service, leaving eligible dependents that will be paid from the trust fund. Another 2 percent will become disabled and retire with pensions payable directly by the company. Of the rest, approximately one third, some will die without leaving eligible dependents and some will terminate employment without receiving pensions. More than half of such terminations last year were employees who had been with the company less than 2 years. Where termination was involuntary, termination payments were usually made. The termination allowance schedule in the case of layoff for union-represented employees is attachment 3.

OTHER BENEFIT PLANS AFFECTING RETIRED EMPLOYEES

GROUP LIFE INSURANCE

The company has a contributory group life insurance plan with a death benefit equal to a year's salary. Any employee retiring on pension has insurance continued at no further cost to him provided he has been a contributor while eligible from age 45 on. The amount of insurance continued after retirement is scaled down 10 percent

a year to 50 percent of his final salary. The employee designates the beneficiary under this plan.

MEDICAL EXPENSE COVERAGE

Retired employees continue to be eligible for basic Blue Cross-Blue Shield coverage, and the company contributions continue to defray about half the cost, with the retired employee contributing at the same rate as active employees. Retired employees, their spouses, and children under 19 are eligible.

The company also provides continued coverage under a major medical expense plan, solely at company expense. There is a lifetime maximum of \$5,000 for an employee and spouse each, after the employee's retirement.

Beginning July 1, 1966, when medicare becomes effective, these plans have been modified for persons over age 65. Both basic and major medical plans will be wholly paid for by the company and will at least supplement medicare to the preexisting level of total benefits.

HOW CONTRIBUTIONS TO THE PENSION FUND ARE DETERMINED

Basically, the contributions are determined annually by:

- (1) Estimating the present worth of all future benefits to be paid to present retired and active employees and their beneficiaries, if any;
- (2) Subtracting from (1) the amount that has already been provided through accumulated assets;
- (3) Estimating the present worth of all future pay of present active employees;
- (4) Determining the percentage of (3) required to fund the difference determined under (2); and
- (5) Contributing this percentage of regular payrolls.

This is known as the aggregate cost method.

About 98 percent of the pension obligations determined as above were funded at the end of 1965. Within 3 years, these obligations will be 100 percent funded.

The funding method does not make any allocations of benefits into past service credits or other similar subclassifications of credits. All prospective service pension benefits for all employees, both active and retired, are being funded.

Contributions plus investment earnings are approximately three times as large as current benefits. Therefore we expect current contributions to support a pension roll much larger than the current one. This is a reflection of the continued growth of the company and its payrolls.

Ultimately, contributions and earnings on the fund will pay all benefits.

INVESTMENT OF FUNDS

Total assets of the A.T. & T. Co. funds, and here I want to make it clear our company has about 30,000 employees, this is just A.T. & T. and later I will talk about the Bell System.

Total assets of the A.T. & T. Co. funds on December 31, 1965, as reported to the Federal Communications Commission on March 29, 1966, were approximately \$258.9 million.

Management of the funds is governed by an emphasis on quality and safety of principal to assure that the funds will be available when needed to pay benefits. The funds are invested in Government and high-grade corporate obligations, FHA-insured mortgages, and common stocks in the following proportions:

	<i>Percent</i>
Governmental obligations.....	2.3
Affiliated company obligations (by that we mean Bell System companies) ..	13.0
Nonaffiliated public utility obligations.....	29.5
Other corporate obligations.....	40.0
FHA-insured mortgages.....	.1
Common stocks.....	14.1
Accrued interest and dividends.....	.9
Uninvested cash.....	.1

None of the funds were invested in securities of this company.

The annual rates of return on the pension fund for the 3-year period, 1963-65, were 3.69, 3.91, and 3.91 percent, respectively. The smaller fund established in September 1964 for the payment of death benefits produced rates of return of 3.46 percent, on an annual basis, for 1964 and 4.11 percent for 1965.

Net profits on sales of securities for the 3-year period 1963-65 amounted to \$493,274.

SYSTEM FUNDS

Total assets of the funds of all the system companies on December 31, 1965, were \$5,288,229,781. In general the other funds are invested in accordance with the same principles as the A.T. & T. funds.

Distribution of investments

	<i>Percent</i>
Governmental obligations.....	2.0
Affiliated corporate obligations.....	16.0
Nonaffiliated public utility obligations.....	28.6
Other corporation obligations.....	34.5
FHA-insured mortgages.....	2.7
Common stocks.....	15.0
Accrued interest and dividends.....	.9
Uninvested cash.....	.3

None of the funds were invested in securities of the company to which a particular fund applied.

The annual rates of return on the fund for the 3-year period 1963-65, were 3.75, 3.82, and 3.92 percent, respectively. A small portion of the fund, established in 1962 by one company and in 1964 for all of the other companies, for payment of death benefits, produced rates of return of 3.61 percent for 1964 and 4.17 percent for 1965.

Net profits on sales of securities for the 3-year period 1963-65 amounted to \$2,549,829.

As we look back over 53 years of experience, we are proud that we were in the forefront of American industry in establishing pension

plans covering all employees, regardless of level. The results of the operations under these plans have proved to be beneficial for all. The terms of our plans are continually being studied and have repeatedly been improved. This process will continue.

I appreciate the opportunity to make this statement, Madam Chairman.

(Attachments 1 and 2 follow:)

ATTACHMENT 1

AMERICAN TELEPHONE & TELEGRAPH CO.,

LONG LINES,

CONTRACT NEGOTIATED,

NOVEMBER 10, 1963

ARTICLE 18—MISCELLANEOUS

18.10 Plan for Employees' Pensions, Disability Benefits and Death Benefits

18.11 Except as provided in this Section and in Section 20.10, there shall be no negotiations during the life of this Contract upon changes in pensions or any other subject covered by the existing "Plan for Employees' Pensions, Disability Benefits and Death Benefits."

18.12 In the event, during the life of this Contract, the Company proposes to exercise the right provided in Section 10 of the existing "Plan for Employees' Pensions, Disability Benefits and Death Benefits," by action affecting the benefits or privileges of employees represented by the Union, it will before doing so notify the Union of its proposal and afford the Union a period of sixty (60) calendar days for bargaining on said proposal; provided, however, that no change may be made in the Plan which would reduce or diminish the benefits or privileges provided thereunder as they apply to employees represented by the Union without its consent.

18.13 Any dispute involving the true intent and meaning of Paragraph 18.12 of this Section may be presented as a grievance and if not resolved by the parties under the grievance machinery may be submitted to the arbitration procedure of this Contract. However, nothing herein shall be construed to subject the Plan or its administration or the terms of a proposed change in the Plan to arbitration.

ARTICLE 20—DURATION

20.10 Term of Contract

This Contract shall be effective November 10, 1963 and shall continue in full force and effect, except as provided otherwise in this Article, until terminated in accordance with the provisions of Section 20.30.

20.30 Termination

This Contract shall continue in full force and effect, except as provided otherwise in this Article, until terminated at 11:59 P.M. (1) on January 10, 1967, or 12 months after the effective date of the last agreement resulting from a wage reopening, whichever be the later date, or (2) on any date thereafter, by either party serving upon the other party at least 60 days' prior written notice of its election to so terminate the Contract. Negotiations on the provisions of a new Contract shall begin not later than 30 days prior to such termination date.

PRIVATE PENSION PLANS

ATTACHMENT 2

AMERICAN TELEPHONE & TELEGRAPH CO.,

LONG LINES,

CONTRACT NEGOTIATED,

NOVEMBER 10, 1963

12.30 Lay-Off Payments

12.31 Full-Time Employees

(1) Except as otherwise specified below if a regular full-time employee, or a temporary full-time employee with one or more years of continuous service since the latest date of Bell System engagement or re-engagement, is laid off he shall receive a payment for each completed year of net credited Bell System service as follows:

(a) one week's pay for each completed year up to and including four years, and

(b) two weeks' pay for each completed year from five to eight years, inclusive, and

(c) four weeks' pay for each completed year beyond eight years.

(2) If an employee who received a lay-off payment is reengaged and the number of weeks since the date of his lay-off is less than the number of weeks of pay received as a lay-off payment, the amount paid to the employee for the excess number of weeks shall be repaid to the Company through payroll deductions at the rate of ten percent of the employee's basic wage rate until the amount of the excess layoff payment is repaid.

(3) If an employee is reengaged and again laid off after having his former service credited, he shall receive a payment of the difference between the amount of the lay-off payment computed as in (1) above and the amount, less any amount repaid as in (2) above, of any previous lay-off payment he may have received.

(4) The lay-off payment shall be computed at the employee's weekly basic wage rate, except, for a Plant Group A employee, a Plant Central Office Group B Cleaner at New York, a Plant Central Office Group B Cleaner or Janitor at Norway, Philadelphia, Wayne and White Plains, or an Administrative Office Group B employee, which receives a night differential payment for the week in which the date of lay-off occurred, the rate of pay shall include the night differential payment.

(5) The lay-off payment specified above is in addition to any vacation payment to which the employee may be eligible.

Representative GRIFFITHS. Thank you very much. Will you proceed, Mr. Knecht.

STATEMENT BY LOUIS KNECHT

Mr. KNECHT. Thank you, Madam Chairman, my name is Louis Knecht, and I am a special assistant to the president of the Communications Workers of America, AFL-CIO. Our union represents more than 400,000 telephone and other communications workers in 49 States, the District of Columbia, and Canada. Of this number, about 300,000 are employees of the Bell Telephone System, in whose pension program this subcommittee is particularly interested today.

Representative GRIFFITHS. How are they divided between men and women.

Mr. KNECHT. The last figures I saw, Madam Chairman led me to the conclusion—you mean the total employees do you not?

Representative GRIFFITHS. Yes.

Mr. KNECHT. Not on pension?

Representative GRIFFITHS. Yes.

Mr. KNECHT. About 52 to 60 percent are women.

Representative GRIFFITHS. Thank you. You may proceed.

Mr. KNECHT. We are delighted that the subcommittee is conducting this public inquiry into pensions and other income maintenance programs for the aged, and the role which these programs play, or at least should play, in American society. We view these hearings as just one more example of the interest in this problem that has been demonstrated by many segments of our society—for sociologists and economists have studied it, government has legislated in this area, and labor and management have worked on it over the bargaining table.

Through this pluralistic approach, society has made progress in meeting the challenge of the worker's older years. Not so very many years ago, the fervent hope of most American families was that the breadwinners would never be forced to leave income-producing jobs—that they would never reach that point where they were "too old to work, but too young to die"—for the end of the road was, not the rainbow's pot of gold, but the poorhouse.

The enactment of social security—that cornerstone of legislation that was enacted during the great social upheaval of the 1930's—helped to change all that. Like the workhouse of the previous century, the poorhouse has disappeared from the American scene. With it should have gone the scars that workers bore—the scars of fear and uncertainty about the future.

