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BOOK REVIEW

Traveling the world of pensions before ERISA

by Howard Young

While it may be hard for younger people to believe and older ones to remember, there was a lot of pension plan activity in the private sector before ERISA. Steven Sass, editor of the Federal Reserve Bank of Boston's *Regional Review*, has provided us with a very readable and informative history, *The Promise of Private Pensions: The First Hundred Years* (Harvard University Press, 1997).

For this reviewer, the most interesting aspect of pension history is that current matters of debate and contention have deep roots — for example, contributory versus non-contributory participation (and hence voluntary versus compulsory), defined-benefit versus defined-contribution plans, and the emphasis on retirement income (mandatory annuitization) versus savings goals (lump sums available). Anyone concerned about the design or operation of private pension plans will learn much about their history and have a broader perspective after reading *The Promise of Private Pensions*.

Sass discusses employment practices in the late 1800s. He tells us that “the private pension institution emerged as a by-product of these employer efforts

to establish a more stable and efficient employment relationship with labor.” Railroads were the first major industry to adopt plans; the goals were to provide incentive for younger employees to remain with the firm and to have a generally accepted method for getting rid of older ones.

By 1919, there were more than 300 plans, and 15% of the workforce was covered. Chapter 4, “The Hard Actuarial Realities,” covers the problems that began to arise in the 1920s. The importance of actuarial guidance — provided by consultants such as George Buck and insurers led by Metropolitan Life — gained recognition. Nevertheless, economic forces, especially the 1930s depression, caused the federal government to establish Social Security and to begin regulating private plans through the tax code.

The post-World War II role of labor unions is described, especially the contrast between plans negotiated by the United Auto Workers and the Teamsters. Coverage expanded and benefits increased for blue-collar workers, and plans covering managers became even more favorable. The widespread interest in fringe benefits put pensions at or near the top of the priority list.

Chapter 7, “The Pension Industry Reorganizes,” gives considerable information about the changing roles within the insurance industry and the growth of trust funds and consulting firms. By the 1960s and 1970s, pension plans were no longer just another aspect of the employment relationship; they had become the object of public policy debate and attention. Thus, in 1974 ERISA was enacted, and it established a totally different environment.

Sass concludes the history at that natural break point, but the epilogue discusses some later trends and future prospects. The author's 253 pages of

Excerpts from *The Promise of Private Pensions*

“When the Carnegie Foundation for the Advancement of Teaching offered free pensions to professors at universities without secular affiliations and adopted Carnegie's standardized admissions requirements, professors at nonqualifying institutions threatened everything from lawsuits to mass resignations until their schools complied. So powerful was the pressure that the Carnegie pension offer, leading to standardized college admission requirements, it has been called the most effective instrument of educational reform in the 20th century” — Page 47

“The pension turned out to be far more complex than originally thought. The efficient management of a pension program demanded skills in actuarial analysis, plan design, marketing, and investment that far exceeded the standard capacity of even giant business enterprises.” — Page 86

text, followed by extensive notes, is a valuable and concise history. Unlike texts about recent and current pension developments, this book will not be outdated by ongoing pension activity. Thus — like pension plans themselves — it is a worthwhile long-term investment of time and money for any benefit practitioner or policy maker. **Howard Young is an adjunct professor at the University of Michigan, Ann Arbor. His e-mail address is hyoung@umich.edu.**

Pension books of interest

The Promise of Private Pensions is available from Harvard University Press (phone: 800/448-2242; Web site: www.hup.harvard.edu).

Other books published recently by the Pension Research Council include *Positioning Pensions for the 21st Century* and the seventh edition of *Fundamentals of Private Pensions*. Both are available from the University of Pennsylvania Press (phone: 800/445-9880).