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DIGEST OF FORUM ON OLD AGE BENEFITS

MR. C. A. SIEGFRIED in opening this part of the program characterized the matter of pensions and old age benefits as one of the most challenging issues facing the people of the United States and Canada. He explained that the objective of the forum was to bring together basic factual material and to discover a good cross section of actuarial thinking in this field.

MR. R. J. MYERS said that, in the United States, governmental retirement income plans are divided into three major segments: the old age and survivors insurance system covering workers in industry and commerce, the railroad retirement system covering railroad workers, and various governmental plans for government employees. As to the third, there is a wide variety of plans for state and local government employees and principally the Civil Service Retirement program for federal employees.

His remarks dealt almost entirely with the old age and survivors insurance program, which is by far the largest of the three parts and which has not been materially changed in the past decade despite the changes in the economic pattern of the country. He explained that the Civil Service Retirement plan has been considerably changed in the past two or three years and now is a very liberal and thus relatively costly program. The Railroad Retirement plan was recently modified slightly (by roughly a 20% increase in benefits) to allow for the changes in cost of living and wage rates that have occurred in the past decade.

He stated that under the old age and survivors insurance system there are now over 2.8 million persons receiving monthly benefits at an annual rate of over $700 million. About 2.0 million of these persons are over age 65; in addition, about 1.0 million persons age 65 and over are eligible for benefits but are not receiving them because they (or their husbands) are in covered employment. The average monthly benefit for a retired worker alone is about $26, while if an eligible wife is present it is about $40. A very considerable trust fund has been built up over the 13 years of operation of the system, representing the excess of income from contributions, along with accumulated interest, over outgo for benefits and administrative expenses (which are currently running at a rate of about $55 million per year). At the present time this trust fund is about $12¼ billion.

Mr. Myers said one very interesting recent development has gone virtually unheralded, namely, the contribution rate under OASI, which had been at a rate of 1% on employers and 1% on employees for the first 13 years of the system, quietly went up to $1\frac{1}{2}\%$ each in January. Under the $1\frac{1}{2}\%$ tax rate, the contribution income will amount to over $\$2\frac{1}{2}$ billion per year, while benefit payments will be roughly $\$\frac{3}{4}$ billion, leaving excess income of about $\$1\frac{3}{4}$ billion to augment the trust fund. Possibly a major reason for the increase in the tax rate coming into effect is that Congress believes that the program will be materially liberalized this year, so that the increase may be necessary both on fiscal and on psychological grounds.

Commenting on H.R. 6000, he pointed out that in the public hearings before the Senate Finance Committee a wide variety of views was presented. The Administration recommended more complete coverage (principally by bringing in farmers and farm workers), increasing the maximum wage base to $4,800, maintaining the present 1% increment, paying somewhat bigger benefits to middle and higher income workers, providing for easier eligibility for benefits, and providing somewhat more liberal disability benefits. A number of State public assistance administrators testified and almost universally recommended farm coverage under the OASI program. Many others, such as business and insurance representatives, likewise strongly urged farm coverage, as did also a number of the farm organizations; however, some members of the Committee stated that they had had few requests for coverage from individual farm area constituents.

The labor organizations in general testified for an expanded program somewhat similar to the Administration recommendations, although there were a few unions which came out in favor of far greater liberalizations, such as, for example, having a minimum benefit of $100 per month or more.

Representatives of business organizations presented diverse recommendations, but in general were in favor of maintaining the present $3,000 wage base, paying somewhat bigger benefits to middle and higher salaried employees, eliminating the increment, and not adding total and permanent disability benefits. The American Medical Association also testified against disability benefits. The arguments were presented not only that disability *insurance* monthly benefits could not be administered successfully and rather that any hardship due to disability should be met by public assistance, but also that the problem as to disabled workers should be handled through a vigorous rehabilitation program. In this connection, however, the viewpoint was stated that it might be desirable to have a "waiver of premium" type benefit to protect the insured status and subsequent benefits of disabled workers.

Other specific views of the life insurance industry apply to certain detailed provisions. Under H.R. 6000, full-time life insurance salesmen are covered as "employees," although they are not thereby to be considered to be employees for other purposes. Official representatives of the life insurance industry stated that this provision was satisfactory, although there might be administrative difficulties as to part-time employees. In addition, opposition was expressed to the provision extending the lump-sum death payment for all insured deaths (under present law, this payment is made only where no immediate monthly benefits are available).

There were also a number of witnesses who were opposed to the basic concept of the OASI system. These ranged from the Townsend supporters, whose goal is $200 per month for all 60 and over, to those in favor of the social budgeting approach with flat amounts of $25–50 per month after age 65. Along these lines, the Brookings Institution expressed the belief that the system should be recast so as to pay only on a needs test basis, financed by a flat-rate individual income tax without exemptions.

During the course of the hearings, members of the Finance Committee were greatly interested in the reserve or trust fund problem and in the question of "double taxation." Further, considerable interest was expressed as to ways of encouraging employment among the aged, such as by giving them full benefits regardless of retirement or by paying larger benefits upon subsequent retirement. One novel approach suggested by a witness was to pay part of the retirement benefit which was withheld from the employee to the employer as an incentive to employ aged workers.

MR. H. E. BLAGDEN pointed out that United States insurance companies are performing a very important service in connection with group retirement income plans in the United States today. At the end of 1949 over 2,300 retirement plans were underwritten by means of group contracts. These plans covered almost 2,000,000 employees. The total reserves held under such contracts at the end of 1949 exceeded 3.7 billion dollars and the 1949 premium income was about $600,000,000. Increased attention has recently been brought to the subject of pensions, and the insurance companies are vigorously expanding their activities in the field of group retirement plans.