Yet many American workers are finding that the so-called golden years of retirement are tarnished. They have been encouraged to work and plan for their retirement, but they have been misled about the economics that would make that retirement a period of well-earned leisure. Sample our mail at CWA headquarters on any day and you'll find letters from our retirees on this subject of pensions, and specifically their inadequacies and inequities.

No other subject produces as much mail in the Communications Workers of America as does this subject of pensions—letters, for example, like this:

I have just taken it for granted that I would be getting a good pension. I was shocked when I got my first pension check.

Or take this one:

As you know our pension is very small and hard to live on. Living is so high.

Or this:

It is very hard trying to meet one's daily need, besides the trips to the doctor and drug bills.

Or this:

Where did anyone ever get the idea that you need less money when you retire? Every month I have a doctor bill or my wife does.

These are just random samples, Madam Chairman. There are hundreds and hundreds of letters like these in our files. Anyone who is concerned with what happens to people—and we at CWA are concerned—is left with feelings of indignation and frustration after reading letters like these.

As these letters indicate, an untold number of Bell System employees, both new workers and even those with many decades of service, have been led to believe they are going to get a fine pension, indeed,

on retirement. Perhaps Bell hasn't done too good a job on the pension program, itself, but it certainly has been extraordinarily skillful in the propaganda it puts out regarding these pensions.

Self-serving public relations statements and slick brochures aside, the fact of the matter is that Bell pensioners are, in the majority of cases, forced to live at or below the poverty level, even when you add the average social security benefit to the average amount a retiree receives from the company's program. This is a pretty mean way to treat anyone who has given a lifetime of service to any company. It is particularly disgraceful in this affluent society of ours, and doubly so when the poverty level benefits come from the company which is the giant among all the world's corporate giants.

Since the enactment of the social security system, the trade union movement has endeavored to use its benefit structure on which to build adequate retirement programs for all American workers. The goal has been simple: to make sure that, after they have completed their years of service, American workers will be able to live out their lives in dignity and security.

Unfortunately, the successes have been mixed. Some industries have done exceptionally well, as studies by the Bureau of Labor Statistics of the U.S. Department of Labor will attest. Others have lagged behind, with serious defects in their benefit structures—defects which seriously penalize the worker who has given all, or most, of his productive years to one company.

It is regrettable that the Bell Telephone System—the world's largest and wealthiest employer and the operator of a publicly regulated monopoly—is not at the top among all pension programs in this country. Yet the most recent Government study of 100 selected pension plans under collective bargaining shows that the Bell System's pension program is below the national median. And there have been no changes in the Bell program since 1963 which would improve its position in relation to other plans in existence—although advances by other industries may have pushed Bell's relative position still lower.

The maritime industry, the automobile industry, the rubber industry, the trucking industry, the construction industry, and many individual companies in various fields offer to their pensioners programs which are significantly better than that of the Bell System. And these companies are able to finance their pension programs on a sound basis, despite the fact that they must compete for the consumer dollar in the marketplace—something which the Bell System, given its monopoly position in communications, does not have to do.

As I have indicated, the Bell System's pension program is far from being a leader among American industry. In all fairness I should point out that it was, at least, a pioneer in the pension field. Bell inaugurated its pension program in 1913. There are some who might suggest that the real purpose was to blunt efforts to unionize its workers—but, whatever the reason, the company did launch a program more than half a century ago to provide some minimal financial security for retiring employees.

One of the chief problems, of course, is that Bell is trying to run the program today the same way it did 50 years ago. Apparently the company is unwilling to concede that times are changing—that the same forces of change which did away with the handcrank telephone

also have made obsolete the limited, almost paternalistic concepts, on which the pension program originally was based.

Yet the fact is that the Bell System has resisted the changing times, insofar as the basic structure of its program is concerned, so that the superb technology of the industry stands in sharp contrast to the obsolescence of its pension scheme. The qualifications for service pensions today are precisely what they were in 1913. And the formula used to determine pensions remained unchanged until CWA effected an improvement during collective bargaining 1963—on the golden anniversary of the program's inaugural.

This is not to say that the program remained unaltered, merely to point out that, in the early years, major changes dealt, not with what the employee was taking out of the fund, but what the employer was putting in. The most significant of these took place in 1928 when the benefit fund was converted into a pension trust, a change which came about only after important amendments to Federal tax laws encouraged the establishment of such trusts.

From a benefit point of view, the program was not amended until the advent of the social security system—and the change was for the worse. At that time, the plan was modified so as to reduce the basic pension by an amount equal to one-half of the benefit paid by social security. In doing this, the company fell back on a loophole it had written into the program in 1913—a loophole which reserved management's right to reduce the amount of the pension under certain unspecified circumstances.

It seems incredible that, in the relatively calm and innocent years preceding World War I, any group of corporate executives could possibly have dreamed that the United States would some day have a social insurance program that would allow the worker, during his productive years, to provide for retirement. Yet the company took the position that it had, in fact, anticipated the great social revolution of the 1930's. Since it had reserved its right to reduce the pensions under certain conditions, it proceeded to exercise that right.

This is one of the points on which CWA takes the sharpest issue with the Bell System. We disagree completely with the company's interpretation of the alleged relationship between its own private pension program and a social insurance system provided by act of Congress. The company based its argument on the notion that, since its taxes paid half the cost of the social security benefits received by its workers, it was entitled to deduct from its pension payments half the benefits the workers received.

Again, in fairness to Bell, it has not always been alone in this attitude—illogical thought it may be. Thirty years ago, when social security began, many companies used the benefit structure of this national insurance program as an excuse to cut their pension liability. But this practice is fast disappearing in American industry. Studies by the U.S. Department of Labor and private organizations clearly show that social security deduction provisions are constantly being eliminated from pension plans. In 1957, the Bureau of Labor Statistics showed that 30 percent of the noncontributory plans in the periodic study of 100 selected pension plans mentioned previously contained social security "offset" provisions; by 1961, this figure had dwindled to 18 percent, according to BLS. In the Bureau of National Affairs

survey published in January of this year, it was noted that for manufacturing industries, only, less than 10 percent of all union negotiated pension plans made any kind of social security deduction.

We have consistently opposed the curious logic involved in the social security "offset" argument. We contend that social security was specifically designed and legislated to alleviate the lot of the Nation's elderly—not to lighten the already insignificant responsibility assumed by industry toward its retired workers. As a matter of fact, the very reason social security came into being was to help fill a vacuum—to help compensate for the fact that industry was not doing enough for the retirees. One of the great ironies of our times is that organizations such as the Bell System should be able to turn social security to their own financial benefit.

During our collective bargaining with the Bell System in 1963, we finally achieved a breakthrough of sorts on this issue. We were able to get the company to agree to reduce the amount it was deducting from the basic pension to one-third of the social security benefit. The minute Bell abandoned the concept of a 50-percent "offset" it was conceding, in our opinion, that there never was any validity for its practice of using social security to reduce its pension obligations.

This was not as significant, by the way, as the change we were able to negotiate with General Telephone that same year. General had been following the Bell System's example by using the 50 percent "offset" scheme, too, but 3 years ago they agreed to phase it out, reducing the "offset" amount by 5 percentage points each year. Thus, by 1973, retirees from General will receive their full social security benefit and their full company pension. One might be tempted to argue that the pace of this adjustment—spread out, as it is, over a 10-year period—is painfully slow. But it still represents progress.

Getting back to the Bell System, one of the curious things it does with its pensions is that it not only deducts one-third of what the pensioner receives from social security, it also deducts one-third of what the pensioner would receive if he were drawing social security.

I realize this sounds complicated, but let me try to make it less so with an example. Take a worker who retires from the Bell System at age 62. Under the law, he is eligible for social security, but if he were to begin drawing it at age 62, his benefits would be paid at a reduced rate. As a result, many people retire, but wait until they're 65 before applying for social security, in order to get a higher benefit from the Federal program.

But this makes no difference to the Bell System. It deducts from its pension check an amount equal to what the pensioner would be drawing from social security at age 62—further reducing the already meager pension which the retiree is receiving from the company. This is a case, it seems to us, of the Bell System getting its cut of social security come hell or high water.

Pension benefits are considered as deferred taxable income, unlike social security benefits which are tax exempt. In reducing its pension obligations through the social security "offset," the company is using deferred income of its employees to meet a tax liability which it is obligated to pay—an obligation, by the way, which all employers must pay—to finance a broad social insurance program. This is manifestly unfair.

Our union remains of the opinion that the use of any social security "offset"—whether it's one-half, or one-third, or any other exotic percentage—is, to say the least, immoral. What the Bell System seems to be saying to its retirees, in effect, is this: We have been taxed by the Federal Government to underwrite our fair share of the cost of the social security program. Whether you like it or not, we intend to recover our tax payments from you.

We wonder what thoughts must pass through the minds of the Members of Congress who study the economic problems of the elderly, conclude that they need higher social security benefits to maintain some basic living standards—and who then discover later that some of the increased benefits which they vote for social security recipients go, not to the retirees, but into the bank account of a company like the Bell System.

We recognize that proposals have been made to the Congress from time to time to enact legislation expressly prohibiting social security deductions from private pension plans. Perhaps in the case of the telephone industry, this may not be necessary, since CWA has demonstrated at the bargaining table—with both Bell and General—that it can effect changes in these programs that will someday, we hope, make them effective adjuncts of the social security system, instead of partial beneficiaries of the program enacted by the Congress.

Still, if it should become clear that there are enough companies or industries which are misusing the social security program so that its intent is being undermined, then it may be that such legislation is essential—particularly to safeguard workers who do not have the benefit of union organization. If that proves to be the case, we hope that Congress will act promptly to redress the legitimate grievance of those workers whose pensions are thus being eroded by management's actions.

For ourselves, as I have said, we intend to try to bring about change through the institution we favor most—the processes of free and responsible collective bargaining. We hope to be able to convince the Bell System that it not only has the moral obligation to improve pensions, but also that it has the financial capabilities.

In 1965, for example, more than \$410 million of corporate income went into the pension fund. Yet not one penny of this money was used to pay pension benefits. Instead, the \$172 million in benefits was more than offset by the nearly \$188 million in interest which the funds earned.

Since the inception of the program, not 1 penny of the principal has ever been touched. As a result, the Bell System had over \$5 billion in its pension trust fund at the end of 1965. Had Bell, from day 1 of social security, continued to pay out the full level of pensions and not taken the social security "offset," this huge fund would be less than \$200 million smaller than it is today—an insignificant amount laid alongside the \$5 billion in principal. In other words, the company has been playing a nickel-and-dime game, in terms of its own assets—but the nickels and dimes are the ones which would have given its retirees a far greater measure of security all these years.

