Bulletin No. 1483

Financing Supplemental Unemployment Benefit Plans

UNITED STATES DEPARTMENT OF LABOR
W. Willard Wirtz, Secretary

BUREAU OF LABOR STATISTICS
Arthur M. Ross, Commissioner

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Preface

This bulletin provides a review of the financial characteristics and recent operations of supplemental unemployment benefit (SUB) plans. The analysis was conducted on two levels, the first involving compiling worker coverage and selected financial statistics for the period 1960–63, and the second an analysis of SUB experience to determine and appraise the nature of plan operations. The interrelationships between benefit experience and other financial items, such as contributions and fund assets, were of particular interest.

The initial impetus for this study was provided by the U.S. Department of Health, Education, and Welfare. The data were obtained from financial reports filed by SUB plan administrators with the Department of Labor's Office of Labor-Management and Welfare-Pension Reports. A limited amount of additional information was obtained from a few companies and unions. BLS is grateful for the cooperation and assistance received from these parties. Readers interested in the detailed provisions of SUB plans are referred to a recent BLS study, Major Collective Bargaining Agreements: Supplemental Unemployment Benefit Plans and Wage-Employment Guarantees (BLS Bulletin 1425-3)—one of a series analyzing collective bargaining provisions in detail.

This bulletin was prepared by Emerson Beier, assisted by Harry E. Davis and Robert C. Joiner, under the supervision of Donald M. Landay, in the Bureau's Division of Industrial and Labor Relations, Joseph W. Bloch, Chief, under the general direction of L. R. Linsenmayer, Assistant Commissioner, Office of Wages and Industrial Relations.

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Introduction

Both public and private benefit programs aid in reducing the impact of temporary and long-term work loss. The nationwide, State-administered unemployment insurance system provides temporary financial assistance through the payment of weekly benefits. Its private counterpart is the supplemental unemployment benefit (SUB) plan. Their common objective is furthering the stability of employment and/or worker income.

The SUB Plan

Supplemental unemployment benefit plans, which evolved during the 1950's as a product of collective bargaining, are almost invariably negotiated, solely employer-financed, and funded through a trust fund arrangement. While little growth occurred in either the workers covered or number of plans after the first few years, liberalization of SUB benefits and the addition of related benefits have continued among existing plans.

Variations in unemployment benefits make a rigid definition of SUB plans difficult. In general terms, however, they are plans designed primarily to provide weekly supplements to State unemployment insurance benefits. Concurrency and integration of SUB and State benefits are usual. An association of administrative procedures, such as the use of State eligibility determinations to verify the worker's eligibility for SUB payments, is also common.

Because SUB was intended to supplement rather than replace State unemployment compensation, satisfactory rulings or statutory amendments to State laws were necessary to permit concurrent State and plan payments. Favorable action promptly followed in most States, but legal obstacles to normal plan functioning were not removed in California, Indiana, and Ohio, until 1959.[1] These actions were particularly important in view of the large number of plan participants employed in these States. Plans usually were adjusted to these delays in one of two ways. Many, including those negotiated by the Automobile Workers, did not become effective until favorable rulings were obtained. Others, such as the steel industry plans, operated with or without approval—a substitute multiple-week or lump-sum benefit was paid if approval was not forthcoming. Both delays in obtaining favorable State action and the methods used to cope with them distorted benefit experience for 1959 and earlier years; however, little distortion has occurred since that date.

SUB operations generally have been characterized by considerable sensitivity to economic conditions. The number and amount of benefit payments, which depend on the prevalence and duration of layoffs, varied inversely with employment and the level of business activity. The employer's financial obligation with respect to each operating period was almost always based on the number of hours paid for or those actually worked by covered employees. Consequently, his cash contributions varied directly with the level of business activity unless part of his obligation accrued as a contingent liability.[2] Under such funding arrangements, both contributions and benefits increased whenever major conversions of contingent liability into cash contributions were needed to pay benefits.

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[1] Virginia is the only State that does not permit supplementation. New Hampshire, New Mexico, South Carolina, and South Dakota have not taken a position on this issue.
[2] Payments to discharge this liability are required only if needed to pay benefits.

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Fluctuation in the magnitude of contributions and benefit payments, coupled with the tendency for them to move in opposite directions, frequently led to abrupt accumulation or depletion of fund assets. The resulting need for liquid investments led most plans to permit investment only in high-grade, short-term debt securities. U.S. Government securities with relatively short maturities accounted for the major portion of all SUB fund assets.

Benefit experience during the 1960–63 period tested the adequacy of financial arrangements. For example, benefit payments from all SUB funds exceeded cash contributions by about one-fourth during 1961, the year of heaviest unemployment. A major curtailment of benefits was seldom necessary among plans funded through general trust fund, pooled fund, and individual account arrangements. However, a combination of factors led to widespread benefit reductions in 1960 and 1961, among those with a general fund and contingent liability. As a result, many of these plans were subsequently amended to assure fewer benefit reductions by increasing plan resources and by postponing the curtailment of benefits. This process of plan improvement by correcting inadequacies and filling gaps in protection can be expected to continue.

The aggregate financial experience of SUB plans during 1960–63 is summarized by the following annual averages:

	Annual average (in millions)
Income	$146.8
Contributions	134.3
Other income	12.4
Disbursements	109.7
Benefits	106.7
Expenses	3.1
Assets (end of 1963)	446.9
Workers covered	2.3

Scope and Method. All employee welfare plans with over 25 participants that included a supplemental unemployment benefit provision fell within the scope of the study. (Plans with fewer than 26 employees were excluded because of the difficulty of securing data for them.) A stratified, random sample was selected from those SUB plans for which financial reports for 1960 were submitted to the U.S. Department of Labor pursuant to the Welfare and Pension Plans Disclosure Act.[3] Operating statistics for 1960 through 1963 were obtained from the appropriate annual financial (D-2) reports. Supporting plan documents were used to identify those plans that provided supplemental unemployment benefits, as well as to determine pertinent plan provisions. A limited amount of additional information was obtained directly from a few companies and unions. (A more detailed explanation of scope and method is presented in the appendix.)

