CARLTON FIELDS

Studebaker: From Coupe to Coup

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In the early days of the workforce, retirement was a foreign concept—people worked until they died. Life expectancy was significantly lower than it is today, making the idea of retirement nearly irrelevant. The origins of pensions can be traced back to the military. As early as 13 B.C., Roman emperor Caesar Augustus offered pensions to legionnaires, rewarding their loyalty and hoping to prevent potential revolts. Soldiers could earn a pension worth about 13 times their annual salary after 20 years of service and five years in the reserves. In the United States, the government began pensioning soldiers who served under George Washington during the Revolutionary War in 1818. Subsequent laws in 1820, 1832, and 1836 expanded eligibility for pensions to Continental line soldiers, reduced service requirements, and introduced pensions for widows. However, private pensions would not come to the U.S. until much later. The first private pension plan was introduced by American Express in 1875. The plan offered benefits to employees aged 60 and older who had 20 years of service with the company and could no longer perform their jobs. Once eligible, an employee would be recommended for retirement by their manager and could receive up to half their annual salary, capped at $500 per year. Given that life expectancy at the time was only around 35 to 40 years, reaching the age of 60 was a significant milestone. To encourage private employers to support retired employees, the Revenue Act of 1921 exempted contributions to employee pension plans from federal corporate income taxes. This incentivized companies like Eastman Kodak, Goodyear, and Standard Oil to adopt pension plans. The rise of labor unions in the 1940s further fueled the establishment of pensions. By 1950, about 25% of the private sector workforce had a pension. Life expectancy continued to increase over these years, yet there were no strict funding or vesting standards for pension plans, leaving income in retirement to chance for employees who did not know whether their employer would still be in business and able to pay their pension out of their general assets by the time the employees retired and needed it. Fast forward to 1963, when Studebaker Corp., an American automaker, faced severe financial difficulties because of waning demand for its stylish "coupes." Studebaker decided to close its production plant in South Bend, Indiana. This closure had a catastrophic impact on its pension plan, which was significantly underfunded, leading to thousands of employees losing their pensions. Older workers, who had dedicated many years to the company but had not yet reached retirement age, were particularly affected, receiving only a fraction of their promised payments or, in some cases, nothing at all.[1]

Studebaker's financial crisis underscored the vulnerabilities and inadequacies of the private pension

system, drawing national attention to the risks faced by employees when companies failed to properly fund their pension plans. Key issues included inadequate funding, lack of vesting requirements, and insufficient insurance for pensions. At that time, however, there were no strict rules governing funding adequacy or vesting periods, and no safety nets for employees if their employer went belly up or closed.

The Studebaker crisis, coupled with other pension failures in the 1960s, spurred government action. Lawmakers and reform advocates collaborated to create legislation designed to protect pensions, leading to the passage of the Employee Retirement Income Security Act (ERISA) in 1974.
ERISA aimed to ensure proper funding, established minimum vesting requirements, and mandated that pension managers act in the sole interests of plan participants and beneficiaries. It also created the Pension Benefit Guaranty Corp. (PBGC), a national pension insurance program designed to protect defined benefit pension plans and their participants if employers could not meet their obligations. This program is financed through premiums paid by defined benefit plans to the PBGC. ERISA also created reporting and disclosure requirements, promoting transparency. These measures were aimed at helping employees understand their pension finances. This year marks the 50th anniversary of ERISA. In many respects, ERISA has been a real "coup" in terms of protecting the financial security of millions of American retirees. Inasmuch as the Studebaker crisis served as a catalyst for pension reform that culminated in the enactment of ERISA, one might say that the landscape of retirement security has evolved from "coupe" to "coup."

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[1] James A. Wooten, *"The Most Glorious Story of Failure in the Business": The Studebaker-Packard Corporation and the Origins of ERISA*, 49 Buff. L. Rev. 683 (2001). Available at: https://digitalcommons.law.buffalo.edu/buffalolawreview/vol49/iss2/6

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