WORKING ON THE RAILROAD: WORKERS AND THE EVOLUTION OF THE PENNSYLVANIA RAILROAD'S PENSION PLAN

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In 1900 the Pennsylvania Railroad Company implemented a pioneering pension plan that became a model for American business in the twentieth century. Although scholars have described the two-stage creation as management's effort to achieve corporate efficiency and control over its labor force, this paper demonstrates a more complicated, untidy evolution. Employees played a vital, active role in the quarter-century development of the pension scheme, repeatedly shaping the process and its results directly and indirectly, consciously and unconsciously. Furthermore, the plan's evolution was a messy, often decentralized, and incremental process considerably at odds with the firm's reputation for systematic, analytical management.

As the growth of the industrial revolution and the rise of big business in the United States during the last half of the nineteenth century transformed the nature of work and the relationships between owners and their employees, business leaders and workers alike strove desperately to adjust to the radical changes. Among the numerous responses was the emergence of modern private corporate pension plans that promised regular payments to superannuated workers after mandatory retirement.1 Railroad companies pioneered in the birth of large-scale enterprise and were among the first big concerns to create such programs. As the nation's leading railway enterprise, the Pennsylvania Railroad Company was among the handful of innovators. By the early 1890s its workforce exceeded 110,000, and its complex technology and the unprecedented burden of fixed costs raised obvious issues about operating efficiency and safety.2 These challenges made the recruitment, retention, and cooperation of able workers and the replacement of aging laborers even more critical as the company's labor force steadily grew larger and the firm became more bureaucratic. One solution to such challenges was

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the Pennsylvania's pension plan, which evolved over a quarter century before it was implemented in 1900, and which subsequently became a model for American business in the twentieth century.¹

Recent scholarly studies of the retirement scheme emphasize a corporate-directed, two-stage evolution designed to achieve company efficiency and control of its labor force. After describing the implementation of a workers’ insurance program in 1886 as a first step in corporate welfare, Steven Sass portrays the subsequent creation of the pension plan as a rational, centrally controlled effort to secure worker quality, loyalty, and mandatory retirement.² Gratton's earlier analysis presents a more integrated picture, arguing that both the insurance and pension programs were necessary outcomes of the firm's early commitment to a seniority system to help promote the hiring and retention of the effective, stable workforce required for efficient, safe, and profitable operation.³ As seniority and stability inevitably generated an aging body of higher-paid employees, the pension plan with its mandatory retirement became an obvious solution.

Building on these portrayals of workers as the objects of a rational, centralized process, a third study of labor relations on the Pennsylvania Railroad points out that employee protests indirectly forced management to readjust labor policies. Nevertheless, except for casually noting workers’ successful request that participation in the insurance fund be voluntary, this analysis perpetuates the picture of a smooth, top-down implementation of corporate welfarism. Indeed, the Pennsylvania's development of relief and pension plans is presented as an unusual company-wide, more systematic labor policy, which deviated from the railroad firm's normally more decentralized labor relations practices.⁴

This paper argues for a more complicated, untidy evolution. First of all, workers played a vital, active role in the quarter-century creation of the pension plan, repeatedly shaping the process and its results directly and indirectly, consciously and unconsciously. They “worked on” the railroad as well as working for it. Second, as the first point implies, the actual evolution of both the insurance and pension programs was anything but linear and comprehensive. The creation of the Pennsylvania's pension plan was messy, piecemeal, and uncertain.

