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PANEL DISCUSSION

H.R. 10

Panel Members:

DANIEL F. MCGINN, *Moderator*
ELMER R. BENEDICT
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A. 1. To what extent is coverage under H.R. 10 being provided under (*a*) individual policies and (*b*) group contracts? What problems are presented in each approach? If special plans are used, what provisions must be included?

2. If normal contracts are used, what modifications or endorsements must be made? What plans are generally used? If split-funding is not used with normal contracts, how are increases in contributions handled? To what extent are trust or custodial accounts being used?

DANIEL F. MCGINN:

It seems the H.R. 10 business can be broken down into two basic classes of business: (1) the large professional association type programs which will be handled either by group annuities on a split-funding basis, through a self-administered trust fund, or through a master trust using individual policies with a "side fund," and (2) the small employer programs which probably can be most effectively funded by individual policies.

In most instances, these programs will be funded through a custodial account or by use of insurance-company sponsored prototype or master plans. We will attempt to discuss each question on the agenda in the order given. Mr. Benedict will consider the individual policy aspects, and Mr. Crawford will cover the consulting actuary point of view. Whenever it is possible, I will try to give my own point of view, which will cover both the individual policy and the group-contract problems. As we go through this agenda, there may be some overlapping of comments, but we will try to consider each question thoroughly and as informally as possible.

ELMER R. BENEDICT:

We all know that H.R. 10 business had a very slow start, due primarily to the late promulgation of the final IRS regulations (September, 1963), which in turn left very little time to develop H.R. 10 master or prototype plans and sales material and to train the field forces. This slow start is reflected in the information gathered by Harry Walker of the Equitable in a twenty-one-company survey in March of this year. His survey showed that up to that time these twenty-one companies had written only about two thousand individual policy cases covering just over two thousand five hundred lives for an average of $1\frac{1}{4}$ lives per case.

In my own company by the end of 1963 we had written 40 lives for an average premium of about $1,100. Since the beginning of the year to the end of May, we have written 107 more lives for the same average premium of $1,100. The issue over the last few months has remained fairly level except for a drop in the month of May. You may be interested to know that a review of the occupations written since the beginning of the year shows that of the 107 lives, 31 were under cases involving doctors or dentists, 6 were under cases involving lawyers, 29 under other professional cases, and 41 were other self-employed.

Most of the problems, such as they are, which arise under the individual-policy approach center around the principal areas of (1) designing and developing a suitable vehicle or procedure to handle flexible deposits, (2) the choice and design of master and/or prototype plans with or without trusts or custodial accounts, and (3) complying with the IRS regulations, including determining the qualified status of the plan. Since these problems are interwoven throughout the other questions, I will discuss them as they arise.

The funding vehicle or procedures used must, assuming a money-purchase form, provide for handling flexible contributions. A quick way to get into this H.R. 10 business, if a company had no flexible annuity contract or rider, was, of course, to use split-funding. Therefore, their normal contracts would have to provide for the transfer of money from the auxiliary fund at retirement to provide the additional income under the contract. In addition, the contract would have to contain an endorsement limiting the right to transfer ownership. This limitation on the right to transfer must be included in all contracts, normal or special. With regard to the limitations on pay-out, they belong in the pension plan rather than the insurance contracts.

There are three principal ways of funding H.R. 10 benefits with individual policies: one of them is the split-funding approach just mentioned; the other two are the use of a flexible annuity and the use of a flexible rider. It might be well at this point to make a quick comparison of these three methods.

Split-funding has the advantage of expediting entry into the field if none of the other two products is available. Other than that, though, it seems to me that it would have *primary* appeal only in a limited number of cases (a much smaller proportion than in corporate pension trusts), such as those covering a large number of lives where the owner-employee wishes to invest the separate fund in equities. Remember that one of the alleged advantages of split-funding, namely, discounting for turnover, is not available under H.R. 10. Yet the disadvantages of the split-funding approach, particularly important on one-life cases, remain—for example, yielding fewer dollars in commissions generally (the extent varying depending upon the policy used); requiring rather different treatment and accounting; and, I would think, normally requiring a trust. This path may also lead to the development of a master plan to handle the investment fund and trust aspects conveniently. Harry Walker's March survey showed eight or nine companies permitting the split-funding approach. Only one of these companies had a flexible annuity contract or rider.