He then described the three fairly distinct kinds of group retirement income contracts which insurance companies are currently offering, *viz.*,

(1) Deferred Annuity Group Annuity Contracts,

(2) Deposit Administration Group Annuity Contracts,

(3) Group Permanent (Insurance and Annuity) Contracts.

He directed attention to two significant recent developments: (1) the decrease in group annuity rates by several of the large companies, and (2) the increase in amount of dividends payable on group annuities. The eight leading United States companies allocated about 5 million dollars for the payment of group annuity dividends in 1950. This amount is significantly higher than any previous allocation.

He submitted the following results of a questionnaire concerning the status of insured Group Retirement Income plans in the United States in 1949. This is based on replies from 17 companies out of 25 to whom the questionnaire was sent.

I. *Number of Companies Offering Each Type of Contract*

(a) Deferred Annuity Group Annuity	15
(b) Deposit Administration Group Annuity	
Contributory	12
Noncontributory	13
(c) Group Permanent (Insurance and Annuity)	9
(d) Individual Policy Pension Trust	13

II. *Analysis Showing Combinations of Contracts Currently Offered*

	Types of Contracts Offered Indicated by ×							
	1	2	3	4	5	6	7	8
Deferred Annuity Group Annuity	×	×	×	×	×	×	×	
Deposit Administration Group Annuity								
Contributory	×	×	×					×
Noncontributory	×	×	×	×				×
Group Permanent (Insurance and Annuity)	×				×			×
Individual Policy Pension Trust	×	×			×	×		×
Number of Companies Offering Only Types Indicated in Combination	6	3	1	1	1	1	2	2

III. *Premium Income and Reserves*

	1949 Premium Income	December 31, 1949 Reserves
(a) Deferred Annuity Group Annuity (Companies reporting—15)	$532,808,454	$3,465,854,910
(b) Deposit Administration Group Annuity (Companies reporting—7)	31,523,042	179,920,685
(c) Group Permanent (Insurance and Annuity) (Companies reporting—9)	18,361,354	52,697,170
(d) Total	$582,692,850	$3,698,472,765

IV. *Extent of Coverage at End of 1949*

	Number of Plans	Number Nonretired Employees Covered	Number Retired Employees Covered
(a) Deferred Annuity Group Annuity			
Contributory	1,640	1,459,184	75,358
Noncontributory	546	232,376	10,920
Total	2,186	1,691,560	86,278

IV. *Extent of Coverage at End of 1949*—Continued

	Number of Plans	Number Nonretired Employees Covered	Number Retired Employes Covered
(b) Deposit Administration Group Annuity			
Contributory	15	49,742	2,869
Noncontributory	18	58,380	3,708
Total	33	108,122	6,577
(c) Group Permanent (Insurance and Annuity)			
Contributory	107	42,441	494
Noncontributory	63	20,264	125
Total	170	62,705	619
(d) Totals			
Contributory	1,762	1,551,367	78,721
Noncontributory	627	311,020	14,753
Grand Total	2,389	1,862,387	93,474

V. *New Plans Underwritten in 1949*

	Number of Plans	Number Nonretired Employees Covered*	Number Retired Employees Covered*
(a) Deferred Annuity Group Annuity			
Contributory	102	28,713	86
Noncontributory	34	2,989	33
Total	136	31,702	119
(b) Deposit Administration Group Annuity			
Contributory	5	8,650	22
Noncontributory	3	2,335	0
Total	8	10,985	22
(c) Group Permanent (Insurance and Annuity)			
Contributory	18	6,220	9
Noncontributory	4	296	0
Total	22	6,516	9
(d) Totals			
Contributory	125	43,583	117
Noncontributory	41	5,620	33
Grand Total	166	49,203	150

* At end of 1949.

VI. *Analysis by Size of Coverage at End of 1949*

NONRETIRED EMPLOYEES	NUMBER OF PLANS						
	Deferred Annuity		Deposit Administration		Group Permanent		
	Contributory	Noncontributory	Contributory	Noncontributory	Contributory	Noncontributory	Total
Under 50	303	116	....	2	21	8	450
50 to 99	259	122	....	2	20	21	424
100 to 199	316	130	....	3	23	14	486
200 to 299	145	45	1	1	12	9	213
300 to 499	168	40	2	2	7	2	221
500 to 749	120	25	3	2	8	3	161
750 to 999	57	11	1	....	6	1	76
1,000 to 1,999	131	20	3	1	8	3	166
2,000 to 4,999	77	11	2	3	2	1	96
5,000 to 9,999	26	2	1	1	1	....	31
Over 9,999	28	3	2	1	....	....	34
Totals	1,630	525	15	18	108	62	2,358*

* This total does not include 31 plans which were included in reports forming the basis for Chart IV. The plans were excluded here by the reporting companies for one reason or another; for instance, some of the excluded plans cover only retired employees.

GENERAL NOTE: In some cases the report in Chart III excludes premium income and reserves on Canadian employees and the report in Chart VI excludes only plans covering Canadian employees entirely. Some reporting companies did not indicate on what basis plans covering Canadian employees were treated.

MR. R. A. WISHART said that until a few years prior to World War II the growth of trusteed pension plans operating on a reserve basis was quite slow when contrasted with the growth of insured plans. One of the reasons for this relatively slow growth of trusteed pension plans was that, prior to 1942, insured pension plans had an advantage in so far as income tax deductions were concerned, in that whatever payment was made to an insurance company for past service credits was fully deductible in the year of payment, but if the same payment was made to a trust the deduction had to be spread over 10 years. Another reason for the slower growth of trusteed plans and probably the most important was the fact that the trusteed plans had few, if any, salesmen. When a company adopted a trusteed pension plan it was not particularly to its advantage to publicize the fact. On the other hand insurance companies were actively soliciting this business and when an insurance company underwrote a pension plan this news made fine advertising copy.