I should tell you that the Collective Bargaining Policy Committee of CWA has already spelled out its intention to work for a major overhaul of the Bell System's pension plan during 1966 contract nego-

tiations. This committee, I might point out, is one of the many ways in which the Communications Workers of America practices trade union democracy. It is a committee made up of rank-and-file members from across the country—men and women elected by their fellow workers to share with the union's officers the responsibility for shaping our bargaining policy goals. So the feelings they express on this subject represent the consensus of our membership—our program is one which percolates up from the ranks, rather than one which trickles down from the leadership.

I would like to submit the entire statement adopted by CWA's Collective Bargaining Policy Committee as an appendix to my testimony, since it makes so very clear the determination of our members to correct this situation. (See p. 237.)

We feel that this complex problem must continue to be one which concerns us all—a problem which can only be solved through the combination of legislative action, which is the province of the Congress, and collective bargaining action, which is the province of labor and management. How well we do in the latter arena will, of course, determine to a large extent how much the Congress must do in the former.

In conclusion, Madam Chairman, I would like once again to express the appreciation of the Communications Workers of America for the opportunity which this subcommittee has given us to express our views on the problems—and our hopes for improvement—of pension programs.

It is our earnest hope that out of these hearings will come a greater sense of awareness of what tasks remain undone, and a clearer understanding of what each of us—Government, industry, and labor—must do to make sure that the central goal of pension programs is attained. The goal of providing the retired worker with the human dignity to which he is entitled, and the economic security which he has earned.

I would like to depart for a second, Madam Chairman, to give you briefly some examples. An illustrative pension for Bell System employees retiring now at age 65 with 40 years of service, a top plant craftsman who would be earning \$159.50 per week would come up with a monthly Bell pension of \$276.47 less one-third of the maximum primary social security benefit of \$131.70 would leave \$232.36.

A top operator at \$96.50 per week a monthly Bell pension of \$167.26 less one-third maximum primary social security benefits of \$135.90 would leave here a pension of \$121.96. According to our calculations, and the company of course is in a better position to know the exact averages, because these figures are not entirely available to us, so this is an estimate, an average monthly pension of our members would be \$193.33, less one-third maximum primary social security benefits of \$131.70 would leave a pension of \$109.43. I would like to point out in this connection that when you look at what has been called the poverty level in America for a family of four or a modest family income, and we can look at three figures, \$3,200 a year or \$266 a month, \$3,600 a year or \$316 a month, \$4,000 a year or \$330 a month, you will note that from the top plant craftsman through the operator through what we believe to be the average, none of these people receive a pension that would even touch any one of these three poverty level figures.

Thank you very much.

(Supplemental information, referred to on p. 236, follows:)

THE COMMUNICATIONS WORKERS OF AMERICA—AFL-CIO 1966 COLLECTIVE
BARGAINING POLICY COMMITTEE

1-CBPC-1966

During 1966, the major agreements between the Communications Workers of America and the communications industry will be open for renegotiations on all contract items. Unlike our negotiations in 1963, this year's bargaining will take place in an environment characterized by unparalleled growth in both the public and private sectors of our nation's economy.

The momentum of the 63-month old expansion appears strong enough so that almost all forecasters see nothing in sight that will upset the achievement of another record high for the U.S. economy during 1966.

While the boom may lose some momentum if a Vietnam truce is arranged, the war accounts for less than 2 percent of the national effort which means that an end to fighting should not produce a sudden recession.

The advance in business activity will be limited only by industrial capacity and manpower and by restraints imposed by government officials in an effort to dampen the threat of inflation.

The problem for the U.S. in 1966, will not be one of stimulating the economy, but one of avoiding strain and excesses.

Nearly all segments of business activity are expected to share in the gains which are forecast for 1966. The Council of Economic Advisers predicts that the Gross National Product (GNP) will grow markedly for the sixth straight year. GNP will be \$722 billion this year, a 6.9 percent gain over last year's level. Many private forecasters agree with the Council's \$722 billion GNP prediction, and some believe it will go even higher.

Arthur M. Ross, Commissioner, Bureau of Labor Statistics, in his address before the Atlanta, Georgia, Press Club on March 23, 1966, stated that GNP would reach \$735 billion during 1966.

The President is forecasting a rise of 1.8 million jobholders in 1966, to a new record high of over 74 million.

Unemployment, which averaged 4.6 percent of the U.S. work force last year, is seen dipping to 3.75 percent in 1966, with the expectation that it will be reduced to about 3.5 percent by the end of the year. This is the lowest unemployment rate in more than a dozen years. Labor shortages, as a consequence, are expected to grow.

U.S. Businessmen seem convinced that the 5-year-old surge in profits is going to continue through 1966. A survey of reports just issued by 653 corporations on business in the fourth quarter of 1965, tallied by the economic unit of "U.S. News and World Report", shows that profits of these companies, after taxes, totaled nearly \$4.7 billion in that quarter while profits in the same period of 1964 were \$4.0 billion, an increase of 15.8 percent.

Federal government expenditures for 1966 will continue to rise.

State and local government expenditures for goods and services, which rose \$5 billion last year, are expected to increase about the same amount this year, adding approximately \$5 billion to total national production in 1966.

Conditions for spending on new plant and equipment appear to be favorable for a continued expansion in 1966. And, manufacturer's capacity utilization now appears to be slightly above 90 percent, compared with 87 percent in 1964. The latest Commerce-SEC survey of business investment plans anticipates a rise in expenditures during 1966, to a new total of \$60.2 billion, 16 percent higher than the \$52.0 billion spent in 1965, unless business respond to the President's recommendations that they cut back on their projected outlays.

In 1966, people are expected to enjoy incomes totaling more than \$36 billion over last year's level.

Even under the mounting pressures of rapidly increasing GNP, rising productivity and wages, and continued expenditures, our nation's economy shows no signs of entering into an inflationary trend. In fact, the very core of the Council of Economic Advisers' optimism is based on their strong conviction that prices will rise no faster during 1966 than they did throughout this past year.

Although there is still some slack in the economy, with more than three million people not seeking work because there are no available jobs for their skills in their communities, the economy's potential to produce a rising volume of goods and services is growing rapidly.

The "growth gap", the difference between what the economy could produce at full employment and what it actually is producing, was put at \$50 billion in 1961. Now President Johnson and his Economic Advisers state that gap is down to less than \$10 billion, and dropping fast.

However, during the past ten (10) years the buying power of all worker's wages have lagged behind the rise of the economy's productivity. From 1960 to 1965, when output per man-hour in the total private economy rose at an average yearly rate of 3.6 percent, the buying power of employee hourly compensation in the private economy increased only 2.9 percent per year. This lag reveals the continuing shift of income away from wage and salary earners to other groups in the economy.

And, while workers' buying power has been lagging behind the increase of productivity, profits and dividends have been rising much faster than employee compensation. In 1965, corporate profits rose 15 percent before taxes and 20 percent after taxes. This rate of increase is more than double the rate of increase in total wage and salary payments.

Still, the federal government clings to its arbitrarily imposed wage-price guideline of 3.2 percent in the face of overwhelming evidence that new theories and practices are necessary to cope with today's problems. Originally, the guidelines were intended as a contribution to public discussion, however, the administration is currently interpreting them as directives to labor and industry.

Instead of making the guideline theory into a workable and flexible economic tool the Council has made it a mockery by arbitrarily setting the 1966 limit at 3.2 percent instead of 3.6 percent which was called for by application of the Council's own guideline formula.

In itself the guideline theory has remained unworkable because of its inherent shortcomings. It has been largely responsible for creating the wrong-way income distribution between worker income and profits. The guidelines work to throttle the forces of competition by allowing no opportunity for a group of employees to improve their status in the economy. And, a single percentage application in a highly diversified economy makes it impossible for workers to maintain the same buying power relationship. In addition, the guideposts do not take into account cost-of-living changes which tend to negate bargained wage increases.

In the past six (6) years communications industry profits, increasing at about 8.1 percent per year have equaled profit increase for the economy as a whole. And productivity has been increasing over 4.5 percent per year in the communications industry. In this same period of time, overall increases in the straight time earnings in the communications industry have been below these figures.

In the Bell Telephone System construction expenditures during 1965 rose to \$3.9 billion. The number of telephones in service increased to a total of 75,866,254 compared with 72,043,823 in 1964. Operating revenues totaled \$11.1 billion, an increase of \$756 million over 1964, when the previous record of \$10.3 billion was set. Net income applicable to A.T. & T. stock totaled \$1.79 billion, an increase of \$140 million over the previous record high of \$1.65 billion set in 1964.

A.T. & T. earnings last year averaged \$3.41 per share, compared with \$3.24 in 1964.

In 1965, the General Telephone and Electronics Corporation also stepped-up its activities and by the end of 1965, G.T. & E. had increased the number of telephones in service to a total of 7,176,000, compared with 6,712,000 in 1964.

Construction expenditures in G.T. & E. increased \$406 million to a new record total of \$3.79 billion. Operating revenues totaled \$2.04 billion, an increase of \$261 million over 1964. Net income applicable to G.T. & E. stock totaled \$166 million, an increase of \$27.99 million over the previous record high of \$138 million in 1964.

G.T. & E. earnings last year averaged \$1.87 per share, compared with \$1.57 per share in the previous year.

In Canada, the economy is moving into its sixth straight year of sustained advance thus refuting the textbook cyclical patterns. GNP is predicted to exceed \$48 billion by the end of 1966. In the past five (5) years, the Canadian economy has been expanding more rapidly than its basic growth in potential so that by the end of 1966 there should be little, if any, "growth gap" between potential GNP and actual GNP. Once this desirable goal is attained the problem then becomes one of maintaining that balance.

At present, unemployment in Canada has virtually ceased to exist. Instead manpower shortages have plagued many producers.

Capital expansion, which increased over 15 percent last year to a new record high in excess of \$7 billion, is predicted to increase by nearly 20 percent during 1966. Among those industries predicted to make sizable expansion outlays during 1966 are manufacturing, pulp and paper, steel and auto, and public utilities.

This increase in capital expansion has been necessitated by increased income and standards of living over the past five (5) years. Worker's income in 1965 increased by 12.3 percent partially due to a tax cut in mid-1965, while the standard of living in Canada has risen 20 percent since 1961. However, in this same period of time costs of living have greatly increased.

In 1966, wage increases in Canada will have to take into account such factors as increased living costs, estimated to range from 2.5 to 3.0 percent, and existing wage lags in various industries. However, they will not have the benefit of another tax reduction in 1966.

CONCLUSION

Considering the industry's wage history in the United States, profits and productivity, and the general economy as a whole, substantial contract improvements, even though they may exceed the 3.2 percent guideline, are more than justified for CWA in 1966. Additional improvements are also needed to correct the gross inequities built in by unwarranted wage differentials.

