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A BRIEF VIEW OF THE PENSION STRUCTURE

In a sense, the development of pensions may be viewed as a result of two significant trends. One is demographic: the growth, both absolutely and relatively, in the population over 65 years of age. Between 1900 and 1955, the population aged 65 or over more than quadrupled, growing from 3.1 million to 14.1 million, from 4.1 per cent of the population to 8.5 per cent.³ The other trend is the increase in the scope and functions of government.

In addition to these broad underlying forces, some of the programs, particularly public assistance and veterans payments, show the influence of the major events that have so indelibly left their imprint on our generation — the severe and protracted depression of the thirties and the two world wars. While several of the programs have had a long history, for the most part pensions are a recent economic institution, having been introduced or expanded rapidly only within the last two decades.

Prior to the thirties, of course, the role of government had been expanding, but the experience of the Great Depression accelerated the trend. In 1935 came the institution of the major governmentally organized pension plan — old age and survivors insurance⁴ — and railroad retirement.

Continual extensions of OASI have expanded the program to a point where about 74 million people are covered or eligible for coverage. Another indication of its size is that in 1955 some 7.5 million persons received OASI payments aggregating \$5.0 billion.⁵ Further, while not set up to accumulate an actuarial reserve, OASI does have a reserve fund whose investments are limited by law to

³For 1900 data see *Historical Statistics of the United States*, p. 26. The 1955 figures are from the Bureau of the Census release P-25, no. 123.

⁴Old age insurance was introduced in 1935; provisions for survivors were added in 1939.

⁵Not all these payments were for retirement, however. About \$3.7 billion went for old age, the rest to survivors. Before 1956, OASI had no provision for disability payments but did maintain the benefit rights of those covered by the program who could no longer obtain employment because of permanent and total disability. In 1956, payments commencing at age 50 for permanent

federal securities or securities guaranteed by the federal government as to principal and interest. At the end of 1955 the reserve totaled \$21.7 billion, having grown during the year by \$1.1 billion.

The railroad retirement program is, of course, more specialized and designed to meet a different set of risks, covering only workers in the railroad transportation industry. In 1955 payments of close to \$600 million were made to over 600,000 recipients; the reserve fund stood at \$3.6 billion: \$140 million greater than in 1954. (Table 2 shows \$200 million on the basis of rounded figures.)

While the history of private pension plans can be traced back to 1875, a speeding up of their growth began with World War II and has continued since. During the war some unions turned their attention to instituting or increasing existing private pensions (and other fringe benefits), since, among other reasons, direct wage increases were limited under the stabilization policy then in force. In many cases, moreover, employers looked on pensions as a device for attracting scarce workers and holding their labor supply. Quite likely, additional contributing factors were the high rates of corporate tax, and the provision introduced in the Internal Revenue Code of 1942 that the employer's contributions to pension plans would be considered a deductible business expense only if the plans did not discriminate in favor of officers or certain selected personnel. Later events — the inclusion of a pension program as part of the coal strike settlement in 1946, the Inland Steel Case decision by the National Labor Relations Board in 1948 (confirmed by the Supreme Court in 1949) to the effect that pensions are a bargainable issue, and the Steel Industry Fact Finding Board's recommendation in 1949 in favor of a pension program supported solely by employer contributions — all tended to accelerate this trend. As a consequence, private pensions have grown very rapidly in the last decade. Figures on coverage and beneficiaries are hard to come by, particularly over a run of years. Rough estimates prepared by Mrs. Weltha Van Eennam of the Social Security Administration for 1955 put the number of covered workers at 13.3 million, the number of beneficiaries at 920,000 and the flow of benefit payments at \$585 million. In 1940 about 3.7 million workers were covered. Further evidence

and total disability were added to the program, effective July 1957 for persons aged 50 and over.

OASI is in a period of extremely rapid growth. It is expected that benefits in 1956 will total around \$5.7 billion, with about 9.2 million beneficiaries at the end of the calendar year. Benefit payments for 1957 have been estimated at \$6.7 billion.

of the growth of private pension plans is furnished by the value of their reserve funds. From about \$7 billion in 1947, they grew to \$25 billion by 1955, increasing during 1955 by \$3.4 billion.