He went on to say that along about 1939 as a result of inquiries from their corporate customers, banks and trust companies gave more study to the problem and generally came to the conclusion that the operation of a pension plan was much more of an investment problem than one of insurance. Having come to this conclusion, many of the large banks and trust companies established pension trust departments and, in the past few years, have become very active in soliciting pension trusts. In an endeavor to be on an equal basis with insurance companies in soliciting this business, some banks and trust companies make preliminary cost calculations of proposed plans.

So far as he knew, there is no up-to-date information giving the exact number of trusteed pension plans, the number of employees covered or the amount of assets held in trust. He has heard various estimates of the latter and, excluding governmental plans, they vary between five and ten billion dollars. A figure about in the middle of these two amounts is probably as good as any available. Of the companies now establishing pension plans where 1,000 or more employees are covered, he believed somewhat more than half are administered on a trusteed basis.

He felt that probably the most important factor currently affecting trusteed pension plans is the activity of the unions. Last July President Truman appointed the Steel Industry Board and the Board submitted its report to the President in September. The Board recommended that the United Steelworkers of America (CIO) withdraw its fourth-round wage demand and that employer-paid social insurance benefits and pensions be provided. With respect to pensions the recommendation was "that at the outset the cost be limited to $120 per year per employee or 6 cents per hour for a 2,000-hour year, and that the parties undertake to buy as much in pension benefits as this figure will cover." The Board then indicated, on the basis of the union's estimates of the cost of pensions, 6 cents per hour on a 2,000-hour year would produce about $70 a month, which when added to the average amount of monthly payment then payable under the Social Security Act would produce a total monthly income of somewhat more than $100 a month.

He pointed out that if a company is in negotiations on pensions and if the cost of pensions as well as the amount of the pensions is discussed, then on the basis of the initial costs generally quoted by insurance companies it is difficult to reconcile these initial estimates with those prepared by union representatives. Also, it is difficult for the average business man to appreciate how much money is needed to fund a pension plan and particularly difficult for him to appreciate the necessity for the seemingly high initial costs quoted by most insurance companies in the light of known facts today. For example, an interest rate below $2\frac{1}{2}$ percent or an expense loading with a factor for contingencies as high as 5 percent may not seem realistic for this type of business.

These may be some of the reasons why a great many of the recently negotiated pension plans, particularly for companies with large numbers of employees, are being set up for administration through the use of trusts rather than by the purchase of insurance company contracts.

He said that in connection with the recently negotiated pension plans some of the methods of financing which have been adopted leave considerable room for improvement. The first major steel company to settle with the union at the time of the steel strike last fall used a funding provision which called for payments by the employer in amounts which would be at least equal to the full reserve on pensions granted. Prior to 1942, this method of financing pensions was one that was frequently used. Under the rules of the Treasury Department at that time an employer was permitted to treat as fully deductible for any year an amount equal to the reserves on pensions granted during the year. The company which made this first settlement had, I believe, followed this method of financing its pension plan for many years. This fact, together with the possibility that the strike for pensions may not have been too popular with the union members, may have had a great deal of bearing on this particular settlement. Following this settlement, several other companies negotiated contracts which provided for financing pension plans under even less conservative methods, some even relying on a pay-as-you-go method. Not all recently negotiated pension plans, however, follow these inadequate methods of financing. A number of employers with large numbers of employees have adopted trusteed plans on a full reserve basis.

From conversations with union representatives, he said he believed the unions have a genuine desire to have their pension plans on a sound financial basis. He also believed that most leaders in industry would like to see pension plans on a sound financial basis.

In conclusion he said he felt actuaries have very little control over the method of financing adopted, particularly in connection with negotiated pension plans. However, whether or not his advice is acted on, anyone advising employers regarding the operation of a pension plan has, he believed, a responsibility to inform them to the best of his ability of the real cost of providing the pensions promised.

MR. W. D. MacKINNON explained that the role of individual annuities in providing old age benefits has been a changing one. Twenty years ago the problem of providing for income in old age was solved largely by the purchase of individual annuities either on the immediate or deferred plan with or without life insurance. Since then we have enacted Social Security legislation; we have witnessed a tremendous interest and expansion in governmental and private pension plans both on an individual and group basis with the result that many of the needs for old age income have been met through governmental or group methods rather than through the purchase of individual annuities. Some idea of the expansion in recent years in group annuities as compared with individual annuities can be seen from the fact that in 1941 there were 951,000 individual annuities in force providing for an annual income of $477 million. At the end of 1948 there were 1,195,000 of such contracts in force with an aggregate annual income of $571 million. This represented an increase over the seven year period of 20% by amount of income. Group annuities in force in 1941 were 966,000 by number of certificates representing annual income of $159 million. At the end of 1948 these had increased to 2,175,000 certificates for an annual income of $440 million, an increase in annual income of 176%. In spite of this much more rapid rate of increase in group annuities it will be noted that at the end of 1948 the individual annuities accounted for more than 56% of the total annual return from the two types of contracts. Hence individual annuities are still an important medium in providing for the needs of old age.

He stated that the rate structure for immediate annuities has been one of the most perplexing problems we as actuaries have had to face over the past two decades. The steadily downward trend in rate of interest coupled with the constant improvement in mortality has been very difficult to properly measure in the premium assumptions. The result has been a series of increases in premiums charged. The experience of one company's premium rates is typical of what has happened throughout the industry. Starting with premiums based on the American Annuitants Select Table of Mortality and 4% interest in 1929 this company has made six increases in premium rates for immediate annuities since that time. Four of these changes were due to a downward change in the rate of interest assumed, one was due to a change in the mortality basis and one was due to a change in both interest and mortality assumptions.

He said the fact that these rate increases have been necessary indicates the problems that exist in connection with contracts issued at the previous lower rates. Reserve strengthening programs have been adopted by practically all companies for these older contracts which have been quite a drain on the earnings and will continue to be so in the future.

