TRADE UNION BENEFITS AND OUR SOCIAL INSURANCE PROBLEMS

BY

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Trade unions have, for half a century, paid insurance benefits, quasi and pseudo insurance benefits, along with many other forms of allowances to which the term "insurance" is entirely foreign. An examination of the methods and experiences of trade unions will teach members of this body nothing in the way of actuarial theory. In fact, from the standpoint of an actuary the study of what trade unions have done is a good way of finding out what not to do. Nevertheless, this paper is written to review, very briefly, some of the characteristics of trade union benefit schemes, with the thought that we may learn something from these activities which will be of use in dealing with problems of importance to us as good citizens, if not as company actuaries.

Trade union organizations are formed for the purpose of collective bargaining in order to improve wages and working conditions. The basic units of union organizations are quite local and almost without exception a union is in existence for only a relatively short time before the members agree to unite in helping the less fortunate of their number by the payment of benefits in case of the occurrence of various contingencies, such as sickness, accident, death and old age. These are in addition to other benefits such as those paid in case of labor disturbances and unemployment.

One of the most common trade union benefits is the death benefit. Probably the simplest method of handling this benefit is to have either a tentative agreement or a hard and fast rule that each member shall pay a certain amount, say $1.00 whenever a member dies, and that the total amount collected shall be paid to the beneficiary. An improvement on this method is to determine the amount to be paid in case of death and collect at once an assessment sufficient to produce this amount. This fund is kept on hand until a death occurs, at which time a union official is empowered to make payment to the beneficiary of the deceased and to levy another assessment so as always to have on hand a sufficient fund to meet one death payment. A further step in the development of the assessment method provides for the allocation of a certain part of each payment of dues to a fund set aside for the payment of death benefits, the amount of the benefit having been fixed in advance.

While the death benefit is one of the earliest developments of trade unions, a disability benefit payable for time lost through sickness or accident is quite popular. There is a widespread feeling that the disability benefit is more important than the death benefit and there is no gainsaying that prolonged illness of the wage earner is a most serious matter today among our industrial classes. Disability benefits, as paid by most unions, consist of fixed weekly or monthly allowances taken from the general funds of the union, or from a special fund set aside for this purpose, and supported by a fixed part of regular dues.

In some unions a benefit payable at advanced age has arisen through a rule that what would usually be paid later as a death benefit may be paid to the member as a disability benefit, in case the member has reached an agreed-upon age and is unemployed. In such cases the death benefit disappears.

During the last twenty or thirty years a number of trade unions have arranged for the payment of old age benefits, either in the form of annuities or lump sum payments, made available after reaching a specified age and length of continuous membership. The defense for the lump sum payment is that it permits the old member who can no longer follow his trade to start some kind of a small business for himself. Doubtless we all have our doubts as to the value of this reasoning.

Another method used by trade unions in caring for old members is by means of so-called "Homes." In recent years a number of these homes have been constructed, at great cost, to care for the aged members of particular trades. In some cases these homes are also open to members who are permanently disabled through dismemberment or through such diseases as tuberculosis.

In connection with practically all of these benefits, with the possible exception of the death benefit, it is important to note that the intention is to pay only in needy cases. Especially in case of disability due to age, and in case of the regular retirement pension, it is usually planned to pay only if no other substantial means of support exist. A claimant looks upon a life insurance company as a responsible corporation which must pay claims regardless of the financial status of the claimant, and regardless of the fate of the corporation. Trade union benefits, on the other hand, are usually considered somewhat as gratuities contributed by the members, the union being merely the instrument for making payment. This point of view is supported by the fact that a trade union is not usually liable in the same sense as is an insurance corporation. It can at any time, through the proper vote of members, increase, decrease or eliminate benefits of any kind.

With rare exceptions, trade unions have set up their benefit schemes without actuarial advice. The usual method at the beginning is to arrange for assessments which will support the benefit payments for a year or two and trust to luck or increased assessments for the future. Many plans have required the scaling of benefits or the increase of assessments, or both, and not a few benefit plans have been abandoned entirely.