Coverage

Financial reports for 1960 and later years were filed with the U.S. Department of Labor by administrators of about 700 SUB plans. These plans covered nearly 2.3 million workers in 1963, of whom 4 out of 5 were employed in three industry groups—transportation equipment, primary metals, and apparel.

[3] The use of a fixed sample introduces a slight bias owing to the exclusion of new plans; however, supplementary information obtained from BLS and union sources indicate that relatively few plans of substantial size have been established since 1960.

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This concentration within a few industries reflects the prominent role played by the Automobile and Steelworker unions in the establishment of SUB. The third group, which accounted for a sixth of all worker coverage, participated in a national plan negotiated by the International Ladies' Garment Workers' Union (ILGWU) and employers in the women's and children's apparel industries. Over 96 percent of all participants were covered by negotiated plans.

Industry	Workers covered (thousands) 1960	1961	1962	1963
All industries	2,361	2,271	2,235	2,259
Manufacturing	2,258	2,168	2,138	2,157
Transportation equipment	649	610	614	634
Primary metals:				
Ferrous	607	586	546	530
Nonferrous	71	68	72	69
Apparel	375	386	386	410
Machinery, except electrical	218	199	199	198
Rubber	132	127	129	127
Fabricated metal products	79	73	75	73
Electrical machinery	58	53	51	51
Other	69	66	66	63
Nonmanufacturing	103	102	96	102

The composition of covered groups reflected the prominence of negotiated plans. Those with only production or hourly worker membership accounted for more than half of all worker coverage. A fourth of the total plans specifically included all classes of employees. Most of the remaining plans contained coverage provisions that were not amenable to classification; nevertheless, production workers dominated their membership. In the few instances where a plan covered salaried employees only, the company's hourly employees were usually covered by another plan.

The relatively severe impact layoffs may have on small companies, coupled with the absence of insurance arrangements, has made it difficult to apply SUB to small employee groups. Plans covering large groups accounted for most SUB coverage—nearly 8 out of 10 workers were in programs with more than 4,000 participants. Those with less than 1,000 workers covered only 9 percent of the total.

Unlike the majority of employee benefit programs, growth has not been a characteristic of SUB. Excluding the ILGWU plan with its 400,000 members—it was negotiated late in 1960—coverage in 1960 was about equal to estimates for 1956.[4] Additions attributable to new plans were more than offset by employment declines within the industries accounting for a substantial part of total coverage (e.g., transportation equipment).

Overall changes in coverage since 1960 could not be determined as part of this study, because plans begun after that date were excluded. However, supplementary information from other BLS sources reveals that few plans of substantial size have been established since 1960.

Funding Arrangements

The financial needs of employee benefit plans are met either on a current basis or by advance funding. Numerous factors, such as the nature of the benefit, the availability of insurance, tax considerations, collective bargaining

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[4] Cf., Social Security Bulletin, April 1965.

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pressures, and the employer's financial position, generally influence the selective process. In the case of SUB plans, the nature of benefit payments is of special importance. Advance funding is desirable because large and abrupt changes in benefit commitments could adversely affect the company's current operating position. Since payments are tied to layoffs, disbursements tend to increase when company operations and earnings are declining. Insurance has not been available as a practical alternative to funding because of the underwriting difficulties that arise from such benefit experience and SUB's close involvement with largely uninsurable business risks. Thus, SUB plans are almost always funded with some form of trust fund arrangement.

Several trust arrangements were used among the plans studied. The most frequent approach required contributors to meet their entire financial obligation for each operating period by prompt cash payments into a general trust fund. This method was used in plans negotiated by the Automobile Workers as well as by several other unions. Over 1 million workers were covered by plans financed in this way.

A similar funding arrangement was used in pooled plans, which include multiemployer plans, except that contributions from participating employers were placed in a single fund from which all benefits were paid. Although these plans were few in number, they covered about one-half million workers.

Another approach, developed in the basic steel industry, split the company's financial obligation into periodic cash contributions and a contingent liability. The cash portion was placed in a general trust fund, as above, while the liability accruals measured the employer's obligation to make additional payments, if needed. In this way, the contingent liability increased the plan's total resources while the company retained control and use of the funds. Plans of this type covered approximately 700,000 workers.

Plans allocating resources (i.e., contributions, investment income, and fund accumulations) to individual employee accounts were the only plans that provided participants with a vested interest in fund assets. Such plans covered about 65,000 workers, as shown by the table below.

Funding provision	Workers covered (thousands)			
	1960	1961	1962	1963
All plans	2,361	2,271	2,235	2,259
General fund only	1,071	1,008	1,005	1,006
General fund with contingent liability	751	720	689	672
Pooled (multiemployer) fund	451	463	464	495
Individual employee accounts	67	60	57	65
Unfunded	7	7	7	7
Other	4	4	3	4
Information not available	9	9	9	10

NOTE: Because of rounding, sums of individual items may not equal totals.

Contributions

The cash necessary to discharge benefit obligations and to pay expenses charged to the funds of the SUB plans studied was obtained from employer contributions and investment income. Contributions accounted for $537 million or 91.5 percent of the $587 million of income received by all plans during the 1960–63 period.

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	Total receipts	Total contributions	Other income	Other income as percent of total receipts
	(Millions of dollars)			
1960	$131.3	$119.6	$11.7	8.9
1961	118.0	107.1	10.8	9.2
1962	170.4	157.5	12.9	7.5
1963	167.3	152.9	14.3	8.6
4-year totals	587.0	537.2	49.8	8.5

NOTE: Because of rounding, sums of individual items may not equal totals.

