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EMPLOYEE BENEFIT PLANS

Pension and Retirement Plans

A. For trusteed pension plan cost estimates and valuation, what assumptions are being made concerning
   (i) Investment yield rates,
   (ii) Mortality,
   (iii) Rates of disablement and disabled life mortality,
   and why?
B. Is there a trend away from individual policy pension plans toward Group Annuities? If so, what effect has this had on the competitive position of trusteed and self-administered plans?

MR. SAM HOUSTON HUFFMAN: Interest rates of 3% to 3½% are generally being used for cost estimates on new plans or proposed new plans in the Southwest. Interest rates used when a plan is installed or revised are normally continued for valuation purposes until there is a good reason for change.

Many trusteed plans adopted prior to 1958 are still valued on the basis of the 1937 Standard Annuity Table with 2½% interest. When the mortality table used is changed to a more up-to-date table, the interest rate is sometimes raised to 3% or 3½% depending upon past and probable future investment yields and other factors.

One large firm of consulting actuaries uses the 1965 Projected Annuity Table[1] for cost estimates and valuations. The ratios of the single premiums for males for a straight life annuity beginning at age 65 based on this table to the single premiums based on the 1937 Standard Annuity Table are shown for representative ages in the following table:

Age	Ratio
25	113%
35	112
45	109
55	106
65	101

In conjunction with the mortality assumption, I would like to emphasize that the assumptions made with respect to withdrawal rates and salary scales are much more important than the difference in the various

[1] Basic Ga-1951 Table projected to 1965 by Scale C; see *Pensions*, by James A. Hamilton and Dorrance C. Bronson, pp. 242–243.

mortality tables normally used for pension valuations and cost estimates. The particular cost method used is also very important in this respect, *i.e.*, whether it be the entry-age-normal or the unit-credit cost method, etc. It would seem to be obvious that the accuracy or adequacy of the estimated cost for any particular plan depends upon the total result based on all of the actuarial assumptions instead of on the mortality assumption alone. Conservatism in costs can be and frequently is introduced by consulting actuaries and by life company actuaries through the use of conservative withdrawal rates, salary scales and interest rates.

The rates of disablement are usually based on the Class (1) Intercompany Disability Investigation or, where higher rates are deemed appropriate, the Railroad Retirement Board rates are used. The mortality for disabled lives is normally assumed to be the same as for active lives. The relatively small cost of the disability benefits in comparison to the total cost does not justify the additional accuracy obtained by using a special mortality table.

It should be noted that most retirement plans provide for early retirement after attainment of age 55 and completion of 15 years of credited service. Since most disablements occur after age 55, it follows that most employees are retired under the early retirement rather than the disability provisions. Thus, plans without disability benefits should perhaps include an additional cost for disability benefits that are in practice paid in the form of early retirement benefits, or, viewed in another light, perhaps the cost for disability benefits after age 55 is redundant as compared with the same plan without disability benefits.

MR. FREDERICK P. SLOAT: In The Terriberry Co., we are using interest rates of 3% and $3\frac{1}{2}$%. We do not attempt to take account of projected appreciation of equity investments by employing a higher interest rate in plan valuations.

In our company we have adopted the 1951 Group Annuity Table by using an additional one year age rating for each generation to provide for improving mortality.

MR. HUFFMAN: According to my experience in the Southwest, there is a very strong trend away from individual policy plans toward Deposit Administration Group Annuities and toward self-administered and trusteed plans. The effect on the competitive position of trusteed and self-administered plans does not seem to have been very great.

MR. HARRY L. SUTTON, JR.: I have seen the trend from individual policy plans from a different aspect on a number of group life cases. We have been asked to accept on a nonmedical basis fairly high amounts formerly issued under pension trusts with medical examination. This has been one of our problems with high amounts.

MR. THOMAS M. MOTT: In the Republic National Life Insurance Co., we have found the trend in the Southwest is to ordinary life and auxiliary investment account and away from fully insured retirement policies either on a group retirement or individual policy plan.

MR. GEORGE V. STENNES: I have seen very little trend from the individual policy toward group annuity. I have noticed there is a tremendous trend away from the retirement income type policy to the individual or group ordinary life combined with auxiliary fund.