While it is true that great strides were made last year toward correcting some existing inequities in the communications industry when the Bell System's wage zones were reduced in each operating company to four (4), the corresponding wage rates for these zones are still based on the industry's age old "Community Wage Theory." Further, wage adjustments based upon the data contained in the *Nathan Report* are now justified to extend conformity of wages between similar wage zones.

NOW THEREFORE, BE IT RESOLVED, that this Collective Bargaining Policy Committee hereby establishes the following as the Union's collective bargaining program for the forthcoming round of negotiations:

- A. *A substantial general wage increase.*
- B. *Town reclassification and area differentials.*

Continue our past efforts in narrowing wage differentials within bargaining units and make further efforts at equalizing all existing differentials among bargaining units in keeping with the *Nathan Report* recommendations adopted during the 1965 CBPC Meeting:

Cities (Labor Market Areas) shall be ranked by use of a classification standard based upon an economic and statistical analysis using reliable data for per capita family expenditures adjusted to minimize effects of differences in income and levels of living. Such ranking shall be banded as provided below:

1. A key city and job classification, considered to have the most nearly correct wage rate, shall be selected as a key rate (index value of 100 percent) from which to rank all other cities and determine appropriate wage levels for other job classifications.
2. All work locations in the same Labor Market Area (LMA) are to be in the same band for wage purposes.
3. There are to be no more than six (6) banded classifications for wage purposes in the country. There shall be no more than \$4.00 between bands

C. *Health Insurance*

Full company paid comprehensive health insurance plan for each communications worker, pensioner, his or her spouse and other dependents where such programs exist, and the introduction of such programs where none exist. This plan shall include hospitalization, surgical and major medical coverage.

D. *Pensions*

Elimination of all Social Security deductions from pension calculations; increasing all minimum pensions to \$125.00 a month; provide for earlier retirement by reducing the number of years' service necessary to receive a pension; and the introduction of survivor's rights under the pension plan where they do not already exist. Where these items are inconsistent with the basic structure of existing plans, or impractical in terms of present benefit levels, the President and the Executive Board are directed to establish appropriate items for improvement.

E. Vacations

Vacation improvements which establish, where these goals do not already exist, at least two (2) weeks' vacation after one year of service, three (3) weeks' vacation after ten (10) years of service and four (4) weeks' vacation after fifteen (15) years of service.

F. Life Insurance

Payment by the company of total life insurance coverage where such programs exist, and the introduction of such programs where none exist.

G. Labor-Management responsible relationship

Introduction of provisions insuring responsible Labor-Management relations in all CWA bargaining units. The 1963 CWA Collective Bargaining Policy Committee approved a recommendation by the Executive Board that the Committee "reaffirm the action of the 1960 CBPC regarding 'security for Union Representatives' and that the various bargaining units seek, as Local bargaining items, to improve contract provisions as they apply to Local Union Representatives, for both part-time and full-time Union work, and that the Union provide a model contract clause to be used as a guide by the bargaining units."

H. Job Structure

Correct job structure inequities as follows :

Traffic

1. Shorten all tours to seven (7) actual working hours, including two (2) fifteen (15) minute relief periods. Overall spread of hours to be eight (8) where there is a one (1) hour meal period in the tour and seven and one-half (7½) hours where there is a one-half (½) hour meal period. Fifteen (15) minute relief periods are paid for time not worked. Meal periods are non-paid for non-worked time. Where tours are already shortened more than seven (7) actual working hours, including relief periods, they are not to be lengthened.

2. Increase service assistant differentials to \$10.00 per week where they are less than \$10.00.

Clerical

1. Clerical job alignment and wage levels are out of line. Efforts must be pushed hard in negotiations to correct the inequities.

2. Establish the job title of Computer Attendant with a wage rate equal to that of Tabulating Machine Operator or approximately five dollars (\$5.00) a week above the rate of Telephone Operator.

3. Establish the title of Accounting or Tape Librarian with a wage rate approximately five dollars (\$5.00) a week above the Computer Attendant.

4. Actual productive clerical work with computer systems to be done by bargained for employees.

Commissioned Directory Employees

1. Recognition of commission employees as Salesmen rather than hourly paid employees in the application of wage increases.

2. Improvement in existing commission rates.

3. Elimination of unwarranted and inequitable restrictions on assignments and sales activities.

Plant

1. Establish three (3) new craft titles with approximate wage rates at least ten dollars (\$10.00) a week above present top craft rates as follows:

a. Central Office Technician—Craftsmen working in central offices who locate and repair troubles associated with the following:

(1) Cross-bar central office equipment (all types).

(2) "Electronic central office" equipment. (This applies to offices using electronic switching equipment as contrasted to step-by-step panel or cross-bar switching).

(3) Radio, T.V. and teletype central office transmission and switching equipment.

(4) Carrier, microwave and mobile radio central office transmission and switching equipment.

(5) Other equally complicated equipment requiring similar skills and training.

b. Field Communications Technician.—

(1) Mobile radio, radio and T.V. teletype and data transmission and switching equipment.

(2) Microwave, carrier and electronic transmission and switching equipment.

(3) Other equally complicated equipment requiring similar skills and training.

c. Computer Technician—Craftsmen involved in computer installations as follows :

(1) Used as consultants or advisors to Programmers or others planning programs for computer systems which place on computers plant facility and equipment records, or who draw work-flow charts, prepare in-put data and work on computer file maintenance. This, or an appropriate title and wage rate for any employees performing such work whether or not they are actually working in the plant, accounting or any other department.

(2) Craftsmen locating and repairing troubles on electronic computers.

I. *Standardization of working practices in all companies, such as Western Electric, where differences now exist between hourly and salary-rated employees.*

The achievement of standardized working practices among hourly paid blue-collar employees and white-collar salaried employees, i.e. :

1. Weekly salary rather than hourly rate.

2. No time clocks.

3. Elimination of all other existing differences in working practices.

J. *Elimination of oppressive overtime practices.*K. *Local critical items.*

Any such demands are to be limited to only those items that represent the crucial need of the members of the unit.

L. *No lowering of contract standards.*

The achievement of reasonable and satisfactory collective bargaining agreements without weakening the benefits presently afforded under the existing agreements.

BE IT FURTHER RESOLVED, That the President and the Executive Board may establish such supplemental bargaining programs as may be deemed appropriate for those collective bargaining units which have attained any part of the Union's bargaining program as herein established.

BE IT FURTHER RESOLVED, That collective bargaining will become a 365 day per year function of each individual CWA member.

A strong and responsible Union is based on membership understanding and support. It is the Union's responsibility to properly represent its membership both in collective bargaining and the day-to-day relationship with the company. It is management's responsibility to properly carry out the management functions of the company including the proper day-to-day relationship with the Union.

The CWA Policy Committee has noted that 62 percent of the grievances which are handled by the staff are satisfactorily adjusted or won. While this in itself is a good record it points out the existing problem of a poor relationship existing between Union and management at the Local level. The great bulk of the grievances presently handled by staff should be disposed of at the Local level.

The proper relationship between Union and management can be established only if, and when, proper respect exists between the parties. This respect cannot be transitory, existing only during the time of formal collective bargaining; it must exist in their day-to-day relationship.

BE IT FINALLY RESOLVED, That the President and the Executive Board continue to develop and execute a Public Relations Program that will bring the needs of the members of CWA to the attention of the general public.

Representative GRIFFITHS. Thank you very much. What did you do in 1963 to improve the pension plan?

Mr. KNECHT. The biggest one was to reduce the 50 percent offset principal to one-third.

Representative GRIFFITHS. How many women drew pensions under this plan and how many men?

Mr. KNECHT. According to the figures available to us, at the end of 1965 there were 38,846 men, 50,462 women, for a total of 89,308.

Representative GRIFFITHS. Percentage-wise then the women are taking a beating, aren't they?

Mr. KNECHT. There are more women.

Representative GRIFFITHS. But you have more women employed.

Mr. SCHROEDER. About the same proportion.

Mr. BITTLE. It has gradually been coming down to about the same proportion.

Mr. SCHROEDER. If I may elaborate on that.

Representative GRIFFITHS. All right.

Mr. SCHROEDER. The women have gradually been increasing in percentage. I think that is what the gentleman is trying to state.

Representative GRIFFITHS. Of those people who work for the telephone company?

Mr. SCHROEDER. No; those who retire.

Representative GRIFFITHS. What pressure is there on the telephone company to keep these pensions low?

Mr. SCHROEDER. The pressure on any company is to keep expenses within reason, but I don't consider that these pensions are low, Madam Chairman.

Representative GRIFFITHS. With most companies, efficiencies make profits, don't they? But in the case of a regulated company, wouldn't you say expenses make profits.

Mr. SCHROEDER. No; I don't say that at all.

Representative GRIFFITHS. They don't?

Mr. SCHROEDER. There is no guaranteed return in our business. Are you suggesting that when expenses go up we make more money?

Representative GRIFFITHS. Yes; dollarwise you do, don't you?

Mr. SCHROEDER. No; just the opposite. If expenses go up we have to take it out of the—

Representative GRIFFITHS. We are always having rate hearings in Michigan, the point of which is to get the rates pushed up on account of the fact that expenses have gone up.

Mr. SCHROEDER. There have been increases.

Representative GRIFFITHS. If you suddenly had any really great efficiencies, somebody might ask for the rates to go down.

Mr. SCHROEDER. Our rates, of course, have gone down in many areas. Our long-distance rates have gone down continuously, because of efficiencies. There has been no attempt to keep, and no ability to keep, these rates up if efficiency goes up.

Representative GRIFFITHS. Who are the trustees of the fund?

Mr. SCHROEDER. The trustees are banks.

Representative GRIFFITHS. Did I understand you to say that the administrative expenses of the fund are not charged to the fund,

Mr. SCHROEDER. That is right.

Representative GRIFFITHS. Why?

Mr. SCHROEDER. The company has always felt that these were proper expenses to pay out of its operations. It wouldn't make any

difference if we charged it to the fund. It would simply mean a greater deficiency and each year when we make up our estimate of what is needed that year, in accordance with those steps that I gave in my testimony, it would make that amount as much larger as those expenses were, so it would be paid one way or the other.

Representative GRIFFITHS. Has the IRS ever examined this plan?

Mr. SCHROEDER. Oh, yes. They examine it.

Representative GRIFFITHS. Have they ever raised any question about charging to current expense the costs of administration?

Mr. SCHROEDER. No.

Representative GRIFFITHS. To what State does A.T. & T. report?

Mr. SCHROEDER. A.T. & T.? To the State of New York. It is incorporated in the State of New York.

Representative GRIFFITHS. It is incorporated in New York? So the insurance commissioner examines the fund, is that right?

Mr. SCHROEDER. I don't think so, Madam Chairman. I think I have the information here. You are referring to the inspection of the trustees.

Representative GRIFFITHS. Yes.