Total SUB contributions varied from year to year with the general employment pattern, declining in 1961, as the economy went through a recession, and increasing during the following 2 years of strong recovery (table 1). However, while cash contributions fluctuated in a cyclical manner in some industries, consecutive increases or declines occurred in others. Dissimilar employment experience and funding arrangements accounted for these variations.

The employer's financial obligation for each operating period was usually geared to the company's level of operations by relating it to employment, generally expressed as a specified number of cents per man-hour. In the auto plans, the obligation was related to the hours paid for, and in steel plans to the hours worked. Other methods, such as a percent of gross payroll or a flat amount per pay period for each active employee, were seldom used. Those plans with the general trust fund, pooled fund, and individual account funding arrangements required prompt discharge of the entire obligation shortly after the end of each operating period. Those under the general fund with contingent liability arrangement, chiefly those negotiated with the Steelworkers, allowed part of the employer's obligation to accrue in the form of contingent liability that was only payable if needed for benefits. In all cases, the employer was not required to make any additional contribution after his cents per man-hour commitment was discharged even though benefit reductions might be necessary owing to a lack of funds.

On the other hand, reductions in the employer's obligations were possible if maximum financing provisions became operative.[5] These provisions, which were found in most plans, either eliminated further accruals or canceled some of the employer's existing liability, as long as the desired financial positions were maintained.[6] In addition, after 1962 most plans negotiated with the Steelworkers contained a "spillover" arrangement whereby excessive resources were made available to fund savings and vacation plans.

General funds with contingent liability arrangements originally included a provision to maintain a constant relationship between regular cash contributions and contingent liability accruals. However, after the 1962 revisions many of them reduced the cash portion and increased the contingent liability portion by an equal amount as increases in the level of plan finances occurred until, at the highest level, no cash payment was required.[7]

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[5] A few plans do not contain maximum financing provisions. Moreover, an exception may arise among those that do, if the general trust with contingent liability funding arrangement is used. Contingent liability must be converted into cash contributions whenever fund assets are less than current benefit needs.

[6] Typical maximum financing provisions are discussed on p. 13. Maximum financing provisions which would reduce contributions after a period of favorable benefit experience were seldom operative during the period of study until 1963. For the exception among steel plans see p. 9.

[7] The 1962 steel plan revisions are discussed on p. 9.

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The influence of funding arrangements was reflected in the annual volume of contributions to SUB plans by industry. Contributions in the transportation equipment group indicated the industry's changing levels of business activity, while the consecutive increases in the primary ferrous metals group reflected both business and benefit experience. The suspension of obligations during the steel strike in 1959, coupled with inclusion of that period in the calculation of subsequent obligations, resulted in a low asset position in many steel plans during 1960. These assets were quickly depleted when large benefit payments were required during 1961. Thus, additional payments to fulfill contingent obligations frequently more than offset declines in regular cash contributions.[8] While employment levels determined the employer's overall obligation and ordinary cash payments under these plans, benefit experience strongly influenced the total cash contributions made during adverse periods.

Despite the gearing of contributions to employment or, as in steel plans, to both employment and benefit about 8 out of 10 participants were covered by plans in which the average annual change in cash payments was slight or moderate.[9] The amount of annual SUB contributions was reasonably stable. Plan contributions in the transportation equipment industry were most stable, while those in electrical machinery were least stable. The annual fluctuations in contributions are summarized for each industry in the following tabulation showing the percent of covered workers in plans in each stability group.

Industry	Total workers	Very stable	Stable	Unstable	Very unstable
All industries	100.0	56.6	23.7	10.8	8.8
Manufacturing	100.0	55.2	24.2	11.4	9.2
Rubber	100.0	15.8	72.9	-	11.3
Primary metals	100.0	31.4	36.7	23.3	8.6
Ferrous	100.0	33.1	32.9	25.5	8.4
Nonferrous	100.0	17.3	66.7	5.2	10.8
Fabricated metal products	100.0	25.8	39.3	9.5	25.4
Machinery, except electrical	100.0	45.8	21.2	19.7	13.3
Electrical machinery	100.0	14.1	31.3	-	54.6
Transportation equipment	100.0	95.9	.8	1.4	2.0
Other	100.0	71.4	17.3	-	11.3
Nonmanufacturing	100.0	81.2	15.0	1.5	2.3

NOTE: Because of rounding, sums of individual items may not equal totals.

Investment Income

The unpredictable nature of SUB fund disbursements made liquidity, rather than income, the foremost consideration in investment policy. The possible need of substantial sums of cash on short notice generally dictated the selection of high-grade, short-term securities. Many plans, including those negotiated by the Automobile Workers, restricted investments to general obligations of the U.S. Government. While the money held in the SUB funds negotiated by the Steelworkers also could be invested in "other appropriate securities approved by the company," the practice has been to invest almost entirely in U.S. Government securities. Very few plans allowed banks and other corporate trustees much latitude in investment decisions.

8 Benefit reductions were also common.

9 See appendix for an explanation of change computations and definition of the four stability groups.

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Limited asset accumulations and high liquidity needs generally resulted in low levels of interest, dividends, and other forms of investment income. Such income accounted for less than 10 percent of the receipts reported by all plans in each year from 1960 through 1963, and averaged 8.5 percent for the entire period.

The comparison of investment income with total SUB receipts including contributions, in the following tabulation, indicates that the relative importance of investment income varied with the type of funding arrangement. It was least among plans using the general trust with contingent liability arrangement, reflecting their relatively low asset positions.

Type of funding	Investment income as a percent of total receipts[1] 1960–63	1960	1961	1962	1963
All plans	8.5	8.9	9.2	7.5	8.6
General fund	11.1	10.9	14.5	9.1	11.4
General fund with contingent liability	2.5	3.8	2.2	2.9	1.4
Pooled fund	9.5	9.4	7.9	9.2	11.4
Individual employee accounts	18.2	14.1	20.4	20.4	18.6
Other	28.6	100.0	40.0	11.1	31.3
Unfunded	0	0	0	0	0
Information not available	11.1	7.3	2.6	25.0	31.5

[1] Includes miscellaneous receipts, such as return of benefits erroneously paid. These receipts were almost invariably negligible.