In point of comparison of the flexible annuity contract and the flexible rider, the rider has the obvious advantage that it can be attached to either an annuity contract or an insurance policy. In view of the attractiveness of the insurance element and the higher commissions to the agent under retirement income policies, it is not surprising to us that almost 75 per cent of our issue is on the retirement income plan with rider. Referring again to the March survey, there were four companies that offered flexible annuity contracts, one which funded increases under deferred annuity contracts, and five companies which funded increases under flexible riders, plus one company that was in the process of developing such a rider.

My own company developed a flexible rider which we call the "Retirement Security Income Builder." The rider can be attached either to a retirement annuity contract or a retirement income policy and provides that contributions received under the rider are in effect applied to purchase single premium deferred paid-up annuities. Deposits of $100 or more will be accepted under the rider at any time. Furthermore, if the annual premium for the base contract or policy is at least 80 per cent of the maximum contribution permitted in the first year, we will fund any amount under the rider necessary to bring the contribution in any year up to the permissible maximum; otherwise the amount paid in under the rider may not exceed the premium for the base policy or contract.

Touching briefly on incidental benefits, seventeen of the twenty-one companies provided the waiver of premium benefit. Only one of the four companies which had flexible annuity contracts provided for the waiver benefit. This they do by waiving the average of the payments made over the previous five years. In my own company we allow waiver only on the policy premium. (We do not offer a waiver benefit on annuities, which again predisposes toward the sale of retirement income policies.)

With regard to the accidental death benefit, nine companies said they allowed this at least as of last March. There apparently is considerable confusion on this point. We have not allowed it and our Counsel assures me that the IRS will not allow it since it would certainly violate the 100 to 1 ratio. However, if the plan submitted to the IRS does not mention it and if a company adds the A.D.B. rider upon request and upon the assumption that the IRS will allow it if no tax deduction is claimed for the A.D.B. premium, there is no way presently that the IRS could know about this, unless they seek further information.

With regard to trusts or custodial accounts, the March survey showed the following: four companies had a trusteed account only (one of these was not corporate); one company had a custodial account only; thirteen companies had direct-purchase plans only; one company had both trustee and direct-purchase plans; one had all three types; and one company had a direct purchase for its master plan and a trust for its prototype plan.

The *Tax Barometer* (a weekly tax newspaper) of May 16, 1964, stated that of the 221 master or prototype plans approved by the IRS through the end of March, 1964, trusts were used in 102 of these plans, custodial accounts in 39, insurance contracts in 76, and a combination of these in 4 plans. Incidentally, 130 were pension plans, 55 were profit-sharing, and 36 plans offered a choice between pension or profit-sharing.

The direct-purchase approach has the decided advantage of simplicity and absence of any custodial or trustees fees. On the other hand, the custodial account and trust do have the advantage of providing a third party to assist in administering and interpreting the plan and complying with any IRS requirements. The choice of which of these three approaches to use is not entirely independent and will depend upon the composition of the H.R. 10 program as a whole. For example, I would expect a company using split-funding to utilize a trust, while a company, such as my own, offering a flexible rider will, perhaps, prefer the direct-purchase approach. Of course, the relative advantages of these approaches may shift, depending upon IRS requirements.

ANGUS L. CRAWFORD:

As consultants, our field of endeavor in connection with the H.R. 10 plan has been almost entirely with associations. It has been obviously to the Association's advantage to negotiate a group contract. In the California Medical Association Plan, the group contract was written on a deferred-annuity basis. Consideration was given to a deposit administration type of contract, but the general provision of first money in, first out led to the conclusion that no present guarantee of rates would be applicable to the younger members and, therefore, it was not possible to state positively their minimum annuity. The deferred group annuity approach seemed more logical in this situation, with experience credits being prorated on the basis of reserves carried. The American Medical Association, however, took the opposite viewpoint and is using deposit administration contracts.