The federal government's participation in the public assistance programs began in 1935. (Under the heading of pensions, it will be recalled, we include several of the public assistance programs: old age assistance; aid to the blind; and payments to the permanently and totally disabled, instituted in 1950.) It was generally expected that the old age assistance portion of the program would tend to decline over time. For this there were two reasons. First, it was held that some of these payments were necessary only because of the prevailing depressed conditions. Secondly, it was felt that as the number of people receiving OASI benefits and the amounts payable increased, the need for supplementary assistance would decline. But, until quite recently, old age assistance payments, in absolute terms, did not dwindle as economic conditions improved and OASI developed. On the contrary, they, as well as aid to the blind and payments to the disabled, tended to grow. (Some of this growth, of course, is a response to rising price levels.) Payments under these three programs totaled \$500 million in 1940 and \$1.8 billion in 1955 (but appear in recent years to be leveling off). Between these same dates the number of recipients increased from 2.1 to 2.9 million.⁶ About 88 per cent of the 1955 total of payments went for old age, and the rest for payments to the blind and disabled. (We exclude from the pension category, as defined for our exploratory survey, general assistance and aid to dependent children, the latter because "broken" homes rather than death or disability account for a major part of the cases.)

One of the major programs of our pension structure — veterans payments — has a long history but its present size is almost completely a direct outgrowth of the two world wars. These benefits, too, have increased rapidly in the last fifteen years, and further growth can be expected because of the large number of veterans who will be eligible for such payments in the future.⁷ Of the several types of

⁶The number of old age assistance recipients reached a peak in 1950 and has been declining slowly since.

⁷As of June 1956 there were over 22 million veterans (*Statistical Summary of VA Activities*, June 1956). For indications of their growth potential see *Veterans' Non-service-connected Pensions*, A Report on Veterans' Benefits in the United States by the President's Commission on Veterans' Pensions, Staff Report Number X, 84th Cong. 2d Sess., House Committee Print No. 288, pp. 217-41.

TABLE 1

Total Payments and Number of Beneficiaries,
All Pension Programs, 1940, 1947 and 1955

PROGRAM	PAYMENTS			BENEFICIARIES OR RECIPIENTS		
	1940	1947	1955	1940	1947	1955
	(in billions)			(in thousands)		
Old age and survivors insurance ^a	‡	\$0.5	\$5.0	113	1,836	7,540
Railroad retirement ^b	\$0.1	0.2	0.6	144	239	613
Public service employee retirement ^c	0.3	0.5	1.4	249	419	904
Veterans ^d	0.3	1.5	2.1	651	1,596	2,153
Public assistance ^e	0.5	1.0	1.8	2,139	2,413	2,902
Private plans ^f	h	h	0.6	h	h	920
Total	1.2	3.7	11.5	3,296 ¹	6,503 ¹	15,032 ¹

Source: *Social Security Bulletin*, September 1953, Table 4, and Annual Statistical Supplement 1955, Tables 5 and 78; *Veterans' Benefits Administered by Departments and Agencies of the Federal Government, Digest of Laws and Basic Statistics*, Staff Report Number II, President's Commission on Veterans' Pensions, 84th Cong., 2d Sess., House Committee Print No. 262, Tables 45-49.

^aPayments include: old-age retirement and survivorship (monthly and lump-sum). Beneficiaries include all of these except lump-sum.

^bPayments include old-age retirement, survivorship (monthly and lump-sum), and permanent and total disability; beneficiaries, all these except lump-sum.

^cPayments include: federal civil-service old-age retirement, survivorship (monthly and lump-sum), and disability; other federal contributory old-age retirement, survivorship (lump-sum), and disability; federal noncontributory old-age retirement and disability; state and local government retirement old-age retirement, survivorship (monthly and lump-sum), and disability. Beneficiaries include all of these except lump sum.

^dPayments and beneficiaries include: old-age retirement, survivorship (monthly), non-service-connected disability, and service-connected disability where disability is 50 per cent or more.

^ePayments and beneficiaries include: old-age assistance, aid to the blind, and, for 1955, aid to the permanently and totally disabled.

^fRough estimates by Mrs. Weltha Van Eennam of the Social Security Administration.

‡Less than \$0.05 billion.

hNot available. Hall (footnote 31, below) estimates \$70 million for 1946.

