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LIFE INSURANCE COMPANY PENSION PLANS

A. As a consequence of inflationary and other influences, what changes have been made recently in life insurance company pension plans including agents' pension plans?
   1. For individuals already retired.
   2. For credits to active employees.

MR. B. R. POWER presented what he termed a bird's-eye view of what has been happening in Canada. He queried 14 of the larger Canadian companies regarding any modifications made in their pension plans within the last five years as a result of inflationary or other influences. The replies from all 14 companies relate only to pension plans covering their administrative staffs.

Although there was considerable variation among the plans, they were grouped according to the type of pension plan in effect five years ago, and changes made during the intervening years were noted as follows:

Six companies had *money purchase plans* in effect five years ago. These plans were principally of the orthodox type under which employees contributed 5% of salary and the company a like amount. At least three of these plans granted employees the option of making limited additional contributions, such additional contributions to be matched by the company in each case. The changes made by these six companies are as follows:

1. Three companies have made no changes during the last five years, although one of them had just a year earlier raised both the company and employee contribution rates. Another company uses funds released when employees terminate their employment at least in part to supplement the pensions of currently retiring employees.

2. One company that previously matched the employee contribution now makes a uniform contribution of 13% of salary regardless of the amount contributed by the employee. It has also liberalized the vesting provisions of its plan and is paying cost of living bonuses to retired employees. On the other hand, the conversion factors used at retirement age have been made more realistic which, of course, is an offsetting factor for current retirements.

3. One company has raised the maximum salary on which additional contributions may be based from $210 per month to $350 per month. Again, however, the conversion rates have been made more realistic hav-

ing the effect of reducing the pension for a given accumulation of contributions.

4. The last company in this group has altered its plan completely to one of the salary service type in respect of the company's contributions. Employee contributions are still accumulated on the money purchase basis. This new plan was adopted in 1948 and the company is giving some thought to further changes due to the current inflationary trend.

Six companies had *salary service plans* in effect five years ago. The provisions of the individual plans varied widely. The following modifications have been made during the last five years:

1. Three companies have made no changes in the pensions payable to either active or retired employees but in at least two cases pensions are based on final average salary.

2. One company has incorporated cost of living bonuses into salaries for pension purposes so that both pension credits and contributions are now based on total remuneration. No change has been made in pensions paid to retired employees.

3. One company has introduced a vesting provision and has waived for the time being a feature of its plan which provided for the deduction from pensions of any social security or Government pension benefits.

4. One company permits its employees to make additional optional contributions in excess of the required 5% of salary. In addition, the company's contribution after 20 years of service has been increased.

One company did not describe the type of plan it had in effect five years ago, but in 1948 adopted a completely revised plan of the salary service type in which pensions are based on average salary during the ten years preceding retirement.

Another company originally had a pension trust type of plan in effect under which retirement income policies were issued to employees at net rates for amounts depending upon length of service, with the company paying a share of the cost. In 1949 a modified form of salary service plan was established based partially on the salary for each year of service and partially on the average annual salary during the ten years preceding retirement.

MR. I. G. ROTH stated that the Metropolitan has had a retirement plan for its employees and agents since 1925. Basically, the plan presently provides for U.S. contributors current service Retirement Annuity benefits of approximately 1% of the individual's first $3,000 of annual salary or earnings, and 2% of the amount in excess of $3,000 a year.

Because of the substantial increases in the level of salary or earnings, the prior service annuity credits for U.S. contributors under the company's retirement plan were liberalized in 1950. Pensions of people already retired were generally increased by 20% of the first $100 a month of pension and 10% on anything above that. For those in active service the formula used was related partly to average earnings between 1946 and 1949, partly to length of service prior to 1946, and partly to the annuity credits that had been accumulated to the account of the individual for service up to 1946. The amount of increase in every case was at least equal to 20% of the first $100 a month of retirement annuity credit accumulated up to 1946, plus 10% of the amount in excess of $100 a month. This liberalization was carried out at no cost to the individual.

MR. H. F. ROOD stated that since agents came under social security about a year ago, those agents who were in the lower income brackets could very well receive more income after retirement under the Lincoln National's retirement plan than they were earning before that time. In addition to a basic social security benefit and the benefits of the pension plan, they would still be getting renewal commissions on business sold prior to retirement. Therefore, the company reduced the agent's contribution by approximately $50 a year and reduced the benefits to some extent to make the retirement plan fit better into the income before retirement.

MR. W. M. ANDERSON noted that the Canadian tax law operates in such a way as to encourage employee contributions. Employee contributions to an approved plan are fully exempt from income tax up to certain limits. On the other hand, the pensions themselves are taxable in full when they are paid.

MR. R. C. GUEST remarked that a peculiar problem arises under agents' retirement plans due to continuing renewal commissions after retirement. Logic almost requires that the pension under these circumstances should be something in the nature of a deferred increasing annuity.

With regard to Home Office pension plans, one of the major problems today is that of providing adequate pensions for those employees who join the company at older ages. Generally, when an employee changes companies, he loses all equity in his pension plan. This problem will be eased by incorporating stronger vesting features in company retirement plans.

MR. H. A. GROUT stated that the John Hancock amended its retirement plan a year ago in an attempt to bring it more in line with current conditions. Basic yearly pension credits for active employees now are 1% on the first $3,600 of salary and 2% on the excess over $3,600. A further pension credit was added at the full expense of the company equal to 1% of the total salary earned during the last ten years of service prior to retirement but in no case for service prior to age 50.

MR. R. M. PETERSON expressed some concern with regard to pension plans based on final salary. They in effect underwrite future inflation and it will be extremely difficult, if not impossible, to reflect proper liabilities in the annual statement. Mr. Peterson prefers the fixed type of plan with the company doing an occasional repair job to bring it up to date. Under this situation the company has more direct control and can make better estimates of future costs.

MR. THOMAS IRVINE outlined the practices with respect to agents' pensions of 28 companies which operate in New York State. All of these 28 New York companies have pension plans for agents of which 21 plans are contributory and 7 noncontributory. Of the 21 contributory plans, 17 express the agent's contribution in terms of percentages of total income. The remaining 4 companies have adopted formulas which tend to throw greater weight on renewal business.

It is surprising to note that only 4 of these plans are integrated with social security. Another interesting point is that 8 plans limit or restrict benefits with respect to the higher income brackets.

In 13 of these 21 contributory plans, the company matches the agents' contributions. The remaining companies determine the company's contribution by a different formula. There is no vesting of the company's contribution in 9 of these 21 contributory plans. Among the remaining 12 companies, vested rights range from full vesting of the company's contribution when the agents' contributions amount to $200 or more, all the way to one-third vesting after 15 years of service, two-thirds after 20 years, and full vesting after 25 years. Six companies start to vest after 10 years of service or participation in the plan.

Only six plans provide any vesting rights in the event of death. However, this fact is not of much significance without some evaluation of other death benefits. Twelve companies specifically provide for more liberal treatment in the event of total and permanent disability.

Seven of the 28 companies provide noncontributory plans on a variety of bases. All but one are in lieu of service fees or service fees and renewal commissions. Two companies provide some vested rights in the company's contributions. Two companies permit the agent to purchase supplementary annuities at favorable rates. Two companies limit or restrict benefits in some way in respect to the higher income brackets.

Eight of the 28 companies reported changes which were instituted during the past 2 years. Two were minor adjustments resulting in smaller benefits to the agents. Four companies removed or liberalized the restrictions relating to the higher income brackets. Four companies integrated their plans with the new social security laws. Three made more general liberalizations. One company, for example, changed from a contributory to a noncontributory plan with more liberal vesting provisions.