Mr. SCHROEDER. In connection with their handling of the fund? In New York State, that is under the supervision of the New York State Banking Department.

Representative GRIFFITHS. Have they ever investigated the fund?

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. Are the funds irrevocably dedicated to the payment of the pensions or can the company recapture some of this money?

Mr. SCHROEDER. They are irrevocably dedicated.

Representative GRIFFITHS. Has anyone ever questioned you on the low rate of return?

Mr. SCHROEDER. I think in some regulatory rate hearings, that it has been questioned.

Representative GRIFFITHS. Has it ever resulted in a suit of any sort?

Mr. SCHROEDER. No.

Representative GRIFFITHS. Your fund really has a remarkably low rate.

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. Particularly when you realize that the administration expenses are being paid by the company.

Mr. SCHROEDER. That is true. There are two reasons for it. One is that our goal has been high quality securities, which, of course, paid lower rates of interest. The other reason is that our fund was started in 1927, so we bought a lot of securities at the highest return available, but the rates being paid then were low. As you notice, the difference in the rate of return is reflected in this small fund which was started in 1964, as against the other fund.

Representative GRIFFITHS. What are these affiliated company obligations?

Mr. SCHROEDER. When New York Telephone buys bonds of other telephone companies in the Bell System—Ohio Bell for example—the latter is an affiliated telephone company.

Representative GRIFFITHS. Is there any danger in this?

Mr. SCHROEDER. This question has been considered. These obligations are perfectly sound investments—they are very high-grade securities. These obligations are purchased by life insurance companies and all sorts of companies.

Representative GRIFFITHS. Are any of them common stocks?

Mr. SCHROEDER. The A.T. & T. Co. funds have no common stocks of the affiliated companies. The common stocks our fund own are all outside the Bell System. I am not sure about funds of the other Bell companies, but will supply the information.

(Supplemental information follows:)

PENSION FUND INVESTMENTS

Investments of the A.T. & T. pension funds in communications companies other than Bell System Companies amounted to \$4,177,950 on December 31, 1965. This consisted of bonds and debentures of 12 companies with no stockholdings in communications companies. On a Bell System basis the amounts were \$71,280,771 and 16 companies. One Bell fund held 22,500 shares of common stock of General Telephone and Electronics Corporation ((.03%) three hundredths of one percent of stock outstanding).

Representative GRIFFITHS. What about these nonaffiliated public utility obligations?

Mr. SCHROEDER. Those are power companies, electric power, gas, and so forth.

Representative GRIFFITHS. You do own common stocks?

Mr. SCHROEDER. I think we do own some common stocks in those. When I say we, I mean the trust company.

Representative GRIFFITHS. Would it own in any case anything like a controlling share?

Mr. SCHROEDER. Oh, no.

Representative GRIFFITHS. What percentage of the stock?

Mr. SCHROEDER. In any one company?

Representative GRIFFITHS. Yes.

Mr. SCHROEDER. It would be very low.

Representative GRIFFITHS. Do you have any regulations that forbid your owning over a certain percentage?

Mr. SCHROEDER. I think we do but I don't have that at my fingertips.

Representative GRIFFITHS. Would you make that available to the committee?

Mr. SCHROEDER. This is the maximum percentage that we could buy in any one company?

Representative GRIFFITHS. That is right.

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. What are you going to do when the fund is funded? You predict that will be about 3 years.

Mr. SCHROEDER. The 3-year period I mentioned covers a minor exception to our general funding method.

The Bell System companies "froze" the unfunded amounts which are costs not provided for by the funding methods used prior to 1959. At that time we started to amortize those amounts over a 10-year period in addition to making normal contributions. We have 3 more years to go before these amounts are wiped out.

At the end of the 3 years our plans will be "fully funded." That does not mean that we can then stop putting money into the funds. As long as the plans exist and we have employees, we will have to put in money to provide for current service.

Our definition of "fully funded," and the definition we think is almost universally accepted, is that there is enough money on hand so that the sum of the on-hand money plus future "current cost" contributions that will be made is estimated to be large enough to pay future benefits that will become due for both the retired and the active work force. These future current costs may be defined in a number of ways. The Internal Revenue Service will permit only certain selected methods of computing "current costs." Thus, IRS effectively prevents companies, either from accumulating funds that are too large or from obtaining tax deductions for contributions that appear to be larger than necessary. It is expected that all plans in prosperous companies will require substantial contributions every year. In fact, in very rapidly growing companies the pension payments cannot be expected to become as large as the investment earnings of the trust if the plan is being properly funded. Although pension payments for the Bell System as a whole have never equaled the investment earnings, the pension payments of about one-third of the Bell companies do exceed the investment earnings.

But on the general question, we will not be fully funded in 3 years in the sense I understand you to mean. If we were to terminate today and follow the plans' termination provisions, there would be enough money to pay the pensions for all who have retired or are eligible to retire at their own request, to pay deferred pensions starting at age 65 for those eligible to retire with committee consent, and to pay possibly 50 cents on the dollar in deferred pensions for those who have completed at least 10 years of service but are not yet eligible to retire. There would be no money available for employees with less than 10 years of service. Even after we have become what we consider fully funded in 3 years, this situation will remain essentially unchanged, except that employees with more than 10 years' service but not yet eligible to retire would get a few more cents on the dollar than the 50 cents I mentioned.

However, when significant pension improvements are made and general pay increases are granted, a backlog builds up for which past contributions are inadequate to cover their proportionate share, and future contributions are necessarily greater. You see, our plan bases benefits on the final 5-year average pay. So every time a general pay increase is negotiated more of the money than had been anticipated will be required for those close to retirement. All this would be true even though the plan had become what is known as fully funded.

Representative GRIFFITHS. Who made the original calculations as to how much money was needed to pay the pensions?

Mr. SCHROEDER. This was done actuarially. We have our own actuaries and we also have consulting actuaries. But the calculation is done on the basis of historically developed percentages of people that are going to retire at various ages, at various salaries so that the cost of their pensions can be projected, and this has been done ever since 1927.

Representative GRIFFITHS. Now you have had a long lot of experience, and yet you are not even paying out the interest on the fund in pensions annually.

Mr. SCHROEDER. That is right.

Representative GRIFFITHS. Don't you think that it really is time that you recalculated the amount of money that you need?

Mr. SCHROEDER. Well, it is recalculated every year.

Representative GRIFFITHS. What I can't understand is why the IRS doesn't recalculate it.

Mr. SCHROEDER. They do.

Representative GRIFFITHS. They are doing some mighty poor recalculating on these funds. Now I will say you are paying out a higher percentage of the interest than most of the other funds that have shown up here. You are in a little different situation than anybody else. You really don't have union trustees coming in to determine anything about the funds, so that it is totally within your power to recalculate the necessary amount of money. But when you look at these investments: first, the investments really aren't earning enough, but secondly, I must say that you appear to be in a wonderful position to buy out the competition, or at least to control it.

Mr. SCHROEDER. I don't know what you mean by buying out the competition.

Representative GRIFFITHS. Well, is there any reason why you really aren't using this pension fund to extend the control of A.T. & T. over the rest of American industry?

Mr. SCHROEDER. Oh, no. We have no control. The trustee buys the stock. That doesn't give us control. As you see in my testimony, the stock is only about 15 percent of the fund. The remainder is in senior securities which give no control at all.

Representative GRIFFITHS. What are these other corporate obligations?

Mr. SCHROEDER. Those are bonds of other companies, the same kinds of companies as for common stocks. In other words, they are senior securities which pay a fixed rate of return.

Representative GRIFFITHS. What are the hiring practices of A.T. & T.? Do you have an age limit for new employees?

Mr. SCHROEDER. You mean a hiring age limit?

Representative GRIFFITHS. Yes.

Mr. SCHROEDER. No, we do not.

Representative GRIFFITHS. As a practical matter, are you hiring women operators 50 years of age?

Mr. SCHROEDER. Not very many, I think, but we hire some.

Representative GRIFFITHS. You do?

Mr. SCHROEDER. And we have hired in the last year, to my knowledge, women past 60 for jobs of a clerical nature and jobs for which they were able to go right in and work.

Representative GRIFFITHS. How long must you have worked for this company to draw a pension?

Mr. SCHROEDER. It is 15 years if you are 65, and 20 years if you wish to retire at age 60, or in the case of a woman at age 55.

Representative GRIFFITHS. Does the pension not vest until you have reached the specified age with the required number of years?

Supposing you went to work at 20, and you worked for 30 years until you were 50, and then retired. Could you draw a pension from Bell?

Mr. SCHROEDER. If you say "retired," do you mean voluntarily quit?

Representative GRIFFITHS. Yes.

Mr. SCHROEDER. No, you could not.

Representative GRIFFITHS. You must have worked the required number of years and also have arrived at the age?

Mr. SCHROEDER. It is a combination of age and service, that is right. In the case of a woman, she would only have to work 5 more years.

Representative GRIFFITHS. What is the percentage of people on whom you pay who never draw pensions?

Mr. SCHROEDER. You say "on whom you pay." We really don't pay on individual people.

Representative GRIFFITHS. You pay on the payroll, don't you?

Mr. SCHROEDER. We pay on a percent of payroll.

Representative GRIFFITHS. On a percent of payroll. You mean you do not pay on the whole payroll?

Mr. SCHROEDER. We pay on the whole payroll, but we pay a percent of that whole payroll.

Representative GRIFFITHS. How many people work for Bell who never draw a pension?

Mr. SCHROEDER. As indicated in my testimony, of the present force 60 percent will draw a service pension, plus 2 more percent that will draw disability pension, plus 5 percent more that will draw death benefits from the fund. The remaining 33 percent is about equally split between those who have less than 2 years' service when they leave us and, of course those with more than 2 years.

Representative GRIFFITHS. Is the president of A.T. & T. covered by this plan?

Mr. SCHROEDER. Yes; every employee is covered.

Representative GRIFFITHS. Everybody. And do they draw the same percentage rates?

Mr. SCHROEDER. That is right.

Representative GRIFFITHS. Why did you leave the pay-as-you-go plan, since you have a secure existence?

Mr. SCHROEDER. Yes; this is a good question. In a regulated public utility, you have the problem of convincing regulatory bodies of the basic thing that your expenses are reasonable. It seemed very obvious that regulatory bodies would hesitate many years in the future to set rates to pay for pensions for people that had already left the payroll and who were not rendering a service. We could foresee that our pension costs were going to rise very rapidly at about this time, and they are so doing. So, it would be desirable to fund this, in effect "level costing" it, so that each generation of customers would be paying the cost of the pension as a percent and of the payroll of the employees who were working at that time.

In addition, of course, the other big reason is that funding is a protection, as we find when companies are forced to curtail. Contrary to what others may think, there is nothing certain in the public utility business. The railroads are an example of this, the electric transportation systems, and so on. There is nothing that guarantees that we will have the same relative position in our economy 50 years from

now that we have today. This depends on an alert management to keep abreast with the needs of the people.