Disbursements

Expenditures to pay SUB and other benefits including moving allowances and separation pay, and expenses charged to the SUB funds totaled $439 million during the 1960–63 period. Benefits accounted for $427 million or 97 percent of the total.

Benefits. Most SUB plans experienced a substantial change in benefit payments from one year to the next because of their dependence on layoff experience. Total benefit payments of $91 million were reported in 1960 (table 1). They subsequently increased by $38 million, or 42 percent, in 1961. Improved business conditions led to consecutive declines of 22 and 5 percent during the next 2 years.

The year-to-year changes in benefit disbursements varied among industries (table 2). Annual benefit payments in the transportation equipment industry followed a cyclical pattern that was counter to changes in the level of contributions. However, consecutive year-to-year increases occurred in primary ferrous metals until 1963, while fabricated metals and machinery, except electrical, had consecutive declines. The magnitude and direction of year-to-year benefit changes are summarized by industry in the following tabulation.[10]

[10] Only annual data were available for all SUB plans; thus, changes of shorter duration could not be analyzed.

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Industry	Percent change in benefit payment: 1960 to 1961	1961 to 1962	1962 to 1963
All industries	42.2	−21.5	−4.9
Manufacturing	39.6	−22.2	−6.2
Rubber	103.6	−40.0	−17.0
Primary metals	6.91	4.74	−1.36
Ferrous	2.3	13.6	−2.7
Nonferrous	52.8	−54.6	21.3
Fabricated metal products	−1.3	−1.4	−1.2
Machinery, except electrical	−7.7	−11.3	−4.3
Electrical machinery	51.1	−43.9	−11.0
Transportation equipment	119.1	−44.4	−6.2
Other	25.1	−26.3	40.6
Nonmanufacturing	151.2	−5.6	18.5

Since the data for all plans in each industry were totaled before these percent changes were calculated, they are not as great as the fluctuations of individual plans, especially in industries that had fluctuations in opposite directions that offset each other.

Maximum financing provisions and prescribed contribution requirements placed definite limits on the employer's potential obligations. These restrictions, in turn, made it necessary to provide for possible benefit adjustments in order to be sure that plan commitments would not exceed available resources. Thus, benefit payments did not always reflect layoff patterns exclusively. Actual payments would fall below those expected on the basis of employment experience whenever prolonged layoffs reduced the fund's financial position or caused workers to exhaust their eligibility for benefits.

It was common to provide for reductions in either the number or amount of weekly benefit payments during times of financial stress. Many plans used both methods to reduce payments from the fund as financial resources declined.

Plans with no allocation of resources to individual member accounts almost invariably used "credit units" to determine the extent of each employee's right to benefits and to reduce overall commitments. A reduction in the number of potential payments was accomplished by increasing the number of credit units needed for a full weekly benefit. The opposite approach—a reduction in the dollar amount of the regular or usual benefit—lowered total commitments while retaining the normal credit unit cancellation rate.[11]

The ILGWU plan was a notable exception to the above practice. In this plan, in which credit units were not accrued, there was no automatic reduction in benefit commitments when finances were low. A fixed schedule of benefits, which varied with the worker's former weekly earnings, was provided. The duration of benefit payments was dependent on years of service. However, the board of trustees could, at its discretion, reduce either the amount or duration of benefits if it was considered necessary to maintain the solvency of the fund.

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[11] It was common to provide senior employees with more favorable treatment than those with less seniority. See Major Collective Bargaining Agreements: Supplemental Unemployment Benefit Plans and Wage-Employment Guarantees (BLS Bulletin 1425-3, 1965), pp. 22-25, for more details.

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The extent to which benefit obligations were actually reduced varied by industry and funding arrangements. Substantial benefit curtailments were seldom necessary among plans that required immediate discharge of the employer's entire obligation by regular cash contributions. For example, the 5-cent contribution rate and relatively high maximum funding limits (ranging from about $300 to $400 per employee), in the plans negotiated by the Automobile Workers, generally proved to be more than adequate. In a few instances, major benefit curtailments resulted from adverse employment experience despite the requirement that funding positions must deteriorate severely before benefit reductions are made. Such reductions were, however, atypical of these plans.

For reasons not related to their use of contingent liability, plans with part of their finances in the form of contingent liability accruals had less favorable experience. Reductions were widespread during much of 1960 and 1961. About 1 in 4 of these plans paid reduced benefits at the end of 1960. A year later 3 out of 10 paid reduced benefits. The percentage was even higher during some months in these 2 years.

This high incidence of reductions resulted from a combination of factors. Prior to the amendments negotiated with the Steelworkers in 1962 and subsequent years most of these plans provided for benefit reductions whenever total finances fell below 75 percent of their maximum levels. At the same time, the maximums (about $200 per employee) were much lower than those in most other plans. Moreover, the 1959 steel strike greatly reduced contributory hours and employer obligations for several months. Inclusion of the strike period in maximum financing calculations substantially lowered maximum levels by reducing the hours base. The result of these low maximum levels was low contributions and even cancellation of contingent liability after the strike. The heavy benefit demands that followed rapidly depleted plan resources and led to either a reduction in benefits or their ultimate suspension.

The 1962 amendments were adopted by about two-thirds of this group of SUB plans, greatly reducing the likelihood of similar experience in the future by providing for larger employer contributions, no cancellation of contingent liability accruals, higher maximum financing levels, elimination of strike periods in calculating contributory hours, and the initiation of benefit reductions at much lower financial levels. For example, partial benefits were to be paid when total finances fell below 35 percent of the maximum level instead of 75 percent. Few reductions were necessary in 1962 and 1963 due to these improvements and to a more favorable employment situation. At the end of 1963, 4 out of 5 steel plans were at maximum financing.

