

Industrial Relations and Social Security

Trends in Industrial Retirement Plans in Canada

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WITH the growing interest in the general problem of old age insecurity, and with the increasing recognition that industry has some responsibility for providing for the full life-span of its employees, the need for a comprehensive survey of the provisions for retirement which are actually maintained in industry becomes very evident. Such a study was recently completed by the Industrial Relations Section of the School of Commerce and Administration, Queen's University. The study analyzes 120 retirement plans maintained by companies estimated to employ 265,000 employees in Canada.

Examination of these plans suggests that certain definite trends are emerging in Canada at the present time. The more important of these trends are outlined below.

1. The majority of the new plans confine the retirement plan to provision for old age, and to the protection of the right of the individual employees to the funds accumulated on their behalf. Many of the re-insured plans have associated with them provisions for group life insurance, or group sickness and non-occupational disability insurance, or both.

2. With very few exceptions, the plans examined provide that all permanent employees shall be eligible for membership. A short waiting period for eligibility is frequently imposed, in order to reduce administrative costs by excluding casual employees.

3. For employees hired after the inauguration of the plan, membership is frequently compulsory. For employees already in the service it is usually optional, but accompanied by a strong

inducement to participate. The most effective inducements seem to be the limitation of benefits for past service to employees joining the plan within a short time of its adoption, and the grouping of two or more forms of insurance under a "package" plan. If complete coverage is to be attained, compulsory membership seems to be necessary.

4. The newer plans provide for compulsory retirement at a definite age (present experience indicates no later than sixty-five). Later retirement is sometimes permitted under special circumstances, but usually only on the application of the employee and with the consent of the employer. Earlier retirement, with an immediate annuity actuarially adjusted, is almost invariably permitted at the discretion of the employer, on the request of the employee. Such flexibility appears to be desirable, provided that the annuity payable is adequate.

5. No conditions for determining eligibility for annuity other than attainment of the normal retirement age are imposed under the majority of recent plans. It has been found that service requirements operate to postpone desirable retirements, and limit the effective protection to a relatively small proportion of the employees. Moreover, since they are related to the conception of a pension as a reward for long and faithful service, they are inappropriate if retirement plans are regarded as a form of wage payment.

6. Practically every new plan which has been adopted since 1929 has provided for direct employee contributions, and a number of previously non-contributory plans have been revised on the same basis. Direct employee contributions have been found desirable to ensure that the employees will take an active interest in the plan, and that they will be granted

legal rights. Experience has shown such rights to be associated only with contributory plans, although the provision for direct employee contributions does not always, or in itself, guarantee them.

7. Usually direct employee contributions and company contributions are so arranged that each provides approximately one-half of the total funds necessary. Together they are designed to result in each employee having to his credit at retirement a total amount, from contributions and accumulated interest, sufficient to provide benefits roughly related to his aggregate pay and service. Contributions usually cease at the normal retirement age.

8. For convenience in administration it has been found desirable, under the newer re-insured plans, to group employees according to their salaries, and to arrange for the same rate of contributions and benefits for employees in the same salary group. This method usually introduces some inequalities between individual employees. The portion of any salary above a relatively low maximum is frequently disregarded, since the number of individuals who would benefit by high retirement annuities is limited, and such individuals may reasonably be expected to provide for themselves such extra protection as they require.

9. Employees are commonly not asked to contribute during periods when their income is reduced because of lay-off or illness. Provision is sometimes made for making up such contributions voluntarily on the employee's return to work, so that the final retirement annuity need not be reduced. Ordinarily employees definitely leaving the service of the company are refunded their own direct contributions (sometimes with interest) but forfeit the company contributions on their behalf.

10. The new plans provide a retirement allowance in the form of a life annuity, payable at the normal age of retirement, equivalent in value to the total contributions made on behalf of the individual employee, together with the accumulated interest on those contributions.

11. Any immediate annuity payable to an employee retired before the normal retirement age is usually equivalent in value to the deferred annuity payable at the normal retirement age to which his accumulated reserves would entitle him.

12. The annuity payable to the employee retiring later than the normal age sometimes begins at the normal age; sometimes it begins at actual retirement and is increased to allow for the further accumulations of interest and for the reduced life expectancy.

13. Past service benefits of an adequate amount have usually been found necessary to make retirements possible, both immediately and until the accumulations under the contributory plan provide adequate benefits.

14. A maximum limit to the benefits payable is usually provided, frequently by grouping all salaries over a specified amount into one "basket" salary class.

15. Employees are usually given the option of selecting the form of annuity most suited to their individual needs, so that they may make provision to protect their dependents against the risk of their death shortly after retirement. The optional annuity is of the same actuarial value as the life annuity otherwise payable.

16. All the contributory retirement plans provide for a refund of the employee's own contributions, usually with interest at a guaranteed rate, if the employee withdraws from the company before retirement for any reason, or if he dies before reaching the retirement age. Companies have tended to look upon their contributions as funds especially set aside for retirement purposes, and have confined their benefits to employees remaining with the company until retirement. In order to ensure retirement protection to each individual employee a number of recent plans have made provision for vesting rights to a paid-up deferred annuity, purchased with the appropriate share of company contributions, in each withdrawing employee who agrees to accept the refund of his own direct contributions in the

same form. Under a few plans employees who withdraw are given the right to a refund of all contributions made on their behalf.