We have seen and done some work in connection with programs for associations where there is not a strong administrative staff. In these situations, it appears that a broker administration is necessary, and individual policies have been proposed in many such instances.

In connection with several association plans using individual policies and mutual funds, the form of the contract is an ordinary life contract. Provision is included, however, to allow the transfer of funds from the mutual fund to the insurance contract at retirement in an amount not to exceed that which will provide twice the retirement income that the ordinary life policy provides.

DANIEL F. McGINN:

1. *Individual policies.*—Occidental has sponsored a prototype plan for underwriting individual policy business. We have presented this plan to all our individual policy agents with a self-contained "salesmaker." To date the reaction has been reasonably favorable. Of course, it is too early to determine how popular our product will be since most pension business is generally written during the last three or four months of a calendar year. Our average premium has been over $1,100 per policy, and we have averaged about 1.5 lives per H.R. 10 case. We have required a minimum premium per case of $750. This minimum has caused some problems, since our agents feel that they could write much more business if our minimum were $250 or $300. The major problems that we have had with our prototype plan are a result of our rush to get this plan filed. We overlooked the desirability of the waiver of premium and accidental death benefits as part of our prototype plan. At the moment, we are making modifications in the plan to incorporate these benefits on an optional basis.

2. *Group contracts.*—We have underwritten two large association plans and have experienced practically no problems in their establishment, principally because in each instance a consulting actuary was involved and very good administrative facilities were available. I think our biggest problem has been with agents or brokers who recognize that a plan could be established for an association but who do not recognize the necessity for a strong centralized administrative office facility required to make the plan work.

We do not use our ordinary individual policies for underwriting H.R. 10

business. Rather, we use our regular pension trust policies, which reflect the tax savings available under qualified pension business.

We have prepared a special nontransferability rider and consider that a copy of Form No. 3673, together with a copy of our prototype plan fully executed by the employer, comprises the application for the H.R. 10 plan with the nontransferability rider. At the moment, we have made available two basic plans; one is a pure annuity plan with very favorable cash values, and the other is an annuity plan with "incidental" death benefits, that is, a regular income-endowment type policy. In each instance, the form of annuity is ten years certain and life.

We are willing to participate in split-funding arrangements *with an established master trust* which can meet certain special underwriting requirements. In certain instances, we are willing to grant guaranteed issue if the participation by association members is sufficient, or we will provide liberal nonmedical limits.

In our prototype annuity plan, we use the three-year averaging basis for determining earnings and provide for no decrease in premium on account of changes in earnings. With the prototype plan we will issue additional policies for benefit increases only in those instances where the additional contribution will be sufficient to purchase an additional ten dollars monthly income.

B. What has been the experience in obtaining IRS approval of master or prototype plans? What fixed-benefit formulas have been found acceptable? What contribution formulas have been found acceptable on (1) money-purchase plans and (2) fixed-benefit plans?

ELMER R. BENEDICT:

We have had no real difficulty with the IRS, but that does not mean to say that it has not been an experience, for it certainly has been. Our sole proprietor plan, which was submitted to Washington in November, 1963, was temporarily lost between Washington and Buffalo, the office to which the agent reviewing our case was assigned. Consequently, we did not get approval until January—too late to be of any value for 1963. With regard to our partnership plan, which was submitted in April, 1964, the railroad mailcar carrying our submission caught fire and our prototype plan was scorched, and, although still readable in most places, required further communications with the IRS. Barring further mishaps, we expect approval shortly.

In regard to fixed-benefit formulas, the situation seems to be a little confusing. The law and regulations all seem to be oriented to the money-purchase formula, and it is with this in mind that companies have developed flexible contracts, riders, or split-funding procedures. If the fixed-benefit formula had been known to be acceptable without question and desirable, much of this effort would not have been expended. It is clear that under the fixed-benefit approach in the typical situation where the owner-employee is older than his common-law employee(s), a smaller proportion of the total contribution would be contributed on behalf of the common-law employee than under the money-purchase approach. At least three companies have had fixed-benefit formulas approved but I wonder if the Treasury may not impose some restrictions so that there would be less difference in the contributions between the fixed-benefit and money-purchase approaches.

