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RETIREMENT INCOME PLANS TOPIC OF DES MOINES MEETING

by T. A. Hinchliff

Lloyd A. Wooldridge of the Bankers Life agency in Des Moines was guest speaker at the December 1968 meeting of the Actuaries' Club of Des Moines. Mr. Wooldridge, formerly a Trust Officer with a large Des Moines bank, spoke about retirement income plans. His remarks focused on three issues: (1) pension vs. profit sharing; (2) insured vs. uninsured; and (3) individual vs. group.

Mr. Wooldridge suggested the primary advantage of the pension over the profit sharing arrangement was that the pension provided for a definite benefit. He tempered his preference for the pension approach by explaining that the suitability of the pension or the profit sharing method for a given group depended upon the nature of the employees making up the group. The natural candidate for a profit sharing plan was in his estimation a young, dynamic, salaried group with an average age in the early thirties.

The profit sharing approach has been advocated as having the advantages of increasing employee incentive and reducing turnover, but Mr. Wooldridge questioned whether these advantages materialized. The requirement of full vesting of benefits after 10 years of service on profit sharing plans has tended to promote turnover. Also, employee misconceptions of why their allocations differ from year to year or why the value of their funds may decrease due to market fluctuations have in many instances created adverse sentiment among employees.

In resolving the issue of "insured vs. uninsured" plans, Mr. Wooldridge discussed two key measures of a plan, namely, administrative expense and investment return. Drawing on his experience as a Trust Officer, he enumerated several unique problems banks have in managing investment accounts.

One problem arises in exercising central control over a great volume of individual trust accounts involving differing investment objectives. A second problem is the "red tape" involving approval of investment recommendations. A third problem results from the influence the commercial department of the bank may bring on investment decisions in order to maintain good relations with current and prospective clients.

Attracting and holding good people is another problem of the department. Here the difficulty stems from the fact that historically trust departments have not been extremely profitable. This in part results from the practice of charging bank fees which do not reflect the costs of investment management. The last problem mentioned by Mr. Wooldridge was that bank and management people must devote too much time to non-trust duties.

He conceded that the purely investment costs might be less for a bank, but contended that the costs the client must pay for document drafting, employee communication material, and actuarial work more than offset this cost advantage. By comparison, the administrative expenses in the insurance company are coordinated under a single operation with the resultant lower overall cost to the client under the insured plan.

Mr. Wooldridge asserted that insurance companies can offer a higher investment yield on fixed dollar investments primarily because of the "direct placement" method of making investments. He also said that insurance companies are doing better than banks in the equity field since bankers are generally more conservative in this area.

Concerning the issue of "individual vs. group" Mr. Wooldridge said the individual approach is more flexible but also more expensive. He sees a trend toward more and more group since employers are quite cost conscious.

In the discussion that followed Mr. Wooldridge's remarks, it was pointed out that little reliance should be placed on simple comparisons of investment yield rates between banks and insurance companies because the methods of valuing assets in banks and insurance companies are different. In addition, the contention was made that the best yield rate in the first three or four years does not indicate the best long run rate.

In answer to a question, Mr. Wooldridge asserted that profit sharing plans definitely need a lifetime payout mechanism if the retirement funds are sufficient to provide reasonable incomes. It was his contention that most retirees want annuities. □

ACTUARIAL MEETINGS

Mar. 4, 1969, Actuaries Club of Philadelphia.

Mar. 13, 1969, Baltimore Actuaries Club.

Mar. 19, 1969, Actuaries Club of Des Moines.

Mar. 27, 1969, Actuaries Club of Hartford.

Apr. 10, 1969, Baltimore Actuaries Club.

Longevity

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denoting a temperament characterized by alternating moods of elation and depression. Noted cyclothymes were James Boswell, George Fox, the founder of Quakerism, Goethe, Robert Mayer who discovered the law of conservation of energy, Dr. Johnson and Dickens. Isaac Newton at the age of 50 suffered from a mental disorder characterized by depression and delusions.

In Quint and Cody's study "Men of Letters" (authors, writers, critics and historians) gave a relative mortality ratio to the whole group of 122%. Lord Brain commented that "all creative writers are nervous." He took the 150 poets represented in the Oxford Book of English Verse born between 1700 and 1862 and noted that their average age at death was 70 and concluded that their longevity did not differ significantly from that of the general population.

Let us conclude with a tribute to men of genius who have enjoyed longevity. Verdi composed his opera Falstaff at the age of 80. Edison took out his 1033rd patent at age 81. Oliver Wendell Holmes, Jr. was still active on the U. S. Supreme Court at age 90. Titian painted his final masterpiece "Christ Crowned with Thorns" in his 95th year. □

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