The great railroad strike of 1877, the most dramatic and obvious labor protest of the era, had surprisingly little impact in shaping the company’s insurance plan for workers as a first step in the evolution of the Pennsylvania’s pension program. The firm began studying the issue in 1874 and did not adopt its insurance scheme until 1886. More important was the employees’ creation of their own associations to express their discontent. By the 1870s friendly societies and railroad unions or brotherhoods were proliferating, especially in key, skilled occupations like engineer, fireman, and brakeman. Such groups’ development of their own insurance plans helped attract workers and rivaled the company’s efforts for control and loyalty.⁵ In October 1875, consultant Elizur Wright urged a company insurance program because “it involves, so far as your good corporation is concerned, a happy solution of the most difficult problem of our age – the harmony of capital and labor.” Six years later General Manager Frank Thomson attempted to reawaken lagging interest in the proposal by warning about the resuscitation of secret labor societies. Their “one great inducement,” he wrote, “is the beneficial feature which we intended to meet by the insurance scheme.”⁶

The Pennsylvania's long delay in responding to such threats resulted from the complex, fragmented nature of the entire process of formation. Several factors extended the final resolution over a twelve-year period characterized by episodic interest. First of all, because no single corporate leader emerged to push the proposal, energy was dissipated among several groups whose interest and timing varied. The board of directors created two committees to study the problem, whose separate proposals required additional time to investigate the plans of other companies and to gather essential data from within the firm. These solutions twice went to top operating men for their approval and amendment. Second, the deep 1870s depression severely reduced revenues and focused executives' attention on cost cutting instead of creating new programs. Third, another division occurred because the insurance scheme applied only to workers on the company's eastern lines. The more recently added western lines were separately incorporated, had considerable operating autonomy at the day-to-day, administrative level, and only adopted their plan three years later.

Finally, the evolutionary, incremental character of the program required still more time for completion and implementation. The initial proposals in the mid-1870s provided only for accident and death insurance; coverage of illness came later. Executives like Frank Thomson viewed company insurance as a means of insuring worker loyalty and stifling labor organizations. John Anderson, who helped set up the eventual program in the mid-1880s and who headed the relief department charged with its administration, envisioned the plan as a genuine contribution to workers' welfare.

The timing of the plan's actual enactment in April 1886 also rested on pressure from workers, because in the mid-1880s American laborers once again launched noisy, mass protests across the nation, including the rise of the Knights of Labor, the American Federation of Labor, a growing eight-hour day movement, and eventually the eruption of the Haymarket Riot. In response to such increasing unrest, the Pennsylvania Railroad moved quickly in late 1885 to complete its insurance program, which it presented in early 1886 as a melange of welfare benefits and reinforcement of the corporate seniority system. Based on their wage levels, employees were to make monthly payments into a company-run plan. In exchange the railroad guaranteed sickness, accident, and death benefits on a sliding scale determined by contribution levels. Though the firm expected to finance the scheme with worker payments and fines for rules infractions, it promised to pay for all administrative costs, to cover any shortfalls, and to invest any surplus on the workers' behalf. The Pennsylvania established a new relief department to operate the program, headed by a superintendent who would be assisted by an advisory committee composed of three railroad managers and three representatives elected by the workers and chaired by the corporation's general manager.

Efforts to control the Pennsylvania's workforce were evident not only in the firm's domination of administration, but also in the rules for membership. After the first six months, a medical test and membership would be mandatory for all new hires, for all who received promotions or raises, and for all who returned after layoffs of three months or more. Members were to be given preference in the event of layoffs, but they could not collect benefits if they sued the plan or if their condition resulted from the consumption of alcohol. Clearly the company expected eventually to compel the participation and
proper behavior of most employees, particularly its most experienced, qualified, and skilled laborers who hoped to rise through the ranks.

However, the firm had reckoned without the voice of its laborers who rose spontaneously and in large numbers to force a modified, more acceptable program. As the New York Times noted, "The men began to show a disposition to revolt the moment the circular describing the scheme had been placed in their hands."17 Skilled workers, including foremen and locomotive engineers, protested the mandatory membership in the company's scheme as an attack on their independent brotherhoods. Many others complained about the high cost of the program. Led by engineers, firemen, and brakemen, workers assembled by the hundreds in groups all along the line and across several departments, including shop as well as train operations. On March 2, 1886, over three hundred delegates met with General Manager Charles Pugh at the corporation's Philadelphia headquarters to remonstrate about the scheme's inequities. Meanwhile, enrollment lagged far behind the firm's inflated claims.18

The Pennsylvania swiftly capitulated before the storm of worker discontent and amended the plan. It renamed the relief department the "voluntary relief department" and eliminated compulsory membership. Medical exams were dropped as a condition of employment, fines were not to be part of financing, and no favoritism was to be granted to plan members in determining layoffs.19 As finally adopted, the insurance scheme was clearly an optional corporate welfare program and not a mandatory company plan to bind the workforce. Employees had successfully insisted on retaining their autonomy to spend their wages and to select their insurance protection as they chose.