ANGUS L. CRAWFORD:

In connection with the California Medical Plan, there was very little difficulty obtaining Internal Revenue Service approval. It had first been proposed that all contributions on behalf of employees would go to the group annuity, while the self-employed would have the right to select the investment media between the group annuity and mutual funds. Isadore Goodman took the position that this would be discriminatory, relying on Revenue Ruling 61-157, which states in connection with profit-sharing plans, where there is more than one investment medium, that either all individuals have the same choice or all contributions are allocated in this same manner. The plans that we have worked on have been money-purchase type, with the employer contributions optional up to 10 per cent of annual salary.

While Treasury Department approval does not appear difficult to obtain, one soon finds that there are many other government regulatory bodies possibly involved. In the California Medical Plan, the individual has the right to select all or a portion of his contribution to be placed into a mutual fund. Inherent in the concept of an H.R. 10 plan is the reinvestment of any dividends in such fund. After the plan was established, a twenty-five-cent-per-dividend charge made by the mutual fund for automatic reinvestment posed a problem. In order to obtain clearance to do business in California, the particular mutual fund had signed a covenant with the Corporation Commissioner of the state that they would not have automatic reinvestment of dividends unless the individual had thirty-five or more shares. This was to prevent the twenty-five-cent charge from being excessive when viewed as a loading. A representative of the Medical Association flew from Chicago to New York to meet with the mutual-fund trustees and mutual-fund representatives. At this time, the mutual-fund trustees indicated they would be glad to waive the twenty-five-cent charge in this case, except they feared future trouble with the New York State bank examiners. The mutual fund would be glad to waive the charge, except they felt there would be discrimination in the eyes of the SEC, and someone suggested that all small accounts be put in the other mutual fund, which did not have such a loading. This, we knew, would be opposed by the Internal Revenue Service as discriminatory. In the meantime, automatic reinvestment would be violating the covenant with the California Corporation Commission. A liberal estimate of the number of accounts which will have less than thirty-five shares as of the first dividend date is somewhat less than fifty. At twenty-five cents apiece, the $12.50 charge is causing an unwarranted administrative expense and headache.

One other interesting private-ruling letter in connection with H.R. 10 plans is that if no owner-employees are covered, then it may be optional on the part of the self-employed owning 10 per cent or less of the partnership to join or stay out of the plan, as they see fit. It is clear in the Regulations that if one owner-employer is covered, then all nonowner self-employed must also be included.

DANIEL F. McGINN:

1. *Individual policies.*—So far we have filed only one prototype annuity plan. We filed our plan on November 1, 1963, and obtained approval on January 27, 1964. Our plan was reviewed successively by several re-

viewers who required minor word changes and who seemed to disagree with each other in their interpretation of minor aspects of the plan.

2. *Benefit formulas.*—We have not considered any form of fixed-benefit formula. The only practical formula from our point of view seems to be a money-purchase type in which the contribution level is essentially "x per cent" of earnings—established to reflect that the maximum employer contribution may only be $2,500—under our plan. For example, where the earnings are $25,000 the per cent may be 10 whereas the per cent might be 5 if an employer's earnings were $50,000.

3. *Group contracts.*—A consulting actuary has been involved in each case which we have underwritten. As a result, the association has coordinated the plan development and filing of the master plan with the consultant and its attorneys. In each case, the plans seem to have the following principal features: (*a*) split-funding (annuity phase and equity phase); (*b*) money-purchase benefit formula; and (*c*) voluntary contributions.

C. What information regarding H.R. 10 features must be obtained on applications or special administrative forms? To what extent should information be required as to qualification of the plan? To what extent should a life insurance company take responsibility as to whether the employer makes correct contributions from year to year?

ELMER R. BENEDICT:

A variety of information could be requested, but how much of it is a *must* is debatable. The most important information to obtain would be to the effect that an H.R. 10 plan has been or is concurrently being established and that it is qualified. My own company's supplemental H.R. 10 form requires a statement that the contract is applied for in connection with a plan established in accordance with the provisions of the Self-employed Individual's Tax Retirement Act of 1962 and provides for checking whether or not it is one of our prototype plans. In keeping with our practice not to code a policy as qualified or to pay the special tax credit unless we have proof of approval, the form also provides for checking whether the IRS Letter of Determination is "Enclosed," "Previously Furnished," or "To Be Furnished," together with a note to the effect that until a copy of the Letter of Determination is furnished us lower dividends will result.