While the rate problem is a perplexing one for immediate annuities it is even more troublesome in connection with the so-called retirement income contracts involving deferred annuities where the annuity mortality does not become a factor for many years hence.

Furthermore, there is no indication that we have yet reached the end in the matter of more conservative assumptions for premium rates. The

1937 Standard Annuity Table with various age setbacks which is in common use as a mortality basis no longer appears satisfactory as a measure of current mortality. Some basis which will take account of the improvement in mortality that has occurred since this table was prepared as well as the probable future decrease in mortality that is likely to occur is needed. A real contribution to the solution of this problem has been made by Jenkins and Lew in their paper "A New Mortality Basis for Annuities" (*TSA* I).

He went on to say that as actuaries we are also interested in another problem in connection with individual annuities, namely, the method of taxation for federal income tax purposes. The present basis of taxation which has been in effect since 1934 provides for a tax each year based on an amount equal to 3% of the cost of the annuity contract. The balance of the annuity payments are exempt until the aggregate exemptions equal the consideration paid, after which time the entire annuity payments are taxable. The theory back of this method was to attempt to divide the annuity payment into two portions, one representing an interest return and the other a return of capital, with the interest portion only being subject to tax. That the method has accomplished its objective is open to question.

He said the ideal method of taxation would be one which would tax only the income, and not the capital invested, on a basis which would be level throughout the life of the contract. The question of tax revision is now being given serious consideration and various suggestions have been made which would attempt to meet these objectives.

He pointed out that the field for individual annuities in providing for old age is still an expanding one and offers a satisfactory solution to this problem in the following cases:

(1) The individual who is self-employed, is not covered under Social Security and who has to provide through his own efforts for his old age income.

(2) The individual who *is* covered by Social Security only and who wishes to supplement that income through his own individual effort.

(3) The small employer who wishes to establish a pension plan for his employees where the number of employees does not make a group annuity contract feasible and who, therefore, is interested in a pension trust plan based on individual annuities.

It is in this last category that the greatest expansion has taken place in recent years and we have yet just scratched the surface in meeting this market. Many companies have developed special forms of individual retirement contracts for use in these cases and they have proved to be very popular. The companies, therefore, have an obligation in meeting this demand. In spite of the unfavorable results to date on account of interest and mortality assumptions and the difficulty of predicting the future of these factors, we should continue our efforts to solve this problem. It presents a real challenge to the actuarial profession.

MR. W. M. ANDERSON stated that in examining the present status of retirement plans in Canada, it is helpful to bear in mind some of the present and prospective population characteristics. At the present time the population is in the neighborhood of 13½ million, and the indications are that the population may increase by somewhat more than 1½ million during the fifties and by something under 1½ million during the sixties, so that twenty years hence Canada may expect to have a population of about 16½ million or possibly slightly more. At the present time there are about one million persons age sixty-five and over, *i.e.*, about 7½% of the total population. This percentage is expected to increase to slightly over 8½% ten years hence and to about 9½% twenty years hence. Of the population age sixty-five and over, about 60% are age seventy and over and this proportion is likely to increase to nearly 65% during the next twenty years.

He pointed out that currently the Canadian population age sixty-five and over is about 12% of the working age population. This percentage may be expected to increase to nearly 14% in ten years and to over 15% in twenty years. At the same time it may be observed that the working age population and the consequent labor force are not likely to vary significantly in relation to total population, the increase in the proportion of persons beyond age sixty-five being counterbalanced by a decrease in the proportion of the population comprising children below working age. He observed that this particular point is of added significance in a country like Canada which has a system of universal family allowances, since to some extent the rising impact of old age benefits upon the economy may be lessened by the decreased proportion of population in respect of which family allowances are paid.

He went on to say that at the governmental level old age benefits are presently dealt with through two general channels: (1) the Federal-Provincial scheme of old age pensions, and (2) the Dominion Government Annuities system. Old age pensions are available from age seventy on a means test basis, the maximum pension being $40 per month (of which federal funds provide three-quarters) together with such additional supplements as individual Provinces may provide. (The maximum supplement at present is a further $10, bringing the possible pension to $50 per month.) No satisfactory statistics are yet available as to the position of the scheme since the last adjustments in 1949, but the present position is one where the average pension now being paid is probably about $37 per month, the number of pensioners close to 300,000, and the costs in the neighborhood of $100 million in federal funds and close to $40 million in provincial funds. Probably close to 50% of the population age seventy and over are now receiving old age pensions.

Mr. Anderson further stated that through the Dominion Government Annuities Branch a system of voluntary annuities (both individual and group) is provided on a basis of realistic mortality, 3% interest and no

TABLE 1

DOMINION GOVERNMENT ANNUITIES

End of Fiscal Period	Individual Annuities		Group Pension Plans			Individual Annuities and Group Pension Plans Combined		
	Deferred	Vested		Deferred	Vested		Vested	
	Number of Contracts	Number of Contracts	No. of Plans	No. of Certificates	Pensioners	Number of Contracts	Amount of Annuities per Annum	Average Amt.
March 31, 1947...	63,504	36,415	612	70,996	2,339	38,754	$16,191,058	$418
March 31, 1948...	74,773	40,405	708	92,063	3,694	44,099	$18,919,715	$429
March 31, 1949...	80,583	42,641	809	113,645	5,423	48,064	$20,847,452	$434

Source: Annual Reports of the Dominion Department of Labour.

provision for expense (the operating costs of the system being paid from general taxation). According to the most recent figures available, about 50,000 persons are in receipt of vested annuities. About 10% of these cases are under group contracts and 90% under individual annuities, the great proportion of which annuitants would be age sixty-five or over. The average annuity being paid is about $37 per month and the total annual payments would exceed $22 million. In addition, the Annuities Branch has in force about 200,000 deferred annuities of which roughly 60% are under more than 800 group plans and 40% under individual contracts.