The subsequent development of the Pennsylvania Railroad's pension system between 1887 and 1900 continued to reflect patterns of worker influence and unplanned evolution, though superficially there appeared to be little similarity between the two plans. The pension program was compulsory and company financed.20 Mandatory retirement at seventy automatically terminated aging workers with higher wages whose productivity was presumed to be declining. Because of anticipated savings from employing younger workers, the corporation also offered optional retirement between sixty-five and sixty-nine for those with at least thirty years' service at the request of either the worker or his supervisor, and it instituted a maximum hiring age of thirty-five with exemptions for special need or circumstance.21

However, despite such differences, the pension plan was actually rooted in and propelled by the insurance program, which unexpectedly created an ad hoc pension system. By 1887, administrators had to confront the problem of workers who had exhausted their fifty-two weeks of sickness benefits but who were too ill to return to work. Because firing such laborers would have worsened the very morale problem that the plan was intended to correct, the operators decided to continue benefits at half pay until the men recovered or died.22 Furthermore, though the 1886 plan limited eligibility to those workers under forty-five who passed a medical examination, a temporary initial waiver permitting voluntary election by all current employees regardless of age and without examination quickly burdened the insurance system with an abnormal number of older workers vulnerable to long-term or permanent illness.23

Although the first flaw—the exhaustion of sickness benefits after one year—was probably
a simple oversight, the second weakness owed much to the behavior of workers themselves. The brief period allowing all to join was an integral part of the company's original insurance scheme and was clearly an enticement for workers to accept virtually compulsory membership at their own expense. After employee protest quickly defeated that approach, the firm could not withdraw unrestricted eligibility without further alienating an already fractious labor force. In addition, worker behavior determined the size of the problem and generated a growing urgency to resolve it. Many senior workers joined in 1886, and within a year the company was sustaining 61 unofficial pensions for the sick, a figure that nearly quintupled to 296 within a decade. Although they comprised only 5 percent of all members, those over sixty-five accounted for more than one-third of the informally pensioned group.24

As the burden of the ad hoc pensions grew, workers' conduct continued to exacerbate the problem, preventing a solution within the insurance program itself and necessitating a separate pension scheme. Just as the abnormal bulge of older laborers increased the unforeseen pensions between 1887 and 1900, placating the rising expectations of employees led the Pennsylvania to surrender to other demands. The corporation reduced the probationary period before new hires could join the insurance scheme from six months to one month, and it agreed to halve to three days the waiting period before the application of benefits for accident or illness. Such higher costs restricted the growth of any surplus from the insurance plan, which management originally hoped might fund the ad hoc pension liability.25

Deliberations in the advisory committee were difficult because employee representatives swiftly broadcast any propositions. Positive suggestions from the workforce's point of view immediately set even higher expectations while proposals for retrenchment touched off more grumbling. General Manager Charles Pugh noted that any amendment required the advance approval of the board of directors, "because the moment it should be submitted to the Advisory Committee it would become common property for discussion on the Lines of the Company and, as there is a pretty general feeling that some use should be made of the Surplus Fund, etc., such action if taken, would certainly assume special importance in the minds of the members of the fund throughout the entire service."26