The March survey showed that ten of the twenty-one companies required evidence of qualification. At least two companies, including my own, make the payment of the tax credit contingent upon the receipt of such proof.

Additional information can, of course, be obtained; none of it, though, is as vital and some of it is perhaps actually undesirable since it would either make the underwriting process unduly burdensome and/or place the insurer in the position of having information which might impart to the insurer responsibility for the approval or qualification of a plan. Questions on multiple ownership, very detailed questions on earnings, employee's length of service, and so forth, could fall in this category. On the other hand, once the IRS criteria are established, it may very well be desirable to obtain additional information to determine whether or not the 30 per cent rule applies, that is, whether capital is a material income-producing factor.

With regard to the last question under C, I think it is impractical and certainly very unwise for an insurance company to take any responsibility for the correctness of contributions. Prototype plans, of course, should be carefully constructed and phrased to anticipate a variety of situations and to make them lucid to the owner-employee. If this is properly done, there should be no real problem here.

ANGUS L. CRAWFORD:

In the case of any Association plan, we feel definitely that the responsibility of the correct contribution must be left with the individual self-employed. The qualification of the individual's participation in the plan has been left to the individual, supplying him with the proper form.

It is at this time that the Internal Revenue Service will check on whether the individual controls any other business which would also have to be brought into the plan. This did not seem to be a function of the Association and has been left for determination by the Internal Revenue Service at the time the individual files for his personal qualification.

In dealing with an Association group, however, very carefully worded letters must be sent to the members or there can be great confusion and added correspondence. The California Plan was designed initially to be as simple as possible, with the thought that later improvements after the administrative details had been worked out could be initiated. For one thing, the plan provides for no optional employee contributions at this time.

DANIEL F. McGINN:

1. *Individual policies.*—We are requiring a copy of Form No. 3673 (application for participation in the prototype plan), an executed copy of the plan, together with our regular application forms for the annuity policies. These forms represent our evidence that the applicants fully intend that the plan be "qualified" and are necessary for our P.T. policies with their special rates and dividends. We are also asking for a photostatic copy of the formal approval from the IRS. To ensure our getting a copy, we have established a follow-up system with our agencies.

We have taken the position that it is the employer's responsibility to always act in accordance with the prototype plan.

2. *Group contracts.*—As a standard procedure we require evidence of a qualified plan. In most instances we require a photostatic copy of the IRS Letter of Determination. Since the trustee is the administrator of these plans, we act in accordance with the directions of the trustees and do not require any evidence from the trustees as to the participant contributions which we receive. In fact, under each of the plans which we have underwritten, we do not have any identifying information regarding any of the participants until death, disability, or retirement.

D. What changes seem desirable in the restrictive provisions of H.R. 10 with respect to (1) the limits on contributions and the deduction of contributions of the self-employed; (2) vesting requirements; (3) use of existing contracts; (4) and the 30 per cent rule for income earned on capital?

ELMER R. BENEDICT:

1. Under H.R. 10 plans where contributions are currently made on behalf of common-law employees, I can see no justification for not allowing the full contributions made on behalf of owner-employees to be deducted just as they would be in an analogous corporate plan. Where no contributions are being made currently on behalf of anyone other than owner-employees, a higher proportion than the present one-half, if not the full amount of the contribution, should be deductible. I also think that the $2,500 maximum limit should be increased.

You know that H.R. 10 is sometimes referred to as "H.R. 2½," because, when first proposed around ten years ago, the original limit was $10,000 and this was reduced to $2,500. In addition to the justice of this and consistency with the corporate approach, it would have the incidental advantage of minimizing the anomaly now present when the profit-sharing approach is used, which I have cited earlier. As to the likelihood of such liberalizations, I can only speculate.

