PENSION PLANS AND GROUP INSURANCE

The Cost of Pension Plans and Group Insurance

The costs of pensions and group insurance are frequently cited by local office staff as reasons given by employers for refusing to hire older workers. While more factual information is needed on this subject, many employers do not have a true picture of their labor force costs. Pensions and insurance are only one aspect of labor expense, and should be priced out in relation to other factors. As one authority puts it, "The dollar value of workers to an employer depends on productivity, absenteeism, turnover, adaptability, as well as on the costs of pension, insurance, and fringe benefits. Evaluations by age, either of individuals or groups, should include consideration of all such factors." 1/

The cost of pensions for younger workers tends to be underestimated. With lowering mortality rates, the length of payment may increase. Lowered retirement ages would extend the period of retirement more for young persons who are hired at an early age, than for workers who join the plan after age 40. The importance of labor turnover costs is frequently ignored. "Turnover savings", which are contributions left in the fund by a worker without vesting rights who quits before his pension is payable, are sometimes thought to be more likely with young workers. However, the costs of turnover for termination, recruitment, training, and other hiring expenses may cancel out the savings on young, short-term workers. Many employers are only vaguely aware of the real costs of turnover. Vesting provisions tend to limit turnover savings, and give the older worker an advantage since he is less likely to be rejected because he cannot work long enough to qualify for a pension. Also, the cost differential between younger and older workers is being narrowed by early retirement and disability benefit provisions. The latter may add to the cost for the younger group.

Two types of pension plans now in limited use need have no cost differences by age:

1. Multi-employer plans by industry or geographical area. Such plans provide a flat rate benefit and one fund into which all employers contribute. Contributions may be based on the length of time worked or a flat percentage of the payroll. The size of benefits may be lowered if the average age of the covered work force is rising, and the rate of retirements is increasing. In such case, benefits may have to be lowered or contributions may need to be raised. Plans of this type have been negotiated by industry for coal miners, teamsters, and western maritime workers, and by area for construction, typographical, and garment workers.

1/ Schneider, B. V. H., The Older Worker. Institute of Industrial Relations, University of California, Berkeley, 1962. Page 64.