A number of statistical reports have recently been published regarding the benefit schemes of trade unions. Some of these reports have appeared in recent issues of the *Monthly Labor Review*. A special bulletin of the United States Department of Labor (No. 465) has recently been published entitled "Beneficial Activities of American Trade Unions." Industrial Relations Counsellors, Incorporated, has just published a preliminary report, prepared by Murray W. Latimer, entitled "Pensions and Other Old Age Benefits for Trade Union Members in the United States and Canada." This report points out forcibly the insufficiency of the support for most of the pension plans of trade unions. No actuarial technique is required to realize that practically all trade union benefit plans are conducted only by a cash disbursement method and that, without readjustment, most of the present plans must fail.

If these are the facts, how can we hope to profit by studying them? Certainly not as actuaries, and yet we must bear in mind that in their crude way these trade unions have recognized and met needs which have not been met satisfactorily by any other means. We must also remember that these organizations represent large numbers of our citizens and that recognizing, as they do, these various needs which have not been met, we may expect them to use their influence to get results in some way or other. It seems not improbable that we will have in this country, in the relatively near future, some form of sickness and accident benefits, old age benefits, death benefits and unemployment benefits operating in such a way as to be applicable to very large classes of our industrial population. If this is a correct prognosis, it seems only the part of wisdom that our insurance experts should do everything in their power to guide this development along conservative lines in order to avoid, on a large scale, some of the deplorable consequences which we have seen on a small scale in many ill-advised insurance schemes.

Probably no greater contrast can be imagined than the difference in attitude of trade unions and insurance companies regarding the factor of safety in connection with a benefit plan. We are all thoroughly trained in the thought that insurance is only a promise and that as such it is no better than the ability of the promising party to fulfill its promise. For this reason we leave no stone unturned in our effort to devise methods of making as certain as possible that the insurance company will be able to meet its claims, and in case we should be lax in this regard innumerable state insurance departments are ready to lend their aid in seeing to it that the elements of safety are present.

With a trade union, the point of view is entirely different. Here we have a mutual gathering of men with a common interest. They see the need of unfortunate members and plan to meet that need without delay and with as little machinery as is absolutely necessary. These men are accustomed to assessing themselves. They have voted substantial assessments to support strikes. They have voted funds to support their leaders in various movements which they think will be of mutual benefit. They have voted funds to extend their organization, with the conviction that their strength is increased thereby. They are used to taking action on rather short notice to remedy situations as they arise and when these members are convinced of the advisability of a proposed benefit scheme, they vote just as confidently to undertake it without giving thought as to whether or not the assessments will be sufficient after a few years. In fact if a doubting Thomas should raise the question of the adequacy of the assessments the reply would probably be that there will be time to raise the rates when it is demonstrated by an empty treasury that they are too small.

The development of insurance in this country has been almost entirely through corporate bodies, issuing contracts involving fixed liabilities. The corporation estimates the risk as carefully as possible and then agrees to cover it for a stated consideration. We look with disfavor upon any assessment form of insurance and it is the common opinion that any inadequate rate life insurance scheme is worse than no insurance arrangement at all. The work of trade unions suggests that there is another point of view. Even though a benefit plan may finally fail, with apparent loss to those who have not yet benefited at the time of failure, there is the point of view that the plan may have been worth while for the service it rendered before failure. Particularly may this view be defensible in connection with benefits involving hazards which cannot be sufficiently defined at present to attract the corporate method of insurance.

There has always been in this country a stubborn opposition to government insurance of any form. We have consistently attempted to furnish desired insurance service by private means through corporations formed voluntarily to conduct this business. This point of view is deeply rooted with us and as our social problems become more persistent our effort is continually to devise methods by which our private corporations may meet our needs.

A number of industrial nations have attempted to meet their social insurance needs by means of national insurance schemes. We cannot avoid national insurance in this country by denying the need for the benefits. Organizations of industrial workers will see to that. The most helpful attitude would seem to be an open-minded study, and if the need exists for more widespread participation in insurance benefits than seems feasible with our present methods, we must ask ourselves if we can modify our procedure to such an extent as to enable our private corporations to meet the existing needs.

It is significant that within the last two months statements have been made on this subject by three leaders of thought, each statement apparently being made without knowledge of the statements of the others. All three take practically the same point of view. President Herbert Hoover, in conversation with Mr. Paul F. Clark, President of the National Association of Life Underwriters, is reported as follows:

> "The President said, according to Mr. Clark, that the immediate necessity of the life men was the consideration and solution of the matter of old age pensions. The country as a whole is concerned with a government bill of some $500,000,000 for old age pensions and there are many private enterprises which would be insolvent if they had to meet the actuarial standards of reserves on their old age pension obligations.
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> "The President said he is strongly against government interference in business or any further extension of such interest, but that the life business should devote itself foremost to this great problem of old age pensions."