Turning now, he said, to the annuity business of the life insurance companies, there are about 25,000 vested annuities in effect of which about 20% are under group plans, 50% under ordinary annuity contracts, and 30% under settlement annuities involving life contingencies. Again it may be presumed that the great proportion of these annuities are in respect of persons age sixty-five and over. The total annual payments under these vested annuities are approximately $10 million. In addition, there are about 200,000 deferred annuities in force in the companies, of which about 60% are under about 1,200 group contracts and the other 40% are individual contracts. In addition to these, it may be assumed that a great many

TABLE 2

INSURANCE COMPANY ANNUITIES

End of Year	Individual Annuities				Group Annuities			
	Deferred		Vested		Deferred		Vested	
	Number	Annual Payment	Number	Annual Payment	Number	Annual Payment	Number	Annual Payment
1946...	63,105	27,274,991	9,825	4,180,831	78,836	56,962,099	2,962	1,098,003
1947...	68,303	29,580,097	10,448	4,502,733	101,606	81,261,698	3,676	1,383,416
1948...	73,284	31,320,732	10,964	4,740,021	117,695	103,949,888	4,555	1,835,718

End of Year	Settlement Annuities				Total for Annuities Involving Life Contingencies			
	Involving Life Contingencies		Not Involving Life Contingencies		Deferred		Vested	
	Number	Annual Payment	Number	Annual Payment	Number	Annual Payment	Number	Annual Payment
1946..	5,140*	2,210,846*	6,950*	3,350,000*	141,941	84,237,090	17,927	7,489,680
1947..	6,006	2,474,865	7,055	3,564,613	169,909	110,841,795	20,130	8,361,014
1948..	7,157	2,834,057	7,160	3,779,091	190,979	135,270,620	22,676	9,409,796

* These figures correct in combination but breakdown estimated.

NOTE.—In September 1949 the Canadian Life Insurance Officers Association made a survey of the number of persons in Canada covered under insured pension plans (both group annuities and pension trust plans), excluding the insurance companies' own staff plans and cases providing only excess coverage over the $1,200 maximum offered under plans placed with the Dominion Government Annuities Branch. The survey showed a total of 126,946 nonretired lives and 3,730 pensioners.

Source: Annual Reports of the Dominion Department of Insurance.

of the individual life insurance policies now in force will be used in old age for annuity purposes through settlement options applied to maturity and surrender values.

He pointed out that the coverage under various self-insured pension plans is extremely difficult to estimate, since the statistical information is very meager. Canada has a gainfully occupied population of slightly over 5 million persons. About 55% of this total are employees of business enterprise, about 15% are employees of governments and nonbusiness organizations, and about 30% are self-employed or unpaid family workers. In the case of employees of business organizations, it has been estimated that roughly one-third (*i.e.*, about 900,000 persons) are covered under pension plans of various kinds. About one-quarter of these persons would be members of insured pension plans and about three-quarters members of self-insured plans. In the case of persons employed by governments, etc., there are probably as many as 400,000 who are members of pension plans practically all of which are self-insured. Accordingly, about one-quarter of the labor force, or roughly 1,300,000 persons, probably are members of pension plans of one kind or another. The number of retired persons under private plans is very difficult to estimate, but from an examination of the relationship of active to retired members in insured plans and the limited information as to pension incomes available in the Canadian Taxation Statistics, it may be surmised that about 75,000 persons are drawing pensions from private plans and that of these perhaps 15% have pensions derived from insured plans. The average pension now being paid from private plans is probably of the order of about $75 per month. He explained that even upon the extreme assumptions that there is no duplication of coverage and that all vested pensions and annuities are payable to persons at sixty-five or over, it may be concluded that considerably less than half the population in that age group are pensioners or annuitants, while barely 50% are pensioners, annuitants or old age dependents of such persons. In the age group sixty-five to sixty-nine, inclusive, not more than 20% would likely be pensioners, annuitants or dependents of such persons. On the other hand, in the age group seventy and over probably more than two-thirds would be in such categories, of whom about three-quarters, or 50% of the total, are old age pensioners under the national scheme.

Among the working age population as a whole probably not more than one-sixth would be members of pension plans or holders of deferred annuity contracts, and not more than 30% would be in these categories or adult working age dependents of such persons.

He called attention to the Special Parliamentary Committee which will sit during this current session of Parliament to consider the whole question of old age security in all of its phases, and to the expectation that the matter of a contributory scheme will be discussed in its constitutional aspects at the forthcoming Federal-Provincial Conference which will be convened next September.

He pointed out that various organizations in the field of business and industry, labor, politics, etc., have become increasingly interested and vocal in connection with the whole matter and that originally divergent views have been tending to coalesce. Government policy, as enunciated five years ago and recently confirmed, appears to favor at the federal level a universal pension of equal amount to all payable beyond a stated age, on a full pay-as-you-go basis financed by a special Social Security tax applicable on some very broad basis. While there may be some significantly divergent views as to method of finance of a contributory scheme, there is ample reason to believe that on the benefits side there are no very substantial bodies of opinion opposed to uniform pensions for all beyond a stated age. Conceivably such a floor, provided federally, might be supplemented in varying degree by particular Provinces because of regional economic differences. Undoubtedly a federal floor would lead to a substantial expansion in the number of private pension plans in operation, and might also be expected to have a significant effect upon the purchase of individual annuity contracts, whether from the government or from the insurance companies. Accordingly, the institution of a federal plan of this kind, even though very modest in benefit level, might be expected to result in a substantial solution of the whole problem of old age security in Canada.