2. As you know, the requirement of full vesting, the effect of which is aggravated by the further requirement of covering all employees with three years or more of service, is much stricter than that required under corporate plans. There would seem to be no sound reason for different vesting requirements between corporate plans and H.R. 10, and I expect they will probably converge in the future. I think it more likely that this will take the direction of stricter vesting requirements under corporate plans rather than any significant liberalization of vesting under H.R. 10. Too much pressure to liberalize these requirements under H.R. 10 may accelerate stiffer requirements in the more important areas of corporate plans.

3. As of the March survey none of the twenty-one companies, including my own, permitted the use of existing contracts.

The ALC-LIAA submitted a proposed method whereby existing contracts could be brought within the H.R. 10 context. The proposal was that the value at the time of transfer of the contract to an H.R. 10 plan would be "walled off" by treating it as though it had been applied under the paid-up nonforfeiture option. The paid-up part would increase in value in accordance with the contract itself and would not be subject to the terms of the plan or to the H.R. 10 tax treatment. So far the Treasury has shown no inclination to accept this proposed approach.

The use of pre-existing contracts has been precluded by the section in the law which says that contributions of property other than money to a trust is a prohibited transaction. This construction could extend to custodial accounts also. However, it seems that a case can be made that it does not apply to direct-purchase plans where there is no trust or custodial account. Accordingly, our Counsel has taken a position that these existing contracts could be used. However, if they are used, we will not pay any special tax credit on account of these reserves; nor do we see any way to do so, since to obtain the Section 805(d) tax treatment for reserves the contracts must have been purchased under plans which were *then* "qualified." To the best of our knowledge we have not had any existing contracts placed under H.R. 10.

If this construction of the law is correct, it would seem only fair to extend this same treatment to trusts and custodial accounts, permitting the self-employed to at least receive tax credit for his premiums. The other change is, of course, to allow the tax credit on the reserves, perhaps along the lines of the ALC-LIAA proposal. Any attempt to isolate part of the reserve under a policy for tax credit is going to lead to considerable administrative complications.

4. The 30 per cent rule is another rule which should be changed. To be sure, some fairly simple rules are needed here for administrative simplicity, but the present rule is too unrealistic and unfair and is based on the erroneous assumption that small businessmen always receive a substantial return on their investment capital, which is probably considerably at variance with the facts in the vast majority of cases.

The incomes of many of these self-employed persons who will come under the 30 per cent rule are barely reasonable compensation for their services, let alone providing a decent return on their investment. Fortunately for the professional person, the tools required to carry on a profession will not be deemed to be capital for the purposes of this 30 per cent rule. But this still leaves a vast undefined area.

ANGUS L. CRAWFORD:

Undoubtedly, the greatest objection to the H.R. 10 statutory provision is the limitation on the deduction of the contribution by the self-employed. Basically, the professional man is more and more realizing his obligation to provide retirement benefits for his employees, and this does not appear to be a major hurdle in signing up the individual self-employed. Therefore, any liberalization in the law which makes it more attractive for the self-employed to be covered under an H.R. 10 plan will undoubtedly increase the number of employees who will be provided this retirement protection. In California, many individual doctors cover as many as three employees.

DANIEL F. McGINN:

Individual Policies and Group Contracts

1. *Limits on contributions and deductions.*—I think that the most important change which should be made is to allow a full deduction of the employer's contribution on his own behalf. In addition, the maximum employer contribution to the plan should be substantially liberalized. Under the current law, there is only a modest incentive for an employer to establish an H.R. 10 plan unless he has no eligible employees. If an employer has more than one or two eligible employees, it will probably be too costly to establish a plan.

Of course, the taxation of lump-sum distributions at retirement is not as favorable as it is under a corporate pension plan. I seriously doubt that this treatment will be improved in the foreseeable future.

2. *Vesting requirements.*—The rigorous vesting requirements undoubtedly will convince many employers that they cannot afford an H.R. 10 plan. The solution would seem to lie in merely allowing the self-employed to establish normal vesting of benefits. The current law "builds-in" a fairly liberal "cash severance" plan where individual policies are involved.

I have no comments on items (3) and (4).