In accordance with the intent of providing only temporary assistance through SUB programs, the number of weekly payments that a worker could receive in any one period of unemployment was limited to 52 or less. Although data on eligibility exhaustions were not available, information for several plans with dissimilar experience indicated that exhaustions seldom exceeded 5 percent of a plan's membership. Because of seniority provisions, layoffs generally were concentrated among newly-hired workers; about a fourth of the eligibility exhaustions were for the second, third, or a subsequent layoff.

The volatility of benefit payments differed significantly by industry. Plans with limited fluctuation in the amount of annual benefit payments covered over half of the participants in plans in primary ferrous metals. In contrast, less than a fourth of those in transportation equipment were covered by plans with similar experience. A majority of them were covered by plans with moderate fluctuation.[12] The following tabulation shows the percent of workers in each industry belonging to plans in each of four stability groups.

[12] See appendix for an explanation of change computations and stability classes.

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Industry	Total workers	Very stable	Stable	Unstable	Very unstable
All industries	100.0	31.1	41.6	17.4	9.9
Manufacturing	100.0	32.0	39.8	17.9	10.2
Rubber	100.0	37.7	40.8	16.0	5.5
Primary metals	100.0	47.3	25.3	18.4	9.0
Ferrous	100.0	51.7	20.3	19.3	8.8
Nonferrous	100.0	12.6	65.2	11.1	11.2
Fabricated metal products	100.0	52.9	17.3	10.8	19.0
Machinery, except electrical	100.0	11.2	36.1	19.3	33.4
Electrical machinery	100.0	10.3	79.6	5.3	4.9
Transportation equipment	100.0	22.4	56.3	18.3	3.0
Other	100.0	23.1	26.9	28.0	22.0
Nonmanufacturing	100.0	15.9	73.0	7.2	3.8

NOTE: Because of rounding, sums of individual items may not equal totals.

Other Plan Disbursements. It was not unusual to charge a SUB fund with some of the costs of administering the plan and managing the fund. During the 1960–63 period, such charges accounted for about 3 percent of total fund disbursements. Some year-to-year variation naturally occurred in these charges since they tended to vary directly with the size of the fund and claims activity. Expenses were especially high in 1961 when increased benefit payments increased the burden of administration.

In general, the functions performed in the operation of SUB plans, such as processing of claims, payment of benefits, handling of appeals, maintenance of pertinent records, and issuance of reports, were similar to those in most other types of employee benefit programs. The professional services obtained from attorneys, auditors, and corporate trustees were also similar, but an exception occurred with respect to consulting actuaries. Although general cost estimates were necessary, periodic evaluations based on common actuarial techniques were not feasible, due to the uncertain nature of unemployment experience.

Administrative problems have probably been held to a minimum by the extent of organization of operating procedures in the prototype plans and their adoption in most of the plans that followed. Relatively few administrative changes were necessary except for those required by plan amendments that liberalized benefits, etc. When problems arose, a single interpretation or decision was frequently applicable to many programs because of their similarity. Several plans in basic steel deliberately used the same arbitrator to assure greater consistency of interpretation.

Direct ties to the State-administered unemployment insurance system, through utilization of State eligibility lists, further reduced the burden of SUB plan administration.

The various costs incurred in the operation of SUB programs were handled in a variety of ways. There was a trend away from charging expenses to the fund during the 1960–63 period, except among multiemployer plans. For example, under the 1958 Ford-UAW plan, the costs and expenses of the trustees, expenses of the board of administration, and the cost of administrative service performed by the company were all chargeable to the fund. The 1961 Ford-UAW plan, however, provided for charging only trustee, bank, and auditing fees to the fund; any other expenses were to be borne separately by the company or shared with the union. Both the 1960 basic steel plan and its revised form of

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1962 restricted charges to reasonable trustee fees and expenses. Almost all plans continued to provide that trustee fees and expenses could be charged to the fund even though other charges frequently were not allowed.

In actual practice, a considerable number of companies did not seek reimbursement for expenses they were entitled to charge to the fund. Trustee charges, the most frequent expense item, were paid from 77 percent of the funds with 82 percent of the total worker coverage. These were the only charges paid from 45 percent of the funds. No expense disbursements were made from approximately 15 percent of the funds which accounted for nearly 11 percent of all coverage.

Expenses paid	Percent	
	Plans	Workers
All plans	100.0	100.0
No administrative expense	15.3	10.8
Trustee only	45.2	24.5
Trustee and audit	.9	.5
Trustee, audit, and salaries	31.0	57.4
Other administrative	3.6	3.5
Other	4.1	3.3

NOTE: Because of rounding, sums of individual items may not equal totals.

Professional fees, administrative salaries, and expenses were charged to a third of the funds which covered about 6 out of 10 workers. Board of administration expenses usually were paid by the company, while the company and union almost invariably paid the regular salaries of their respective board members and the compensation of any impartial chairman or arbitrator was shared equally.

The $12 million of operating expenses charged to SUB funds during the 1960–63 period were equal to 2.3 percent and 2.8 percent of contributions and benefits, respectively. However, because contribution and benefit experience was by no means uniform, individual plan ratios tended to differ even more widely because of the volatile nature of benefits and contributions. Average annual expenses were equal to less than 5 percent of benefit payments in plans covering 58 percent of all SUB participants. However, 85 percent of the participants belonged to plans in which expenses equaled less than 5 percent of contributions.

Examination of expenses on a per employee basis is more useful. During the 1960–63 period, approximately half of the SUB funds were charged with average annual expense payments amounting to less than a dollar per member. The types of expenses charged to the funds are a major determinate of their amount; for example, almost 3 out of 4 plans with expenses of less than $1 per member had disbursements only for trustee fees and expenses. The greatest variation in expenses occurred among funds with professional fees and salaries. A relation between plan size and efficiency of operation was evident when cost comparisons were made of plans with similar expenses charged against their funds—all but one of the large plans that paid only trustee fees and expenses spent less than $1 per member, while almost half the small plans with similar charges spent more than that amount.