¹Because a number of individuals receive payments under more than one program there is some overlap in these figures. For 1955 the data permit a rough estimate. In that year about one-fifth of OAA recipients (around 500,000) were also receiving OASI benefits. Almost all of those getting private pensions were probably OASI beneficiaries too. With the help of Lenore Epstein of the Department of Health, Education and Welfare, it has been estimated on the basis of data from a number of special studies that somewhere between 390,000 and 420,000 of the OASI beneficiaries (not in receipt

TABLE 2
Asset Holdings of Pension Funds:
1940, 1947, 1954 and 1955
(in billions)

PENSION PROGRAM	VALUE OF ASSETS IN FUND, DECEMBER 31 ^a				INCREASE IN ASSETS DURING 1955
	1940	1947	1954	1955	
OASI	\$2.0	\$9.4	\$20.6	\$21.7	\$1.1
Railroad retirement	0.1	1.4	3.4	3.6	0.2
Civil-service retirement and disability (federal)	0.6	2.7	6.0	6.5	0.5
State and local employee retirement	1.6	3.3	8.7	9.9	1.2
Private plans					
(a) Insured	^b	4.0 ^c	9.8	11.1	1.3
(b) Noninsured	1.1	3.3	11.8	13.9	2.1
Total	5.4	24.1	60.3	66.7	6.4

Source: *Social Security Bulletin*, Annual Statistical Supplement, 1955; *Tally of Life Insurance Statistics*, May 1956; Securities and Exchange Commission, *Survey of Corporate Pension Funds 1951-1954*, pp. 25-26, and *Statistical Bulletin*, May 1956, p. 19; Raymond W. Goldsmith, *A Study of Saving in the United States*, Volume I, Princeton University Press, 1955, p. 1073; Bureau of the Census, *Summary of Governmental Finances in 1955*, p. 34.

^aFor state and local employee retirement, date is end of fiscal year falling in calendar year.

^bNot available.

^cRough estimate for 1948.

payments made to veterans, we consider those for disability⁸ and survivors as falling in the pension category (as well as a small amount of old age retirement payments to veterans of the Spanish-American War, the Boxer Rebellion, and the Philippine Insurrection). Between 1940 and 1955 the total of such payments mounted over fivefold — from \$339 million to \$2.1 billion — while the number of recipients increased from 651,000 to 2.2 million.

The remaining component of the pension structure — the miscellaneous set of retirement plans for the employees of federal, state,

⁸Includes compensation payments for service-connected disability of 50 per cent or more and pension payments for non-service-connected disability to veterans whose annual income did not exceed \$1,400 if they had no dependents or \$2,700 if they had a wife or minor child. We chose 50 per cent disability arbitrarily in service-connected cases as the dividing line between those able to work and those who are *de facto* pensioners.

of old-age assistance) were receiving benefits under a program for veterans, government employees or railroad workers. All in all, then, about 1.8 million of double-counting is involved in the 1955 figures.

and local governments — originating earlier than most of the other pension programs, has grown rapidly in recent years. Benefit payments under these plans expanded from \$300 million in 1940 to \$1.4 billion by 1955, and the number of beneficiaries more than tripled, growing from 249,000 to 904,000. Even more rapid has been the growth of the reserve accumulated for these retirement systems. For the federal civil-service retirement system, reserves in 1940 stood at \$600 million and in 1955 at \$6.5 billion; between 1940 and 1955 the reserves of state and local employee retirement funds grew from \$1.6 billion to \$9.9 billion. As measured by the change in the value of the reserve fund between 1954 and 1955, the reserves of the federal system increased by \$0.5 billion in 1955, while those of the state and local funds grew by \$1.2 billion. (At present about 5½ million persons are covered by the government employee retirement systems.)

Very briefly, then, these are the magnitudes of our existing pension arrangements. As this review has shown, payments and asset accumulations of significant size are involved in their operations at the present time, and there are indications that larger magnitudes are in view for the future.

With pensions provided by a variety of particular programs, there has been little in the way of organized or continuing effort to evaluate carefully the future impact of the entire pension structure that these separate programs add up to. Certainly, it is clear that the structure is already large and complex. It consists of a number of parts, each developed for a particular purpose, and administered by various levels of government or by labor unions and business firms. There appears, too, to be some tendency for the structure to grow larger if not also more complex.

It seems to be an appropriate time, therefore, to stop and take soundings. Where are we now? Where are we heading? Indispensable to such an inquiry is a survey of what we know about pensions and their economic effects, and what more we have to find out. This is what our exploration attempts.