17. Recent retirement plans afford the employees legal safeguards in the form of guarantees that the retirement annuity will be awarded to all persons who attain the normal retirement age while still in the company service, and that benefits which are once granted will continue to be paid for the life of the retiring employee. Since the benefits of the retirement plan are one form in which employees receive their wage payments, it seems desirable that ultimately employees should be assured of full contractual rights, not only to their own direct contributions, but also to the company contributions on their behalf. Such rights would have to be vested in the individual employees regularly.

18. The provisions of the plans recently adopted or revised indicate that increasing attention is being paid to the problem of sound finance. It is becoming recognized that the liabilities accrue currently and that they should be measured accurately and provided for as they accrue. If the company arranges to pay past service benefits, the unfunded liability which is assumed, is usually discharged by a lump-sum payment, or, if the company finds this outlay too heavy a burden at one time, by amortization over a short time.

19. Under practically all the retirement plans recently adopted the liabilities are underwritten by a life insurance company. Re-insurance provides guarantees that the principal of the reserve fund will be secure, and that the assumed rate of interest will be earned. It also makes certain that the liabilities will be adequately funded as they accrue.

20. All re-insured plans and the majority of new self-administered plans recognize the need of guarantees that funds once set aside for retirement purposes will not, under any circumstances, be recaptured by the company and used for other purposes.

Social Remedies Within The Democratic System

Under the above caption, the *Toronto Daily Star*, in a recent editorial urges establishment of a greater measure of social security in Canada, and like organized labour, contends that this in itself would best serve to maintain democracy by bringing the greatest good to the greatest number. The *Star*, which has consistently advocated social reforms, believes "that Canada is able, within the democratic system, through Federal or provincial legislatures to establish relief to the people from some of their basic burdens and fears." It advocates "Unemployment insurance, health insurance, minimum wages and maximum hours for men (a "floor for wages and a ceiling for hours"), a reduction of the age for old age pensions to 65, a national works programme and the reorganization, on a federal basis, of the present disorganised, inadequate relief system."

Continuing, the editorial says:—

"Most or all of them with variations, are in operation in the democracies—Great Britain, Australia, New Zealand, Scandinavian countries, the United States. A number of such measures have been longest in existence in Great Britain and they have not been challenged as injuring or menacing the democratic system. They are accepted as normal social measures, and found to be extremely beneficial for the maintenance and preservation of democracy. Canada has not yet tried out any such measures excepting Old Age Pensions, and can quite easily do so within the democratic system. Indeed there is no other method as lasting and satisfactory by which to evolve such remedies than in the democratic way.

"The *Star* believes that the best way to ensure the continued existence of democracy is by helping it to grow unhampered. A body grows and develops best when it is properly nourished and exercised. This is also true of democracy. It needs nourishment and exercise, and not to be 'saved' from activity. Democracy will thrive best if there is the widest participation of all citizens in all spheres of government. A social security programme such as the *Star* advocates can come best through the democratic process. The democratic process means that all the people, by thinking, planning and experimenting

together, can work out measures which will bring 'the greatest good to the greatest number.' This cannot be done by restricting groups of law-abiding people from participation in the responsibilities and functions of government."—From the *Canadian Congress Journal*.

Conflict About Co-operative Medicine

Two years ago in Washington, D.C., a group of government employees formed the Group Health Association, Inc. They arranged to pay from \$2.20 to \$4.50 a month apiece, and in turn were to receive medical care and hospitalization when they needed it.

From the beginning they had trouble getting doctors to work for them. Physicians claimed that if they took Group Health cases, it would hurt their standing with the medical associations. Doctors who finally joined the staff said that not only was this true, but that it was not very long before specialists refused to give them consultations, and Washington private hospitals barred their patients.

The Group Health Association complained to the Department of Justice. A little later a campaign waged by contributors to the Washington (D.C.) Community Chest—many of whom made "pledges" conditional upon the lifting of the medical associations' boycott of the Group Health M.D.'s—attracted attention.

Finally a District of Columbia court issued an indictment against the American Medical Association, the Medical Society of the District of Columbia, and other medical groups, for violation of the Sherman Anti-Trust Act. They were charged with monopolistic practices.

Proponents of co-operative medicine are anxiously waiting to see what the outcome will be. If the American Medical Association is found guilty, it will advance the group medicine cause tremendously. For although a nation-wide survey made by the American Institute

of Public Opinion indicates that 25,000,000 persons would be interested in "group medicine" if they could get full coverage for around \$3 a month, in most communities doctors refuse to participate.—*Consumer Education News Letter*, published by the Institute for Consumer Education of Stephens College, Columbia, Miss.

Social Security Act in New Zealand

Following the report of a National Health and Superannuation Committee on the proposals of the government to establish a national health and superannuation service, a social security act has been passed in the Parliament of New Zealand.

According to a Canadian Press-Reuters despatch from Wellington, the act provides that ultimately all persons at 60 will be eligible to receive a pension of 30 shillings (\$7.50) weekly. Other provisions include disablement, sickness and unemployment benefits. The proposed scheme also covers free hospital and medical treatment for all persons, and a special section provides for maternity attention and maintenance in hospital for a period of 14 days.

The act provides that a married couple, both aged 60 or more, will be entitled to £3 (\$15) per week while receiving not more than £1 each from other sources. If their income from other than the pension exceeds £1, their joint pension will be reduced so that their total income does not exceed £4 weekly.

It is stipulated that a married person whose spouse is less than 60 years of age may receive a pension of 30 shillings weekly, provided the pensioner's other income does not exceed 50 shillings.

The scheme, as set forth in the act, applies to all persons more than 16 years of age and will be financed by an annual registration fee of £1 and a charge of one shilling to the pound on all salaries and wages.