In fact, increasing the surplus by restricting or repealing benefits was virtually impossible. The workers' virulent and effective protests in 1886 precluded any solution using their contributions without their consent. And the chance of any compromise with employees was growing increasingly remote. Contrary to management's expectations, the corporate welfarism in the insurance scheme did little to ameliorate the relationship between the firm and its laborers. An informed, contemporary historian noted that workers disliked the company-appointed examining physicians and "belittle or undervalue them." Many resented the process of determining eligibility for awards, comparing the administration to "a high and wrathful court, dealing out in all severity the punishments as prescribed by the ancient Mosaic law." Employees viewed the proceedings "like a court-martial, constituted to convict." In their minds, the "chief aim seems to be the evasion of payment or to pay as little as possible."27 In such an atmosphere any comprehensive, compulsory solution could only be found in an entirely new, company-funded program.
Eventual enactment critically depended on the important role of Max Riebenack, a career professional manager who became assistant comptroller in 1881 and comptroller in 1905. He was an early participant in the pension process, helping to set up the relief department in 1885 and becoming a charter member of its advisory committee in 1886. He quickly began to lead the evolution of a formal pension plan when, in 1889, he chaired a special subcommittee of the advisory committee to develop a superannuation fund to regularize and fully pay for the growing burden of ad hoc pensions for extended illness. In the early and mid-1890s he made extensive adaptations and revisions to that proposal and conducted a comprehensive international survey of pension schemes in support of his suggested reform. In the last half of the decade Riebenack designed a new, comprehensive plan covering the entire workforce and funded by the company.

However, despite this manager’s able, central role in conceptualizing, researching, drafting, and promoting a pension system, the formation of the new plan was a lengthy and complex process. Like the insurance scheme, it evolved episodically and its erratic course reflected similar factors. The pension program’s piecemeal creation began with Riebenack’s narrow approach. As late as 1896, he was only interested in fixing the insurance fund. The shift to a plan for all workers with corporate funding and mandatory retirement came belatedly from other sources.

In addition, the large, complex bureaucracy that so characterized the Pennsylvania Railroad required an elaborate, repetitious process of consultation with multiple constituencies, including the advisory committee of the relief department, its special subcommittee for a superannuation fund, the railroad’s board of directors, its road committee, and the heads of the operating divisions, who examined proposals at least twice. Chance and external events further affected timing. An epidemic of “La Grippe” in the early 1890s raised the operating costs of the insurance program, and in 1893 Vice President John Green wanted to delay any new plan because he feared that a “cholera year” loomed. The deep 1890s depression reduced revenues, distracted attention, and discouraged the birth of fresh obligations. Changes in the president’s office also played a critical role. After Riebenack drafted a proposal in 1889 for funding the pensions growing out of the insurance plan, President George Roberts opposed its enactment for unstated reasons when the scheme reached the board of directors in 1891. Riebenack’s subsequent reformulations and his international survey of pension programs consumed several years in an attempt to persuade Roberts to accept a superannuation plan financed jointly by the surplus from members’ contributions and by a $75,000 annual contribution from the firm.

Nevertheless, in 1896, after five years of investigation and reformulation, Riebenack’s case for regularizing the insurance fund was so good that it inadvertently persuaded Roberts not only to accept a pension system, but also to reconfigure it to meet the corporation’s need to control its workforce and sustain its seniority policy. The assistant comptroller’s most recent calculations now confirmed that the cost of pensioning older workers in the insurance program was offset by the savings generated by employing younger, lower-paid replacements. Roberts then apparently realized that a company-funded pension scheme for all workers would pay for itself if coupled with mandatory retirement. The problem of an aging workforce as a byproduct of the Pennsylvania's
seniority system would now be resolved. However, Roberts’ death in 1897 and his successor’s demise in 1899, further delayed executive action while Riebenack drafted a revised, comprehensive plan with additional review from interested constituencies. Finally, under the leadership of new president A. J. Cassatt in late 1899, deliberations moved rapidly, and the firm implemented its innovative pension program on January 1, 1900.36

