METHODS OF COST LIMITATION UNDER PRIVATE UNEMPLOYMENT BENEFIT PLANS

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DISCUSSION BY P. A. WILLIAMS

For several years labor unions have been fighting for some sort of guaranteed annual wage. Although they are not guaranteed wages, as such, the plans discussed in Mr. Latimer's paper are an outgrowth of the demand for them.

The author was obviously confronted with a monumental task in collecting the data which makes up this paper but he has given a comprehensive and detailed account of the history, development, provisions and problems connected with Supplementary Unemployment Benefit plans. Since this subject is new to the *Proceedings of the Casualty Actuarial Society,* he even seemed to foresee the limitations the reviewer might have and wrote his own critique in Chapter VI, "Conclusions as to Effectiveness of Cost Limitations."

While I was studying this paper, I found it very hard to keep my mind on the technical problems being discussed and off of the nature of the plan itself, that is, the concept of not working—and getting paid for it. Finally, I realized that the two were the same for the most part and that the hardest problems involved spring out of the social nature of the plans.

Very little was said in the paper about the enforced savings plan used in the glass industry. The problems encountered are few since the employee pays his own way by collecting only what has been put away in his behalf. But in the plans of the other industries discussed, workers who qualify receive a supplement to their state unemployment pay which brings their total benefit up to 65 percent (or 60 percent) of after-tax wages. This brings about many inequities.

In many cases the benefits along with remuneration for part-time work are as great as the regular after-tax wages received for being on the job, especially when it is taken into consideration that certain expenses are eliminated when a worker is laid off, such as the costs of transportation to and from work, lunch money, work clothes, etc. This tends to remove any incentive the employee might have had for seeking new employment. On the other hand, the fact that after-tax wages are computed on the basis of the federal income tax withholding bracket or percentage penalizes the more stable employee with a family and home who finds it advantageous to itemize his expenses. His benefit might be based on an amount well under his actual after-tax wages.

It is my understanding that an employee receiving workmen's compensation would be refused unemployment compensation on the grounds that he was not "able to work and available for work." Another inequity develops from this situation. At a comparatively low

wage level the unemployment benefit overtakes the maximum workmen's compensation benefit. Thereafter, the injured worker receives less than the laid-off worker. The percentage used to calculate benefits under the SUB plans appears to be too high.

It was brought out in the paper that no insurance is available to cover the hazard of unemployment. This is understandable. What insurance company would be willing to underwrite a line in which practically every loss would be catastrophic in nature? The pooling of risks, as this article suggests, would do little to alleviate the problem. The hazard exists principally in the mass production industries whose fortunes run on pretty much the same economic cycle. Throwing several companies in one industry or several industries together for insurance purposes would create an exposure comparable to the conflagration hazard to which a fire underwriter would be exposed if he insured every building in the slum area of a large city. There is no doubt in my mind that unemployment is uninsurable. The framers of these SUB plans seemed to admit this when they built in a method of reducing either the benefit or its duration if the fund dropped too low with an extra safety measure which cut off benefits altogether as the fund approached rock bottom. Insurance companies would be happy to sell coverage which ceased as soon as the dollars set aside to pay losses were expended—but who would be willing to buy it?

The funds mentioned above are maintained by making contributions based on hours worked. The difficulties of having these donations to the fund based on benefits or credit units were discussed by Mr. Latimer. The reserve represented by the fund does not seem to reflect the actual liability of the plan. After more experience has developed some attempt should be made to relate both the contributions and the level of the fund itself to the benefits.

If no sound relation can be found, then a slightly different approach might be taken with respect to maintaining the fund. The problem of continued high contributions to the fund after sizeable lay-offs have occurred would be alleviated if a buffer zone were established. Rather than having just a maximum level below which contributions are made, a maximum and a minimum level should be established. Payments would be made into the fund until the maximum was reached, then no payments would be made until the level of the fund dropped to the minimum at which time they would be resumed. Using this method would give employers the advantage of not having to "pay in" during early stages of lay-offs and would produce the natural effect of having the fund build up during good years and fall off during bad years.

Mr. Latimer's description of the plans was clear, his analysis, realistic. My remarks are intended to be additions to his own conclusions rather than a criticism of the paper's content or the manner of presentation. As suggested by the author, the impact of the recent recession on the SUB plans should prove interesting and would be a worth while subject for a follow-up paper for the *Proceedings*.