E. What is the market potential of H.R. 10 plans? How have these plans been received by the field force? To what extent has it been necessary to train the field in the complexities of this law? With what degree of success?

ELMER R. BENEDICT:

According to the 1963 Statistical Abstract of the United States, there are over six million self-employed persons in nonagricultural employment and over two million self-employed workers in agriculture. Now, of course, a very large number of these, particularly agriculture workers, are not real prospects for a pension program such as this; nevertheless, this still leaves a very sizable number. Some of the professional groups are, as you all know, hoping to take the corporate rather than the H.R. 10 route because of the obvious advantages of the former. Just a few weeks ago Rhode Island joined the more than thirty states which since 1960 have enacted legislation to permit professional groups such as doctors and lawyers to form corporations or associations which are taxable as corporations.

However, the Treasury has indicated that it will formulate its own rules to decide whether a professional group qualifies for corporate tax treatment and will not automatically treat them as corporations "merely because the organization is so labeled under local law." Apparently there is no immediate prospect for the issuance by the Treasury of their final rules on professional corporations. If these professional corporations do receive corporate tax treatment, this will reduce sharply the potential H.R. 10 business, particularly among some of the best prospects. Another factor which will influence the amount of H.R. 10 business and the basis on which it will be written is the SEC's proposal to exempt group variable annuities from the 1940 Investment Act.

Until some liberalization is made in the restrictive provisions of H.R. 10, such as those we have just finished discussing, I feel that we will not make a real dent in the self-employed market. The amount of business issued here on the individual policies has been quite small, and, while we would expect it to pick up toward the end of the year, I doubt if it will begin to touch the amount that we could expect to issue if the restrictive positions of the law were liberalized and if the IRS succeeds in denying corporate tax treatment to professional corporations formed under Kintner type legislation.

These plans have been received by the field forces with enthusiasm, not only per se but because they serve admirably as a door-opener. It has, of course, been necessary to acquaint the field with the provisions of the law and the contracts and riders which are available. Where this material has been properly furnished to the agent, we have had a great deal of success and very little difficulty. On the other hand, we have had cases submitted by agents who have not troubled themselves to read any material, and these have caused some difficulty.

ANGUS L. CRAWFORD:

In spite of the discriminatory tax treatment of the self-employed's contribution, there does seem to be widespread interest in the medical field for this type of coverage. It will grow slowly, as it is a major step for a small partnership to undertake a retirement program. In California, approximately one and one-half per cent of the practicing physicians joined in the last two weeks of the year. Interest during this year is again picking up, and we can expect a steady growth of membership in this plan.

It might be of interest to note that in the California Medical Association Plan the average age of participating doctors is 47, compared with an average age of practicing physicians in the state of 43.7. It has been expected that many who were close to or over age 59.5 might join, since their funds would not be tied up or they would be tied up for a relatively short period of time. The closeness of the two average ages indicates the fact that many of the younger men also have an interest and will actually make a contribution to provide for their own security many years in the future.

DANIEL F. McGINN:

1. *Individual policies.*—Our agents believe that there is a great market potential, but they fear the large "association-type" master group plan may seriously reduce their market. Personally, I believe that many of the professionals who are eligible for an association plan probably will prefer their own individual policy plan—if they feel that the personal services provided by the agent are worthwhile and the individual policy provides benefits reasonably similar to those available on an association basis.

Our agency force has been reasonably enthusiastic about our prototype plan, *but* the minimum premium requirement has been a slight handicap. We have prepared a "self-contained" salesmaker which provides a step-by-step outline—with examples—of how to calculate premiums, benefits, term costs, and so forth, under our plan. It is too early to determine how successful our approach really is. The response so far has been fair. Of course, since the bulk of pension activity usually occurs in the latter part of each calendar year (because the tax year for most employers is a calendar year), we probably will not really know how well our plan has taken hold until September or October.

2. *Group contracts.*—In each instance where our agents have asked us to underwrite an association-type case, we have pointed up that we could not consider such a case unless (*a*) the associations were a well-established, strong organization with a fully staffed central office and (*b*) the association office would perform all the solicitation, sign-up, and so forth, required.