The course of the Pennsylvania Railroad’s model pension plan amply reflected the influence of workers and a process of extended, unexpected evolution—the two themes emphasized in this paper. Indeed, these deeply embedded factors quickly bedeviled the program’s administration. By the early 1930s the pension system was in serious financial difficulty, in large part because laborers again refused to behave as projected. They put increasing, unforeseen financial burdens on the program by using the option to retire between sixty five and sixty nine in numbers that far exceeded expectations. In 1911, for example, of the 263 early retirements only 17 were requested by managers; over 93 percent were the decisions of employees. After 1910 early retirees regularly outnumbered mandatory departures.37 The resulting problems might have been resolved had the company acted decisively, but it temporized once again. Because it feared alienating workers over what had become an entitlement, the firm refused to consider reducing benefits in order to balance their costs with revenues. It repeatedly postponed action and covered rising costs with ad hoc payments from general revenues until a final reckoning came during the depression of the 1930s.38

The Pennsylvania Railroad’s pension plan was successful, and the workers’ role in its formation made it too successful. Its creation helped establish the firm as an attractive employer, and it helped stabilize the able, experienced labor force desired by the company. However, the legacy of that success was continuing employee expectations and an intractable cost burden that could not be removed without alienating the very workforce that the program was intended to create.

NOTES

6. Geoffrey Channon, Railways in Britain and the United States, 1830-1940: Studies in
Economic and Business History (Burlington, VT: Ashgate Publishing Company, 2001), 227-36, 258-59. Although Channon argues that workers helped shape company labor policy, he emphasizes the period after 1900. At the century's turn the firm appeared to be "in full control" though it could not dislodge unions. Ibid, 218, 235.


8. Elizur Wright to G. C. Gardner, 2 October 1875, board files 91, Pennsylvania Railroad Records, Hagley Museum and Library (hereafter BF, volume number, and PRR); Frank Thomson to George B. Roberts, 23 August 1881, BF91, PRR.


12. Pennsylvania Railroad Company, untitled proposal from a special committee of the board of directors to create a relief fund, 24 September 1881, BF91, PRR.


16. Ibid.


18. For coverage of the protest, see the New York Times, February 1, 1886, 5, February 2, 1886, 3, February 26, 1886, 2, and March 3, 1886, 2; the Philadelphia Public Ledger, February 1, 1886, 1, February 2, 1886, 4, March 1, 1886, 3, and March 3, 1886, 1; and the Baltimore Sun, February 24, 1886, 4.

19. Pennsylvania Railroad Company, minute books, vol. 11, 8 April 1886, "Regulations Governing the Pennsylvania Railroad Voluntary Relief Department," 170-77, PRR.

20. An outline of the pension plan can be found in Pennsylvania Railroad Company, minute books, vol. 15, 13 December 1899, PRR.
21. Ibid.

22. Advisory committee of the relief department to the president and board of directors, 30 August 1887, BF91, PRR; and Pennsylvania Railroad Company, minute books, vol. 11, 28 September 1887, PRR.

23. Max Riebenack to George B. Roberts, 24 January 1893, “Memorandum for President Roberts, in Regard to Proposed Changes in Relief Department,” BF92, PRR.


26. Charles Pugh to George B. Roberts, 3 October 1890, BF91, PRR.

27. Wilson, History, II, 166.


31. Max Riebenack, 1 May 1896, “Memorandum in Regard to Creation of Superannuation Fund, Submitted by Max Riebenack, Assistant Comptroller,” BF92, PRR.

32. See, for example, Pennsylvania Railroad Company, minute books of the special committee of the board of directors for the superannuation fund, special committees, PRR.

33. Max Riebenack to George B. Roberts, 24 January 1893, and John P. Green to George B. Roberts, 27 January 1893, BF92, PRR; and Burgess and Kennedy, Centennial History, 446.

34. Max Riebenack to N. P. Shortridge, 16 December 1891, BF91, PRR.


36. Riebenack, “Pension Features,” 967; and Pennsylvania Railroad Company, minute books, vol. 15, 28 June and 4, 13 December 1899, PRR.

37. Memorandum for Mr. W. H. Myers, Fifth Vice President, 12 December 1911, Annual Report, Samuel Rea files, box 150 and Secretary to Board of Officers, 15 January 1912, Pension Department: Annual Report, Samuel Rea files, box 150, PRR; and Gratton, “Triumph,” 647.