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Even without considering the type of expenses charged, only a fourth of the funds—chiefly those of small plans—had expense disbursements of more than $3 per member.

Average annual administrative expense paid per employee	Percent	
	Plans	Coverage
All plans	100.0	100.0
Less than $1	49.8	52.5
$1 but less than $3	23.5	37.1
$3 but less than $5	12.4	4.4
$5 but less than $7	7.4	2.2
$7 and over	6.9	3.7

NOTE: Because of rounding, sums of individual items may not equal totals.

Assets

SUB funds held assets, exclusive of contingent liability, worth almost $340 million at the end of the 1960 reporting year (table 2).[13] In 1961, a net drain of $20 million reduced them by about 6 percent. By 1963, assets totaled almost $447 million, a 40-percent gain over 1961.

Plans of the transportation equipment industry consistently accounted for more than half of all SUB assets. In contrast, a low asset position was characteristic of funds in the primary metals industries, where contingent liability accruals exceeded regular cash contributions.

The funds for the individual account plans, which functioned somewhat as savings plans, contained the most assets per participant.[14]

Funding provision	Average amount of resources per employee			
	1960	1961	1962	1963
Assets per worker:				
General fund	$247.48	$243.54	$301.91	$359.94
Pooled fund	149.15	158.67	162.09	133.13
General fund with contingent liability	41.21	34.08	42.25	41.33
Individual accounts	337.46	387.95	414.12	403.16
Total resources—general fund with contingent liability[1]	206.65	170.93	235.55	258.31

[1] Includes contingent liability accruals.

Despite significant year-to-year changes in the relation between assets and contingent liability in plans so managed, contingent liability has consistently accounted for the major portion of the plans' resources—frequently more than 75 percent. Contingent liability accruals accounted for a larger proportion of the resources of the large plans than of the small ones. In 1963, contingent liability accounted for 87 percent of the resources of plans with more than 4,000 members as against 75 percent among those with fewer members. Smaller differences prevailed in the preceding 3 years.

[13] About 80 percent of all financial reports were on a calendar-year basis. The remainder used a fiscal year.
[14] As mentioned previously, participants had no equity or interest in these fund assets, except for those covered by plans that made allocations to individual employee accounts.

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The yearend asset data generally reflected the results of different contribution rates and the impact of dissimilar benefit experience. However, by the end of 1963, many of the general trust fund plans and general funds with contingent liability were near or had reached maximum financing levels. When their maximum levels were attained, further asset increases were curtailed.

Many of the original SUB plans set maximums as a flat dollar amount per employee, even though reductions were provided for if benefit experience proved favorable. Subsequent amendments usually tied them more directly to benefit experience. For example, for most current UAW plans, maximum funding requirements are a multiple (usually 16 times) of the product of the average full weekly benefit and the number of covered employees. The original steel plans used the product of a specified number of cents (usually 10 cents) and the total number of hours worked by covered employees during a given 12-month period. This approach has been retained; greater flexibility, however, was achieved by adding an alternative computation of 100 times the amount of benefits paid during an average month. The lesser of the two determined the maximum financing level.

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Appendix. Scope and Method of Study

This study applies to all employee benefit plans providing supplementary unemployment benefits that are on file with the Labor Department's Office of Labor-Management and Welfare-Pension Reports (LMWP). Pursuant to the Welfare and Pension Plans Disclosure Act (PL 85-836 revised), administrators of private plans with more than 25 members are required to file plan descriptions and supporting documents, as well as annual financial reports. A random sample was selected from those plans for which 1960 financial reports were filed. The selected plans were weighted according to the probability of their selection. It was necessary to use the same sample for every year, because more current listings of plans providing unemployment benefits were not available.

Use of a fixed sample introduces a bias which tends to understate SUB growth; nevertheless, other unpublished BLS statistics and information obtained from various sources indicate that aggregate coverage and financial statistics have not been substantially increased by new plans.

The annual (D-2) reports filed with LMWP generally covered a calendar year; however, about 20 percent of the reports were for a fiscal year which differed by a month or more from the calendar year. Although reporting year and calendar year data occasionally varied substantially for some individual plans, it was not practical to request calendar-year data from all of the companies involved. Furthermore, calendar estimates or averages would not be appropriate for use in a ratio analysis. Plan data were consequently analyzed as reported.

Operating statistics generally reflect various interrelationships between economic conditions and plan operations.[15] Due to differences in pertinent plan provisions and variations in immediate economic conditions, experience patterns also differ. In order to compare these differences without regard to performance in the preceding year, the percent by which annual payments deviated from their 1960–63 mean was determined on an individual plan basis for contributions and benefits. Their average annual deviations during the 4-year period were grouped for this study as follows:

Stability group	Percent deviation
Very stable	Less than 30
Stable	30 but less than 50
Unstable	50 but less than 70
Very unstable	70 and over

Data obtained from D-2 reports are not necessarily identical to those obtained from trade-union and industry reports, even though the reporting year is the same. Different reporting techniques may have been used. Contributions may have been reported on either an incurred or date-of-deposit basis. Differences in the reporting of accrued monthly benefits processed but not paid could also make it difficult to reconcile benefits. With respect to coverage, the D-2 calls for a representative figure for the year—it may be an average or coverage as of a specific date. Dissimilar techniques may have been used in other reports.

[15] Because its recent origin distorts the analysis of such relationships, data for the ILGWU plans are omitted from text tabulations of contribution and benefit stability and of plan resources per worker.