MR. D. C. BRONSON in presenting a general review said, "Have you noticed the change in the complexion of the attitudes of many people towards the objectives and methods of Social Security? The stultifying effect of the subsidized grant—old age assistance, supported and encouraged with the federal bribe—is coming to be seen for what it is, a political football rendering the OASI system somewhat silly in comparison and underscoring the anomalies of the latter in its synthetic demarcations between who's in and who's out." More and more voices are heard, some from well-known actuarial throats, proposing a basic uniform federal grant for OASI including the present aged—with some for, and some not for, a contributory supplement thereto—and with a return of the Assistances to the localities where they belong and where they may be accorded some of these "decentralized decisions"—which comprise what Dr. Slichter calls our democratic essence.

He referred to Mr. MacKinnon's comment on individual policies being suitable for the small employer, and so they are—doing both the insurance job and the pension job for nongroup-sized cases. Now a lot of individual policy business has been sold in the past—especially during the war period —as the pension vehicle for rather large cases, some very large. For the employees this is an excellent medium, particularly where high vesting is present, but, as things are turning out, much of this business is not meeting the tests of time—the employer is finding high, rigid costs; a plan designed selectively several years ago for salaries over $3,000 (at that time, only the more "top" people) is finding *most* of the personnel becoming eligible, due to the pay inflations; the administrative machinery for large groups is slow and ponderous, accounts are not cleared for months after the anniversary; the medical underwriting does not help the case; the high vesting features are proving their cost; the large gaps between the ins and the outs, between the salaried and the wage earners, are becoming awkward.

These things are unpleasant for some companies and agents to hear but they are the things which we hear from employers who come to us—not we to them—seeking a way out. Some of them have gone into group—group annuities or group permanent—some into deposit administration, some into trust funds—all into something more flexible, something less costly, with fewer trimmings, something, in sort, less ambitious.

He referred to the apparent trend, temporarily at least, of utilizing the trust-fund method for union-management negotiated pension plans and pointed out the availability of insured group contracts to handle the semi-funding of the Bethlehem type—"single-premium-at-retirement method"—and of the insured methods for more advanced-funding types, like Ford. It just seems, however, that the employers, as well as the unions, are partial in these cases to the trust-fund basis. Now why is this so? Can it be that the employers are temporizing somewhat, experimenting with a new gadget that they fear to welcome as sufficiently permanent to entrust under contract with an insurer? Is their liability under the union agreement narrower than would be implied by an insurance contract? He said he was not weeping for the companies in these remarks for he thought the trust-fund method has its good points too, but he said he was seeking the basic reasons—which thus far escaped him—as to why so few insured arrangements have so far resulted from the many pension settlements.

You know, he said, it was prophesied that the Steel Industry Board's report would result in uniform industry-wide pension plans. Part of this prophecy is turning out slightly correct, *viz.*, the industry-wide part. But the individual plans and funding methods fortunately are being designed to particular circumstances, not all regimentedly uniform. True, as you have probably heard this morning, the Bethlehem settlement pattern has been widely adopted in the steel industry. But read the settlements, the proxies, the plans, the trust instruments, the treatment of salaried employees, the methods of funding, the conditions of retirement, etc., and you will find that there are many different sizes and shapes to which the pattern has been forced. The same holds for the automotive industry in relation to the first settlement, the Ford plan. The "decentralized decisions" are still operating. On the funding, the steel unions seem more willing to leave the funding problem to employers; the United Auto Workers, on the other hand, want as much definiteness and control of funding as possible.

Referring to disability pensions, he said, most of you have, no doubt, read with professional satisfaction the strict wording in most pension agreements on this subject—the term, "total and permanent"; the eligibility requirement of a considerable length of service, 15, 25, even 30 years, sometimes linked to attaining a given age; a 6-months waiting period; the offset in the disability pension of a Social Security disability benefit if such is enacted; conclusive medical evidence of inception and continuance; the exclusion of the "bad-boy" causes of disability; and so on. Costs computed on these bases must necessarily be low, in many cases we have had to admit that they were negligible in the foreseeable future in respect of the pension for the period from disability to the plan's normal retirement age.

He said we should not fail to bear in mind, however, just that—*viz.*, the future is ***not*** foreseeable. As stated, most of the settlements to date have provided that if a federal Social Security benefit is enacted, this benefit will operate in reducing the disability pension of the plan itself. Then, too, it should not be overlooked that the strict definitions mentioned can be "worn down" by administrative laxity and by subsequent amendments to the plan. This seemed to him to be particularly possible if a Social Security disability benefit appears because, however strict the legislative clause might be at the start, history shows that federal benefits are constantly liberalized. The question could then emerge in the future as to whether a pension plan which attempted to adhere to a strict disability clause for itself could succeed in that objective if a federal adjudication for disability became less strict. Could an employer contend that the employee was not disabled for pension after the federal Government said that he was? He felt there may be a "sleeper" in the current disability situation which will produce costs that are less negligible than they seem to be at present. He said another possible "sleeper" in connection with disability may be found in respect of some demands calling for death benefits after retirement and the implications thereof with group life insurance.

I. GENERAL

A. What are the basic problems facing the United States and Canada in regard to old age benefits? What areas of the broad problem are within the field of the actuary? What should be the role of the actuary?

B. What other professional groups are affected or interested in these problems? What efforts should be made to establish closer relationship with such other groups?

MR. J. K. DYER, JR., thought the two most important problems facing the private pension business in the United States are: (1) keeping Federal social insurance within its proper boundaries, and (2) unscrambling the difficulties some private pensions got into during the past year. He decried plans providing a fixed dollar pension and providing for deduction of Federal benefits. Private plans, to endure, must provide definite benefits of some sort, must carry some assurance as to their payment and must be backed by actuarial reserves preferably segregated and irrevocable.