Leroy Lincoln, First Vice President of the Metropolitan Life Insurance Company, addressing the American Life Convention, made the following statement:

> "It is rapidly becoming apparent that some vehicle, public or private, must be found for organizing and managing systems of old age pensions which shall be purely pensions without those frills which so materially increase the cost. Our companies must meet this problem and meet it squarely if we do not wish to see it taken out of our hands by government. Surely, the institution of life insurance in this country will be alert to devise and present appropriate means of satisfying the growing demand for this sort of protection on a basis which, both in cost and in administration, will be superior to any service which government may be expected to provide."

Thomas I. Parkinson, President of the Equitable Life Assurance Society, addressing managers and agents of that Society, is reported as follows:

> "President Thomas I. Parkinson said that there was no demand upon the life insurance companies today so great nor any need so urgent as for some form of old age pension plan. He sounded a warning note when he told the assembled managers and agents that the life insurance business should undertake to solve this problem so that the demand will not go over the heads of the companies into the hands of government. He said the people would rather do this for themselves than have the government do it for them."

It was Hoover who threw down the challenge to life insurance executives in 1923 to take care of the problem of unemployment. The consensus of opinion among most life insurance officials is that the unemployment risk is not a proper one to combine with the risk of death. However, the sad fact is that problems of unemployment are still with us and the indications are that they will be far more serious in the future than they have been in the past. Yet there is little evidence that insurance executives of any kind have given any serious consideration to the question of how we shall solve our unemployment difficulties.

Insurance executives are a unit in opposing state insurance of any form and they can cite economic abuses to support their point of view. Yet these men are too busy with the details of conventional business to give time and thought to the newer problems which are pressing for solution. Our pioneers are our theorists. Social workers see the problems and describe them. Economists have time to think about them and suggest solutions. These classes are not afraid of state insurance as such. They see problems which are not being solved and conclude that our present economic machinery is not adapted to the solution of such problems.

Along with the economist and the social worker in the study of these novel problems we find the trade union official. This man is a strange combination of the theorist and the practical. He must keep his feet on the ground since he is confronted daily with the needs of his members. He has learned how to approach legislatures in order to get desired laws enacted. He may not always be right, but because of his prominence among his members and his obligations to them he persists in efforts to obtain results which seem likely to be helpful to the members.

If we permit these classes to be our pioneers, we must accept the consequences of our own inertia. Each year sees additional states passing legislation favorable to old age pensions. Organized labor favors such legislation and so expresses itself in resolutions of the Convention of the American Federation of Labor. Quite aside from the merits of the case these are pertinent facts.

Possibly the state is the proper organization to undertake some forms of insurance coverage which have not proved popular with private corporations. Certainly we cannot continue to deny the seriousness of this suggestion so long as private enterprise fails to undertake these risks while various states are doing so.

It would seem that the business of insurance has developed along the lines of least resistance. The simpler and more obvious hazards were the first to be insured. We have left practically untouched some of the more complicated hazards, probably for the very reason that they are complicated. To provide a retirement allowance for all persons reaching a given age, regardless of the financial status of the individual at the time, would cost enormous sums of money. Furthermore, from a social standpoint this is not necessary. Socially our need is for a scheme by which benefits will be available for those who have reached retirement age but have not succeeded in collecting sufficient wealth for modest comfort. If we can devise equitable arrangements by which only the needy will receive old age benefits, the cost of the insurance will be enormously decreased. Here is an essential difficulty for a private life insurance corporation. The view at present is that a corporation must carry out its contracts regardless of the financial status of the recipient of benefits. This rule results in many payments which are of little social value since they are received by persons who have no real need for them. Whether or not it is advisable to establish a custom of paying old age benefits only to the needy is surely worthy of consideration. If this should be deemed advisable we must face the question of whether or not our corporate machinery can be used for this purpose, whether some new form of organization can be devised for the purpose or whether we will fall back on the state to furnish such benefits.