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Table 1. Contributions, Benefits, and Assets of SUB Plans, by Type of Funding, 1960–63

(In millions of dollars)

Funding provision	Contributions				Benefits	
	1960	1961	1962	1963	1960	1961
All plans	$119.6	$107.1	$157.5	$152.9	$91.3	$131.3
General fund	$72.9	$48.2	$94.5	$88.2	$41.5	$72.2
Pooled fund	4.3	8.8	9.1	8.8	1.2	4.4
General fund with contingent liability	37.3	46.3	49.9	51.4	45.3	50.7
Individual employee accounts	4.7	3.3	3.7	4.4	3.1	3.5
Other	(1)	(1)	.1	(1)	(1)	.1
Unfunded	(1)	.1	(1)	(1)	(1)	.1
Information not available	.4	.4	.1	.1	.1	.3
	Benefits—Continued		Assets [2]			
	1962	1963	1960	1961	1962	1963
All plans	$104.6	$99.6	$339.9	$319.9	$386.3	$446.9
General fund	$44.5	$40.1	$265.1	$245.6	$303.4	$361.9
Pooled fund	6.1	7.0	19.5	24.9	28.4	29.4
General fund with contingent liability	49.6	50.2	30.9	24.5	29.1	27.8
Individual employee accounts	4.2	2.1	22.6	23.3	23.8	26.1
Other	.1	.1	.5	.4	.4	.3
Unfunded	(1)	(1)	-	-	-	-
Information not available	.1	(1)	1.1	1.1	1.2	1.3

[1] Less than $0.05 million.
[2] Excludes contingent liability.

NOTE: Because of rounding, sums of individual items may not equal totals.

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Table 2. Contributions, Benefits, and Assets of SUB Plans, by Industry, 1960–63

(In millions of dollars)

Industry	Contributions 1960	Contributions 1961	Contributions 1962	Contributions 1963	Benefits 1960	Benefits 1961
All industries	$119.6	$107.1	$157.5	$152.9	$91.3	$131.3
Manufacturing	$116.1	$101.8	$152.5	$148.0	$89.2	$125.9
Rubber	4.3	3.7	3.7	2.3	1.9	4.0
Primary metals	33.2	41.8	46.6	47.8	41.4	44.2
Ferrous	28.9	37.1	43.0	44.9	37.6	38.5
Nonferrous	4.3	4.8	3.5	2.9	3.7	5.7
Fabricated metal products	3.9	2.1	3.0	3.6	3.8	3.3
Machinery, except electrical	9.2	9.6	11.3	12.7	11.7	10.8
Electrical machinery	1.9	1.0	4.7	1.9	2.1	3.2
Transportation equipment	58.5	34.5	74.1	70.6	25.1	55.0
Apparel	1.1	4.9	5.1	5.3	-	1.5
Other	3.9	4.2	3.8	3.9	3.1	3.9
Nonmanufacturing	3.6	5.4	5.1	4.9	2.1	5.4

Industry	Benefits—Continued 1962	Benefits—Continued 1963	Assets[1] 1960	Assets[1] 1961	Assets[1] 1962	Assets[1] 1963
All industries	$104.6	$99.6	$339.9	$319.9	$386.3	$446.9
Manufacturing	$99.5	$93.5	$329.4	$309.1	$375.3	$437.3
Rubber	2.4	2.0	24.5	24.5	26.3	26.6
Primary metals	46.3	45.7	27.8	23.3	27.6	26.0
Ferrous	43.7	42.5	24.6	21.0	24.4	23.0
Nonferrous	2.6	3.2	3.2	2.3	3.3	3.0
Fabricated metal products	3.3	3.2	12.0	11.1	11.1	11.4
Machinery, except electrical	9.6	5.6	42.7	42.0	45.0	55.7
Electrical machinery	1.8	1.6	16.4	14.6	18.3	19.2
Transportation equipment	30.6	28.7	182.4	165.3	214.8	263.9
Apparel	2.7	2.7	8.1	12.7	15.7	18.1
Other	2.9	4.1	15.4	15.6	16.6	16.4
Nonmanufacturing	5.1	6.0	10.5	10.8	11.0	9.7

[1] Excludes contingent liability.

NOTE: Because of rounding, sums of individual items may not equal totals.

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Table 3. Contributions, Benefits, and Assets of SUB Plans, by Union, 1960–63

(In millions of dollars)

Union	Contributions				Benefits	
	1960	1961	1962	1963	1960	1961
All plans	$119.6	$107.1	$157.5	$152.9	$91.3	$131.3
Negotiated plans	$118.6	$106.1	$156.1	$151.9	$90.6	$130.1
Auto workers	65.8	42.4	83.8	81.6	34.3	64.5
Rubber workers	3.1	2.9	3.0	1.9	1.6	3.3
Steel workers	35.4	43.6	48.1	51.3	43.1	46.6
Ladies' garment workers	1.1	4.9	5.1	5.3	-	1.5
Two unions or more	3.8	3.9	3.1	.9	3.4	4.0
Other AFL–CIO unions	7.3	6.8	11.4	8.2	6.5	8.4
Independent unions	2.1	1.6	1.7	2.7	1.6	1.8
Nonnegotiated plans	1.1	1.0	1.4	1.0	.7	1.2

Union	Benefits—Continued		Assets [1]			
	1962	1963	1960	1961	1962	1963
All plans	$104.6	$99.6	$339.9	$319.9	$386.3	$446.9
Negotiated plans	$100.7	$98.3	$334.7	$314.8	$383.3	$443.4
Auto workers	37.1	33.5	225.7	207.5	261.1	317.8
Rubber workers	1.8	1.7	21.0	21.0	22.9	23.0
Steel workers	47.0	48.8	28.7	23.6	28.6	27.7
Ladies' garment workers	2.7	2.7	8.1	12.7	15.7	18.1
Two unions or more	2.5	1.5	4.8	4.5	5.0	4.5
Other AFL–CIO unions	7.2	8.4	38.3	37.8	43.3	45.7
Independent unions	2.5	1.6	8.1	7.7	6.8	6.5
Nonnegotiated plans	3.9	1.3	5.2	5.1	3.0	3.6

[1] Excludes contingent liability.

NOTE: Because of rounding, sums of individual items may not equal totals.