MR. W. R. WILLIAMSON said that for American citizens in their provisions for old age there were three distinct aspects for consideration: (1) that of the responsible family man, (2) that of the employee, and (3) that of the citizen. He said that unfortunately the labor approach had squeezed out the third aspect of "the citizen," but that in Brookings' recent book on *Financing Social Security*, budgeting on a pay-as-you-go basis for the aged citizen had been outlined constructively, the cost to be borne by the active taxpayers currently. He quoted five rationalizations of such a plan:

1. A social dividend to the presumptively old, in recognition of the effective technological plant bequeathed to the active lives by them.
2. An apology for the robbery of inflation bearing down on the fixed income retired.
3. A bit of the leveling process so much at work today, including some relief.
4. A small apology for the slowness with which all the thrift agencies have grown.
5. A pooling of some of the age-long transfer from children to parents.

Six consequences emerged, he said, from the Curtis-Brookings budgeting:

1. The citizen, rather than the worker, begins to get the breaks.
2. Part of the economic problem of having, perhaps, inadequate investment facilities is met by the direct transfer without investment.

3. The dangers in OASI of growing to 10 to 20 times in annual outlay would be minimized with growth perhaps to only twice the initial outlay.

4. Largely getting rid of reserves, it eliminates the complaint "we pay twice."

5. It gets the Federal Government out of paying grants to State Public Assistance programs—with their inadequate policing, and abuses.

6. It preserves individual responsibility and direct local charity.

He spoke optimistically of the great progress toward review in other countries, and the sounder climate in our own, and the possibility of the appointment of a Commission by Congress, relatively free of membership hampered by past attitudes.

He outlined the definite advance toward realism of appraisal in the Senate Finance Committee, from witnesses and the members of the committee, and urged dropping of a defeatist attitude.

MR. H. E. BLAGDEN said it seemed to him that possibly the basic problem we have to face is how much old age benefits we can afford as a society regardless of how they are financed. Ultimately, he said, it does get down to whether our productive workers can produce enough to take care of the people who stop producing.

MR. A. L. MAYERSON cautioned against confusing our function as actuaries and our function as citizens. He thought that as actuaries our job, for the most part, should be telling in clear language just what the various benefits that are possible will cost and giving our figures and facts widespread dissemination.

II. SOCIAL INSURANCE

A. 1. What are the leading issues and problems in the field of government old age benefits in the United States?
   2. Is it practicable to extend OASI to cover all or practically all employed persons? Should voluntary coverage be permitted for any group?
   3. What are the considerations for and against a benefit formula providing (i) a flat benefit amount for all, (ii) a flat benefit amount plus an additional amount based on a wage record, (iii) a benefit amount based entirely on a wage record, (iv) a benefit amount which increases with length of covered employment?

B. What is the most desirable method of financing a social security pension plan providing benefits not in excess of the subsistence level and covering all or nearly all workers?

C. On what basis should social security pension benefits be payable or modified in the case of persons who continue to work beyond the normal commencement age?

MR. F. L. GRIFFIN, JR., called attention to the many groups who have a specialized interest in one phase or another of the old age problem or its financing—accountants, actuaries, attorneys, bankers, and many others. He endorsed efforts which bring representatives of these many groups together such as has been done by the American Pension Conference, the American Management Association, the United States Chamber of Commerce, and other groups.

MR. F. D. KINEKE said that legislation on old age benefits is often more greatly influenced by political considerations than by the more important long-range question of how much workers will be willing to share of their current production with nonworkers. He thought there was little need for a lump sum death benefit under OASI and saw serious dangers in any provision for total and permanent disability benefits. He favored OASI coverage for all workers as soon as administratively feasible and favored a social budgeting flat benefit approach and the elimination of wage records.

MR. G. E. IMMERWAHR said that he had come to favor a flat benefit amount for all financed by a flat percentage tax on net income added to our present individual income tax. He called attention to some of the factors that have a considerable bearing on the current social security situation, among these being a widespread underevaluation of the benefit costs which is encouraged by pay-as-you-go financing. He felt undue blame for the defects of the present program was directed at the lack of universal coverage, saying the defects were of a more fundamental sort. He viewed with concern the thinking which tends to assign to social security the major role in providing old age benefits. He felt that age 65 was almost sure to prove too low as a general retirement age and felt that even today a statutory age of 70, coupled with provision for disability benefits for those below that age, might prove the key to a system of flat benefits that could be effective without prohibitive cost.

MR. R. A. HOHAUS pointed out that initially an insurance plan was to play the main role in the Federal social security program and that assistance features were to be a temporary measure, but that just the opposite has resulted. He called attention to defects in the present assistance program and urged that several steps be promptly taken to restore the relationship originally intended. He recommended first that all workers employed and self-employed be brought under the insurance plan and, second, that all of the present retired aged be brought under the insurance plan, and suggested that coupled with these two steps be the removal of the Federal government from the assistance field.

MR. ALBERT PIKE, JR., felt that another of the leading issues in social security was the relationship between the Federal government old age insurance program and other provisions for old age benefits. He warned that influential persons have rejected the theory that the government should provide only a basic floor of protection, and are instead advocating that the government plan should, in itself, be a virtually complete answer to the problem of old age benefits. He felt that there was probably no long-range control to a continual upward revision of social security benefits except financial control, and that financial control would not operate until the reserve fund is eliminated.

MR. M. A. LINTON called attention to the valuable testimony presented to the Senate Finance Committee by John H. Miller regarding total and permanent disability benefits. He endorsed the proposal for extending OASI to the present retired aged and the consequent elimination of Federal grants to the States for assistance benefits. He said he is thoroughly convinced that in a nation like ours uniform old age benefits for all would never work—we would end up with one which would be entirely too large for certain groups and too small for other groups.