Representative GRIFFITHS. As a matter of fact though, on a pay-as-you-go system, it is just an expense. But here is a deductible expense which puts you in a position to use the money.

Mr. SCHROEDER. Which what?

Representative GRIFFITHS. Which puts you also in a position to use the money.

Mr. SCHROEDER. We don't use the money. The money is handed over to the trustee, you see.

Representative GRIFFITHS. But didn't you tell me that the trustees really were members of the company?

Mr. SCHROEDER. Oh, no. These are banks.

Representative GRIFFITHS. Do you have any control over the investments whatsoever?

Mr. SCHROEDER. We have general guidelines that we give.

Representative GRIFFITHS. Have you ever refused to permit a bank to invest in the things in which it suggested?

Mr. SCHROEDER. I don't think we have ever had that problem because we have indicated—

Representative GRIFFITHS. You tell the bank what to invest in?

Mr. SCHROEDER. We give them general guidelines.

Representative GRIFFITHS. I see.

Mr. SCHROEDER. We specify the quality of securities, for example, and they cannot invest in securities below that quality, and this is one of the reasons they haven't invested in securities drawing higher rates of return. In the last decade we have amended these directions to permit them to start investing in common stocks, and now they can invest up to 20 percent in common stocks of specified quality.

Representative GRIFFITHS. Some of this money could just be put in the bank and draw more money.

Mr. SCHROEDER. Yes, at the present time, but it is pretty hard to find that many banks that have guaranteed \$10,000 limits. This is a good management question as to what risk to take in a fund of this kind.

Representative GRIFFITHS. But you yourself really are deciding this risk.

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. And how the funds are to be invested?

Mr. SCHROEDER. The basic policy.

Representative GRIFFITHS. The trustees have no control over specific investments?

Mr. SCHROEDER. We have no control once they buy the stock. That is my point. We have no control whatever of the company that they buy stock in, or bonds or anything else.

Representative GRIFFITHS. You mean you don't have control of the company in which they buy the stock.

Mr. SCHROEDER. That is right.

Representative GRIFFITHS. But you could tell them to divest themselves of the stock.

Mr. SCHROEDER. I don't think we could. I think if worse came to worse we could change trustees, but if they are within the guidelines we don't say, "You must buy ABC Co. and not buy DCF Co." Our

guidelines aren't like that. And we don't look over their shoulders to tell them what they should or shouldn't buy, but if they began to go in a direction we felt they shouldn't, then we could always call them in and say, "Here, we think you are not fulfilling the obligations of the trusteeship," and on given notice terminate that trust and change to another trustee.

Representative GRIFFITHS. Do you have any right as a company ever under any circumstances to withdraw any of this money from the fund and put it back into the company?

Mr. SCHROEDER. No, Ma'am, not a penny.

Representative GRIFFITHS. It is irrevocably dedicated to the fund?

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. What if A.T. & T. bought General Telephone Co., and you merged the pension funds, and then you were told to divest yourself of General Telephone. Do you have any provision in this trust instrument to take care of such a situation?

Mr. SCHROEDER. Well, I think the answer would be "no." There is no provision in it for this, but there undoubtedly would be ways to work it out, if it came to that.

Representative GRIFFITHS. I have heard of a case. The way they worked it out was that the company that did the purchasing kept the money that was in the pension fund.

Mr. SCHROEDER. I haven't heard of that case.

Representative GRIFFITHS. It is quite a nice investment I would say.

Mr. SCHROEDER. The only case that I recall within the last 10 years was when the Pacific Northwest Bell Telephone Co. broke away from the Pacific Telephone & Telephone Co. and made two companies where formerly there was one. After considerable negotiation with the IRS, the FCC, and others, we were able to split the pension fund into two separate funds, so that each group of employees retained proportionate protection.

Representative GRIFFITHS. Have you ever considered a contributory pension plan?

Mr. SCHROEDER. Yes, it has been considered. When we started the plan, the purpose was to provide a sure pension, so that when people reached 60 years of age, or 55 or 65, they would have a pension, because we felt that was a desirable thing. And there is no way that we could force anyone to contribute to a plan. Industry can't take money from an employee without his consent. As we studied these things, the people that seemed to need pensions most were the ones that didn't elect to take advantage of the contributory plan. The provident people do. The improvident, almost by definition, don't. So, what we would end up with, would be a lot of people that had neither any money at 60 years of age nor a pension.

Representative GRIFFITHS. But in many instances the improvident have been changing jobs sufficiently so that they didn't get a pension anyhow.

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. So that in reality, if you had a contributory plan, at least the provident would be protected for every year they put some money in.

Mr. SCHROEDER. Another thing was that a person who wished to contribute could take advantage of an annuity through a payroll deduction plan that we offered, and still do, for individual employees. He could buy an annuity that would supplement his pension. I happen to have one myself that starts to pay out this year, and this will be a supplement to my pension.

Representative GRIFFITHS. Does the company pay in too?

Mr. SCHROEDER. No. This was solely my contribution, in other words, it was similar to the contribution I would have made to a company-contributory plan. This way I just do it myself.

Representative GRIFFITHS. Do you have any comments you would like to make?

Mr. KNECHT. I think I should point out, Madam Chairman, that while our statement did not mention the union's position on vesting, it isn't because we don't believe in vesting. We feel that we have so far to go on some of the other basic problems which are contained in my statement that we sort of plan on attacking that one in the future. We are aware of the fact that vesting seems to be on the increase in this country, and are aware of the fact that automation technology—the Automation and Technology Committee of the President made recommendations in this direction. So I wouldn't want this committee to think because we left that out that we were in opposition to the idea of vesting.

Representative GRIFFITHS. I would like to give you some free advice.

Mr. KNECHT. Very good, we will accept it.

Representative GRIFFITHS. It is my opinion that this question of the vesting or nonvesting of pension plans is about like that of the way a Congressman looks at seniority. The longer you are here, the better you like it. I think the longer people stay in a plan that doesn't vest, the better they like it.

Obviously from the other plans that have come in here, the benefits have been vastly increased. This is one of the interesting things about all of these plans to me. Either there has never been an actuary make a mistake, or nobody has ever been able to find it. In every instance, while they are not willing to give you exactly what their basis for the contribution was, the end result is that the benefits increase. Now in your company, this would probably be desirable. But in some of these companies, it is a pretty high pension right now, and my personal opinion is that the rest of the public is paying it.

Senator Miller, we are happy to have you and we will be glad to have you ask questions if you would like to.

Senator MILLER. Thank you, Madam Chairman. I apologize for being late, but I had some other matters I simply had to attend to.

I would like to ask the representative from the telephone company about the plan. When you compute your rates, how much of this plan cost are you allowed to take into account?

Mr. SCHROEDER. Are you referring to how much of the cost we are allowed to take into account?

Senator MILLER. In setting your rates.

Mr. SCHROEDER. All of it.

Senator MILLER. You are allowed to take into account all of it?

Mr. SCHROEDER. All expenses are taken into account. This is a proper expense.

Senator MILLER. Is there any effort being made to apply the wage-price guidelines to your company?

Mr. SCHROEDER. I think I would say "Yes."

Senator MILLER. In computing the price side of the wage-price guidelines, are you allowed to take into account the cost of the contributions made by the company to the pension plan?

Mr. SCHROEDER. I think what you are getting into, sir, is in connection with future bargaining. This doesn't apply to the day-by-day expenses under existing union contracts as I understand it. I just want to be sure I understand your question.

Senator MILLER. I want to know if you calculate whether or not you are staying within the wage-price guidelines?

Mr. SCHROEDER. Whether we would include this? I would say "Yes, we do include it."

Senator MILLER. Do you include it for purposes of the wage as well as the price?

Mr. SCHROEDER. The wage primarily. Our prices are regulated, of course, by State and other regulatory bodies.

Senator MILLER. Then as far as the wages are concerned, you are permitted to take into account the contribution costs of the plan?

Mr. SCHROEDER. I would put it we are required to take them into account.

Senator MILLER. But you are not, as I understand it, permitted to take into account the social security taxes. Are you permitted to take into account the social security tax increase that you had to pay this year?

Mr. SCHROEDER. I believe the way the guidelines are applied, all taxes are excluded from that computation. Only the wages and fringe benefits in your own company, are used in this. This is not my special field so I am not posing as an expert in this, but this is my understanding.

Senator MILLER. It is my understanding that you are not allowed to take into account the additional taxes on employees, such as the social security tax increase that went into effect this year, in establishing the wage increase that you may be permitted to have.

I would like to ask Mr. Knecht whether or not he thinks that it should be taken into account.

Mr. KNECHT. You mean the pension costs or the additional taxes?

Senator MILLER. The taxes.

Mr. KNECHT. No; I don't think so.

Senator MILLER. If it is an additional cost that is going to take the form of an increased social security pension to the employee, why shouldn't that be taken into account the same as any other fringe benefit?

Mr. KNECHT. Well, I think—and here, of course, I am sure, Senator, you will understand I am having difficulty being objective about guidelines—but it seems to me that in a situation where you are talking about pensions, a fringe benefit, that at least in this industry to increase pensions would not, based upon what we believe is available to do that, would not require the company to go for any increased rates. It then wouldn't have any impact on the economy in the sense

of increasing prices. Therefore, we don't think that this particular kind of fringe benefit should be considered in the guidelines.

However, as I understand it, it is considered by the council at least to be within the guidelines.

Senator MILLER. Yes. But you are talking now about the fringe benefits paid for by the company in forms other than taxes.

Mr. KNECHT. Yes.

Senator MILLER. What about the fringe benefits paid for by the company in the form of taxes? As I point out, this extra social security tax that went into effect this year will mean increased pension benefits under social security. Why shouldn't that be taken into account too?

Mr. KNECHT. Let me see now, sir, if I understand. Is your question, why shouldn't the increased taxes the employer is required to pay become a part of the total, if we assume a 3.2 guideline, become a part of that?

Senator MILLER. Just like an increase in fringe benefits which are not tax items.

Mr. KNECHT. I confess, sir, that the only reason I can think of—and it may not be a valid one—is that as I understand it the increased tax that the employee must pay, there is no allowance made for that, and so if there were some way of balancing that off, perhaps it would be fair to do so.

Senator MILLER. I think you have a point. Of course, this gets into the validity of the wage-price guidelines.

Mr. KNECHT. Yes, sir.

Senator MILLER. It seems to me, looking at it from the employers standpoint, that if he must take out of the treasury to help the employees to have a better social security pension, that ought to be in the same ball park as taking something out of the treasury and putting it into the company's pension plan.

Mr. KNECHT. Yes.

Senator MILLER. You made a point earlier in your paper about the fact that the pensions that your retirees are receiving are not adequate.