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Table 4. Average Yearly Expenses Charged to SUB Funds on a Per Employee Basis, by Type of Expenses Paid, 1960–63

(Workers in thousands)

Expenses paid and group size	Total		None		Less than $1		$1 but less than $3	
	Plans	Workers	Plans	Workers	Plans	Workers	Plans	Workers
All plans	704	1,890	108	204	243	789	166	703
No administrative expense	108	204	108	204	-	-	-	-
4,000 workers or more	5	171	5	171	-	-	-	-
Less than 4,000 workers	103	32	103	32	-	-	-	-
Trustee only	318	463	-	-	178	413	55	37
4,000 workers or more	22	260	-	-	21	251	1	9
Less than 4,000 workers	296	202	-	-	157	162	54	28
Trustee and audit	6	10	-	-	-	-	5	5
4,000 workers or more	1	5	-	-	-	-	-	-
Less than 4,000 workers	5	5	-	-	-	-	5	5
Trustee, audit, and salaries	218	1,085	-	-	31	284	98	629
4,000 workers or more	32	972	-	-	8	265	12	575
Less than 4,000 workers	186	113	-	-	23	18	86	54
Other administrative	25	66	-	-	7	34	6	27
4,000 workers or more	3	55	-	-	2	31	1	24
Less than 4,000 workers	22	11	-	-	5	3	5	3
Not classified [1]	29	63	-	-	27	58	2	5
4,000 workers or more	3	31	-	-	3	31	-	-
Less than 4,000 workers	26	32	-	-	24	27	2	5

Expenses paid and group size	$3 but less than $5		$5 but less than $7		$7 and over	
All plans	87	84	52	42	48	69
No administrative expense	-	-	-	-	-	-
4,000 workers or more	-	-	-	-	-	-
Less than 4,000 workers	-	-	-	-	-	-
Trustee only	45	10	20	2	20	1
4,000 workers or more	-	-	-	-	-	-
Less than 4,000 workers	45	10	20	2	20	1
Trustee and audit	-	-	1	5	-	-
4,000 workers or more	-	-	1	5	-	-
Less than 4,000 workers	-	-	-	-	-	-
Trustee, audit, and salaries	30	68	31	35	28	68
4,000 workers or more	6	52	2	18	4	60
Less than 4,000 workers	24	16	29	16	24	8
Other administrative	12	5	-	-	-	-
4,000 workers or more	-	-	-	-	-	-
Less than 4,000 workers	12	5	-	-	-	-
Not classified [1]	-	-	-	-	-	-
4,000 workers or more	-	-	-	-	-	-
Less than 4,000 workers	-	-	-	-	-	-

1 Plans lacking consistency in the type of expenses charged to the fund.

NOTE: Because of rounding, sums of individual totals may not equal totals.

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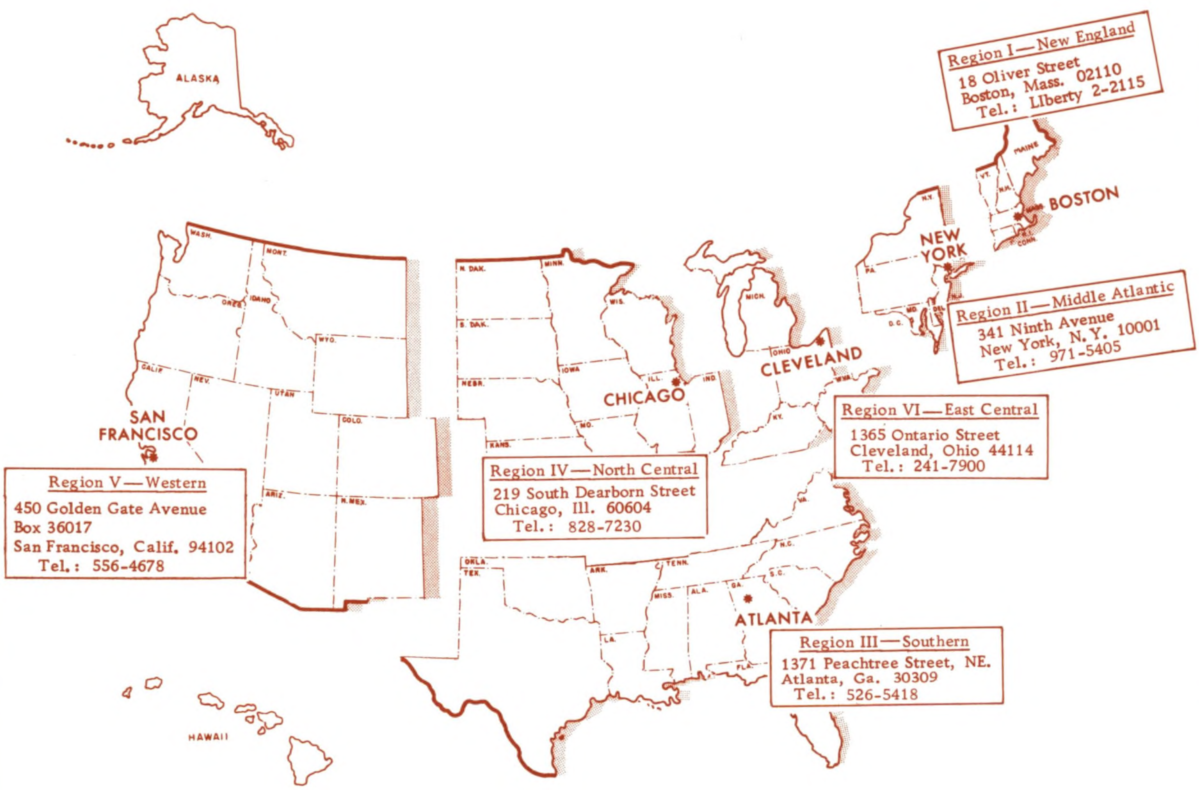

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