Mr. KNECHT. Yes.

Senator MILLER. How much of the inadequacy is due to inflation? Say somebody retired 10 years ago. If his pension dollar was worth as much today as it was 10 years ago he would be a lot better off, wouldn't he?

Mr. KNECHT. Yes. Obviously, their pension is affected by the rise of the Consumer Price Index. Obviously.

Senator MILLER. Do you have any calculations on how much of the inadequacies of pensions today is attributable to the inflation?

Mr. KNECHT. No, sir, I do not.

Senator MILLER. I take it your position is that you are opposed to inflation?

Mr. KNECHT. Oh, yes.

Senator MILLER. Are you opposed to the actions that lead to inflation?

Mr. KNECHT. Yes, even though an economist I am sure, or two economists might disagree as to what those actions were.

Senator MILLER. You recognize that when you have multi-billion-dollar deficit spending by the Congress, at least in the present state of

the monetary policy, that we have inflation, don't you? I invite your attention in that connection to the fact that over the last 5 years we have had \$31 billion of deficit spending and \$51 billion of inflation, and that it is getting worse.

Mr. KNECHT. I am not sure that I am competent to intelligently argue this point with you, sir. The little reading that I have done indicates to me there is a wide variance of opinion on that conclusion, however.

Senator MILLER. I know there is a wide variance of opinion, but, of course, what I am interested in is the results. I am a little more pragmatic perhaps than some of the classroom teachers. I must say that I sympathize with the fact that employees who are retired now, who retired 10 years ago, may be squeezed by inflation on the pensions which 10 years ago might have been adequate. But I would suggest to you that in casting the blame, that you look to the majority of the members of Congress who have been laying the foundation for at least some of this.

Mr. KNECHT. Well, sir, I certainly appreciate your right to make that suggestion, and I am sure you appreciate my right to feel that so long as the Bell System's pension or trust fund is in the condition it is, where it has yet to touch the principal, that we think at least in the field of collective bargaining our responsibility is to try to improve the pensions they are receiving when the funds are adequate to do so.

Senator MILLER. This certainly comes into the picture.

Mr. KNECHT. Yes.

Senator MILLER. But when I see a number of pensioners having a hard time getting along today, and I see that that pension was adequate 10 years ago, and they so considered it 10 years ago, I can understand why they might turn to some source for an attempt to alleviate the condition, and that certainly is subject to collective bargaining. But, at the same time, I think that they might well look outside of their immediate employer as to the reason why they are being squeezed by the continuing reduction in the purchasing power of their dollar.

Mr. KNECHT. Yes, sir, I think they should.

Senator MILLER. I think it would be only fair to do that. You are not suggesting that the Federal Government make up the difference in what they take away by way of inflation, for example, in an appropriation every year, to increase the purchasing power of the pensioner by the amount of the loss due to inflation that has occurred as a result of the Federal Government's activities?

We now have that system in effect for our civil service retirees. We passed that law in 1962, so that if they have an increase of a certain percent in the cost of living, we have to appropriate money to make sure that they are going to receive a pension which will keep them level in their purchasing power. There have been suggestions made that the Federal Government should do this with respect to those who purchase Government bonds, so that when the bonds are paid off, that they receive dollars that have as much purchasing power as the dollars that they originally invested.

There have been suggestions made that this might even be carried over to social security pensions. Have you had any thoughts on that subject?

Mr. KNECHT. No, sir, only, if I am following you, as they might be expressed in the report of the President's Automation Commission, which urged—I believe I am correct in my facts on this one—urged the Congress to take a look at what is sometimes called the negative income tax, establishing a floor below which—a floor of income below which no family would go. To that extent I believe it is worthy of the serious consideration of Congress. I believe that was a unanimous recommendation of that Commission.

Senator MILLER. Do you favor the reverse income-tax approach?

Mr. KNECHT. Yes, sir. I think that in a country as great as ours, that there ought to be some method that would make sure that every man and his family would have a roof over their heads and be able to exist.

Senator MILLER. What would you suggest as a figure for a modicum level of living?

Mr. KNECHT. I would have no personal suggestion. I believe—I am going on memory—I believe it was—I had better not quote the figure. It is contained in the report. There was a figure contained in the report after a year's study, so I just don't remember it, so I had better not try.

Senator MILLER. Let's say for the sake of discussion that it is \$3,000 a year. How would you calculate that \$3,000?

Mr. KNECHT. I am not sure I understand. What do you mean, how would you calculate it?

Senator MILLER. Let's say I have \$2,950 income, and you say, "No, you have \$3,200 net income. Therefore, you are not eligible for anything." Who is going to decide that? What are going to be the determining guidelines for determining the amount of the minimal income that I should have?

Mr. KNECHT. I believe we would have to rely on our present source, which is the Bureau of Labor Statistics, which conducts studies to determine what the minimum levels of income are, are necessary to have a modest but adequate income.

Senator MILLER. The Bureau of Labor Statistics determines that, but I don't believe they determine how the income is computed. Are you suggesting that we use income as defined for Federal income tax purposes, for example?

Mr. KNECHT. I beg your pardon, I missed it.

Senator MILLER. Are you suggesting that you use income as defined for Federal income tax purposes?

Mr. KNECHT. I am not competent to answer that, sir.

Senator MILLER. If you say you are in favor of this concept, to be meaningful we have to get down to the way we are going to compute the minimum level income.

Mr. KNECHT. This is—

Senator MILLER. I am just trying to get your idea on how we should determine the minimum level.

Mr. KNECHT. Well, I guess I have to confess to you that I am ready to leave that to the experts and to the Congress, once we could agree on the principle that a family is entitled to *x* dollars income to live on.

Senator MILLER. I suggest to you that the concept may be rather easily spelled out, but it may be horribly difficult to implement in legislation, and even worse to administer. For example if we use the

net income approach as computed for Federal income tax purposes, are we going to allow the deductions for charitable contributions? Are we going to allow the deductions for interest? Are we going to allow the deductions for medical expenses? And if we, for example, are going to allow deductions for charitable contributions, does this mean in effect that because I gave \$500 to my church, and that brought me down to \$2,500 of income, that the taxpayers of the United States are supposed to make up the other \$500, and in effect subsidize my contributions to the church? And who is going to do the auditing of these income tax returns, especially these little ones? I used to be with the Internal Revenue Service. I might say I am very proud of the fact that the Internal Revenue Service per employee probably produces more income for the Treasury than any other agency in the Government. Their auditing staff as I recall the latest figures I saw, on an average, brings in \$150,000 of additional revenue a year.

Now you are going to put more revenue auditors on to auditing the tax returns showing under \$3,000 income. There is going to be little productivity there. I can envision a tremendous auditing staff and tremendous problems in determining these small items of deductions in arriving at the net income figure that would be decided on by Congress as the concept for a minimal level.

I suggest to you that the drafting of the legislation and the administration of it may be so overwhelming as to make it impractical to implement.

Mr. KNECHT. I think you are quite right that it would be complicated. Forgive me as a layman, and perhaps this is too easy, but naturally I am oriented toward people just as you are or you wouldn't be serving in the Congress, and a desire to do something for them. And in a country where we can visualize hitting the moon which is no small accomplishment and extremely complicated, it seems to me we ought to be able to work out answers to these other problems you mention.

Senator MILLER. Well, that is easily said, but here in the Congress we have to not only concern ourselves with noble concepts but we have to concern ourselves with the public employees who are supposed to implement them, and also with the taxpayers who are supposed to pay for the public employees. I just want to point out to you that while we might agree on the concept—and there are many great ideas that come out of the Congress—when it gets down to the hard, cold, practical facts in drawing up the legislation, and then particularly administering it, sometimes those good concepts have to be replaced by others.

I don't have any other questions, Madam Chairman.

Representative GRIFFITHS. Thank you very much. I would like to ask you, Mr. Schroeder, what is the turnover rate of the company for the last 5 years? Could you supply that for the record, as to men and women?

Mr. SCHROEDER. Yes, I am sure we can.

(Information which follows was later supplied in response to Mrs. Griffiths' request:)

American Telephone & Telegraph Co. and principal telephone subsidiaries (regular full- and part-time employees)

	Separation rates										Employees under 2 years' service ¹						
	Men					Women					Men		Women				
	Average force	Separations					Average force	Separations					Total force	Under 2 years' service	Total force	Under 2 years' service	
		Re-signed	Laid off	Dis-missed	Retired and deceased	Total		Re-signed	Laid off	Dis-missed	Retired and deceased	Total					
Number of employees:																	
1961.....	249,546	4,925	171	704	3,607	9,407	339,254	55,106	2,177	2,693	5,198	65,174	244,968	12,090	310,016	68,397	71,549
1962.....	250,514	6,093	10	889	3,996	10,998	330,653	58,429	1,510	2,939	5,848	68,726	248,047	14,628	303,466	68,397	68,397
1963.....	251,876	6,092	10	800	4,237	11,139	327,740	57,554	1,524	3,411	6,062	68,551	250,796	18,886	306,450	77,419	77,419
1964.....	257,708	6,351	19	907	4,412	11,689	334,940	58,328	988	3,944	6,152	69,412	258,654	25,448	315,870	87,314	87,314
1965.....	267,179	8,612	11	1,049	4,589	14,261	346,542	65,673	1,051	4,116	6,215	77,055	267,905	32,577	327,982	97,035	97,035
Rates (percent):																	
1961.....		2.0	.1	.3	1.4	3.8		16.3	.6	.8	1.5	19.2		4.9			23.1
1962.....		2.4	0	.4	1.6	4.4		17.7	.5	.9	1.7	20.8		5.9			22.5
1963.....		2.4	0	.3	1.7	4.4		17.6	.5	1.0	1.8	20.9		7.5			25.3
1964.....		2.5	0	.3	1.7	4.5		17.4	.3	1.2	1.8	20.7		9.8			27.6
1965.....		3.2	0	.4	1.7	5.3		18.9	.3	1.2	1.8	22.2		12.2			29.6

¹ End of year figures.

Western Electric Co., Inc.

	Separation rates										Employees under 2 years' service			
	Men					Women					Men		Women	
	Average force	Separations				Average force	Separations				Total force ²	Under 2 years' service	Total force ²	Under 2 years' service
		Resigned	Other ¹	Total	Total separation rates		Resigned	Other ¹	Total	Total separation rates				
				Percent					Percent					
Number of employees:														
1961.....	102,360	6,559	4,905	11,464	11.2	48,660	4,423	6,039	10,462	21.6	96,050	15,000	43,677	12,976
1962.....	105,700	7,547	4,447	11,994	11.3	54,806	5,927	5,144	11,071	20.2	99,157	15,277	45,717	12,816
1963.....	105,970	6,878	4,355	11,233	10.6	48,940	4,230	6,244	10,474	21.4	98,745	13,197	42,723	8,825
1964.....	110,300	6,917	4,113	11,030	10.0	56,690	3,758	4,630	8,388	14.8	102,868	14,668	47,619	12,013
1965.....	115,920	9,074	5,184	14,258	12.3	62,770	4,910	5,008	9,918	15.8	109,176	19,909	52,460	16,607

¹ Further breakdown would require a special study.

² Force at end of year.

Bell Telephone Laboratories, Inc.

Number of employees	Separation rates								Employees under 2 years' service			
	Men				Women				Men		Women	
	Average Force	Separations ¹			Average force	Separations ¹			Total force ²	Under 2 years' service	Total force ²	Under 2 years' service
		Re-signed	All causes	Total separation rates		Re-signed	All causes	Total separation rates				
			<i>Percent</i>				<i>Percent</i>					
1961.....	9,323	294	650	6.5	2,632	234	460	18.2	10,885	2,029	2,752	835
1962.....	10,899	413	849	7.8	2,685	277	534	19.9	11,351	1,894	2,937	1,046
1963.....	11,375	375	764	6.7	2,844	345	596	20.9	11,822	1,836	3,060	1,058
1964.....	11,470	389	866	7.7	2,863	307	583	20.3	11,637	1,456	3,007	846
1965.....	11,486	463	877	7.6	2,871	279	524	18.2	11,721	1,320	3,043	828

¹ Further breakdown would require a special study.² Force at end of year.

Representative GRIFFITHS. Is there any company in the system or affiliated with it which does not have a pension fund or which does not have transfer privileges?

Mr. SCHROEDER. No, there is none.

Representative GRIFFITHS. Aren't you a large seller of services to the Defense Department?

Mr. SCHROEDER. Yes.

Representative GRIFFITHS. Have they ever inquired into this pension fund?

Mr. SCHROEDER. Yes, certainly.

Representative GRIFFITHS. And were satisfied?

Mr. SCHROEDER. Yes; I think in all the cases that have terminated. I think there is an inquiry right now that is underway.

Representative GRIFFITHS. What is that case, do you know offhand?

Mr. SCHROEDER. I am going to have to give it to you from memory. I think it is Western Electric. The Western Electric Co. has more defense contracts than any other system company. I think they have a question about the fund, but I don't know the details.

Representative GRIFFITHS. Is the A.T. & T. fund funded for future wage increases?

Mr. SCHROEDER. Not future wage level increases. Let me make clear what I mean. In the bargaining we do with the union, of course, our craft people come in at a starting rate, and then there are specified increases that take place over a period of 5½ years, for example. Those are spelled out in the contract. They are an obligation. Those are taken into account.

Representative GRIFFITHS. Yes.

Mr. SCHROEDER. But we don't estimate what the installer, that is making \$140 a week now will be making. We don't anticipate, we don't project that he will be making, as a top-rate installer, more than that 20 years from now. We use today's wage levels with the built-in steps that are obligated in the contracts, and we do the same thing with people that are not bargained for. There we use historical information.

Representative GRIFFITHS. And you use the historical percentage of employees who have collected a pension as the percentage that you assume will collect a pension, is that right?

Mr. SCHROEDER. That is true. The figures I gave you, the 60 percent. Nobody can be absolutely sure what will happen, of course, but I use the terminology of the trade. The actuary puts it that way, because he means it has happened, and unless things change, it will be repeated.

Representative GRIFFITHS. Are any of these investments of the fund of A.T. & T. in any other communications company in any way whatsoever: either stocks, bonds, loans, or mortgages?

Mr. SCHROEDER. That I couldn't tell you.

Representative GRIFFITHS. Will you supply that for the record?

Mr. SCHROEDER. Surely. You are referring now to the trustees and to all A.T. & T. companies.

Representative GRIFFITHS. Yes. Thank you very much.

Senator MILLER. I just wonder, Madam Chairman, if we could ask both witnesses to submit for the record their calculations of how

much the inflation has reduced the value of the purchasing power of a typical set of pensions, and typical scale of pensions over the last 10 years, so that we could have some perspective of how much the inflationary impact has had on the average pensioner's income.

Mr. SCHROEDER. Could I just ask this for clarity?

Senator MILLER. Yes, indeed.

Mr. SCHROEDER. I would suggest then that we take a pensioner who retired 10 years ago, say an installer and an operator and work them through.

Senator MILLER. Yes, I think it would be helpful if you could get together.

Mr. SCHROEDER. Perhaps we will come up with the same answers.

Senator MILLER. I don't know whether you are going to use the same calculations of inflation. I would suggest that you use the purchasing power of the dollar which you can obtain from the Treasury Department.

Mr. SCHROEDER. The Consumer Price Index?

Senator MILLER. That would give us a little perspective of how much inflation enters into this problem.

Mr. SCHROEDER. Yes, we will be very glad to.

Mr. KNECHT. We will be glad to.

(Supplementary information supplied by Mr. Schroeder.)

EXAMPLES OF PENSIONERS RETIRED 10 YEARS AGO

The best available indicator we have of the purchasing power of the dollar for this purpose is the Consumer Price Index. This reflects an 18% rise from January 1, 1956 through December 31, 1965 (Index points are 93.4 and 111.0).

The pension of a typical Plant Craftsman retired on January, 1956 at age 65 with 39 years' service was \$97.56 a month. His current pension is \$128.71 a month, an increase of 32%.

In the same period the Social Security Old Age Insurance Benefit has increased from \$100.50 a month to \$115.60, or 15%. Combined retirement income has gone from \$198.16 a month to \$244.31, an increase of \$46.15 or 23%.

The pension of a typical Traffic Operator retired on January, 1956 at age 65 with 35 years' service was \$55.17 a month. It is now \$90.17 a month, a 63% increase. In the same period Social Security Old Age Insurance Benefit has increased from \$89.50 in 1956 to \$102.80 currently, or by 15%. Combined income has increased from \$144.67 to \$192.97, or by 33%.

(Supplementary information supplied by Mr. Knecht.)

In computing the effect of the purchasing power of the dollar on the average Bell System pensioner's income for the ten year period January 1, 1956 to January 1, 1966, we have used the job titles of Operator and Installer-Repairman at the base location, Albany, New York.

The calculations for the purchasing power of the dollar were based upon data supplied by the U.S. Department of Commerce, Office of Business Economics. On January 1, 1956, the purchasing power of the dollar (1957-59 = \$1.00) based on consumer prices was \$1.064. On January 1, 1966, the purchasing power of the dollar was \$.901. By adjusting these figures so that January 1, 1956, is the base period and equal to \$1.00 we find that today's dollar would be worth only \$.847.

The Operator was considered to have retired at age 65 with 36 years of service. Her average income for pension purposes when she retired on January 1, 1956 was \$2,753.32. Her monthly pension totaled \$144.67 (\$98.50 in Social Security pay plus \$55.25 company pension). Based on the purchasing power of today's dollar her \$144.67 would now purchase only \$122.54 worth of goods and services. Or, stated another way, it would take \$171.00 today to purchase goods and services equivalent to what \$144.57 would buy in 1956.

If this Operator would have retired on January 1, 1966, she would have received, over the ten year period under consideration, increased company pension and Social Security benefits totaling 33%. She would also have received pay increases during these years so that her average income for pension purposes would be \$3,066.94 and her monthly pension would total \$192.96 (\$102.80 in Social Security pay plus \$90.17 company pension).

Taking into account the inflationary trend of the purchasing power of the dollar this pensioner's current monthly pension of \$192.97 would be equivalent to \$163.43 in 1956 dollars.

The Installer-Repairman was considered to have retired at age 65 with 39 years of service. His average income for pension purposes when he retired on January 1, 1956 was \$4,548.13. His monthly pension totaled \$198.06 (\$100.50 in Social Security pay plus \$97.56 company pension). Based upon the purchasing power of today's dollar his \$198.06 would now purchase only \$167.62 worth of goods and services. Or, stated another way, it would take \$233.78 today to purchase goods and services equivalent to what \$198.06 would buy in 1956.

If this Installer-Repairman would have retired on January 1, 1966, he would have received, over the ten year period under consideration, increased company pension and Social Security benefits totaling 23%. He would also have received pay increases during these years so that his average income for pension purposes would be \$4,990.72 and his monthly pension would total \$244.31 (\$115.60 in Social Security pay plus \$128.71 company pension). Taking into account the inflationary trend of the purchasing power of the dollar this pensioner's current monthly pension of \$244.31 would be equivalent to \$206.93 in 1956 dollars.

Representative GRIFFITHS. Mr. Knowles suggests that since over the past 100 years wages have gone up between 2 and 4 percent annually, and you say that you are not funded for this type of historical increase, then the fund really isn't 98 percent funded is it?

Mr. SCHROEDER. Madam Chairman, I am not an actuary, but actuaries tell me that whether or not something is funded depends entirely on how you define the term. Our plan is funded according to those principles that I gave you in my testimony. I might say though, if we wanted to do what you describe we would be putting a lot more money in, and Mr. Knecht would be even more unhappy that we aren't even spending the interest. This would make the fund still bigger than it is. Suppose that had been done in the 1920's. Wages didn't go up very much in the thirties.

Representative GRIFFITHS. Of course, I think the actuaries are missing the boat in every one of these funds we have considered, and particularly in yours. When after long history you are not paying out even the interest, I really do think it is time to reconsider the amount of money you are putting in that fund annually.

Mr. SCHROEDER. I would just say this—we are just as anxious to save a dollar as anybody else, and I think that is one thing Louis Knecht and I would agree on. We would welcome any good professional actuarial advice that would indicate that we could cut down safely. We put money in the fund because we honestly believe it is a provident provision for future obligations.

Representative GRIFFITHS. Let me say I have no question that if it were your duty to pay out the money, you would take a mighty conservative view of how much money would have to be set aside because you would obviously be very worried about it.

Mr. SCHROEDER. Exactly.

Representative GRIFFITHS. I don't think there is any problem about that.

Mr. SCHROEDER. We think the cruelest thing you can do in a pension plan is to hold out the hope of pensions and have a man work his career for it and then find out that the money isn't there or that it isn't adequate to pay the pensions promised.

Representative GRIFFITHS. I think in reality that is what is happening in every plan, where you don't have vesting at an early point. The hope is held out, and the hope is an illusion. It is not true that they are going to draw pensions. And that really is what this committee is here to try to deal with. How many of these people are being misled, and how much money is being taken off the tax rolls every year to set up this fund which for some is quite illusionary.

Thank you very much. Did you have any further questions?

Senator MILLER. No further questions.

Representative GRIFFITHS. Thank you very much.

Mr. KNECHT. Thank you, Madam Chairman.

(Whereupon, at 3:30 p.m., the subcommittee recessed, to reconvene Tuesday, May 3, 1966, at 10 a.m.)

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