MSGR. JOHN O'GRADY felt that the old age assistance program, along with aid to dependent children, administered under 48 different types, is growing into a serious menace to family life and to the economy of the country. He advocated return to the original purpose of OASI to provide a basic minimum of protection for all the workers. With one system on a national basis we could see what the economy could stand from year to year out of current production.

MR. ADITYA PRAKASH said the problems of old age and social security benefits are, to a considerable extent, problems of redistribution of the cost of such benefits. For a proper evaluation of the various means of meeting the needs of the old, he said, one should know at least the extent to which their needs are currently being satisfied, the proportions of the total cost borne by the individual, by his relatives and by various agencies, and the basic needs that are not being satisfied. He felt that more information of this kind should be obtained, perhaps by some combination of methods involving area sampling and open-ended interviews.

MR. R. J. MYERS reviewed the considerations involved in paying social security benefits to a worker who continues in employment and considered the various adjustments that might be made upon his subsequent retirement.

MR. W. R. WILLIAMSON said that the philosophy of social budgeting is to set an age where it is presumptively to be expected that the man will retire. That age recently has been around 70, he said, so that at 70 the presumption is that a man will be out of work and everybody who is 70 will get a benefit. He felt that we don't have to take a "defeatist" attitude and that we can stop ahead of Great Britain and that we don't have to go as far as they do in New Zealand.

MR. S. W. GINGERY felt that the deferment of benefits and the principle of avoiding reserves under the pay-as-you-go basis were essentially opposed to each other. If a program includes an increment factor, he said, it would, to a certain extent, involve the question of accumulating reserves even though benefits were made available immediately to the existing aged.

MR. J. B. ST. JOHN felt that too little enlightening discussion has been given to the appropriate level of OASI benefits in terms of specific amounts. Most serious students of social security believe, he said, that the system should provide essentially only a basic minimum amount of benefit but we seldom hear a dollar value placed on this ideal amount. We hear a lot of mention of the Bureau of Labor Statistics minimum budget figures for a man and wife in terms approximating $150 a month. It is seldom pointed out that the BLS figures are intended to be appropriate for a working man and his wife and that perhaps the Federal pension amount should be somewhat less. He went on to say that the chief point of vulnerability of the OASI system at the present time is its failure to make adjustment to the increased costs of living. He said in his opinion OASI legislation has always been presented in too large and too inclusive packages involving too many diverse political interests. He believed that the probable degree of inaccuracy of the new wage records warrants the early consideration of an entirely different type of benefit formula, perhaps a flat benefit amount regardless of prior earnings.

MR. MANUEL GELLES said there should be no more question of individual equity in a social security program in the way we consider it in private business than in any other broad social or governmental service such as education and public health. If economic needs of the aged worker are to be recognized and met through some system of taxation, the actuarial basis of financing should presumably abandon completely the notion of individual equity and treat the system like any other social service in terms of current cost to meet current benefits. It is this fundamental contradiction between purpose and method, he thought, which has resulted in the anomaly of our present setup with benefits promised largely for the future, very little payable now under old age insurance, and about three times more paid currently under old age assistance benefits on a needs basis than under old age insurance. This perspective of "current cost—current benefits" can give the nation a clearer idea of what is being provided and who is paying for it. It presents the cost in realistic terms just as the tax cost of school education, public health and other public services is presented to the taxpayer. He does not believe that it is any part of actuarial consideration to state what the level of benefits should be. Given a certain level of benefits, which should presumably be the same for all the aged, the tax cost could be computed actuarially for the present and immediate future, he said. The problem of how the existing system can be reshaped into a "current cost—current benefits" pattern is not easy of solution but the longer any such change is delayed the more difficult he felt it would be to achieve a proper financial basis for social insurance.

III. NON-GOVERNMENTAL RETIREMENT PLANS

A. What are the leading issues and problems affecting (a) insured plans, (b) noninsured plans?

B. Is the present tax structure affecting retirement plans satisfactory? What changes, if any, should be considered?

C. 1. In what respect, if any, is increased information regarding mortality rates desirable for the sound development of retirement plans?
   2. What are the prospects of obtaining mortality statistics relating to persons covered under noninsured retirement plans? How might a project of this kind be handled? How might the costs be divided?

D. 1. What considerations are likely to influence the basis of funding plans under prevailing conditions?
   2. What is the relationship of the basis of funding of an employer's pension plan to the employer's cost accounting practices?

MR. H. H. HENNINGTON referred to the issues which had been raised by the collective bargaining agreements establishing pensions and described the deposit administration contract developed by his Company for noncontributory plans arising from these collective bargaining agreements. He explained that the arrangement permits the employer to accomplish any degree of advance funding which he desires, subject to a maximum to prevent overfunding. He said that his Company formerly believed that under deposit administration contracts they should exercise some control to be sure that within limits sufficient funding was done by the employer to maintain a reasonable expectation that the plan was actuarially sound. He said they abandoned this concept for these noncontributory plans, but still maintain the concept for contributory plans where the employees have a greater stake in the soundness of the plan.

MR. F. P. SLOAT ranked the possibility of a change in the formula of social security benefits as one of the most important current issues affecting private plans. Among other important problems, he mentioned uncertainty in the tax situation and the Treasury's attitude toward new plans with little or partial funding. Another major inequity is the direction of union programs and pressure. Among other prominent issues resulting from recent developments, he enumerated the following: (1) the swing toward noncontributory plans as a result of the union movement, (2) union pressure for administration of the plan by a committee appointed jointly by the employer and the union, (3) the unknown significance of plans written as part of the union agreement and running for periods of two to five years, (4) what the retirement date should be, (5) what other possible benefits besides social security should be deducted in determining the employee's income from the plan, (6) the problem of determining an employee's actual credited service from incomplete records. One of the leading special problems of noninsured plans is the question of the type of investments, he said.

MR. R. M. PETERSON emphasized that a reliable basis for judging the probable mortality experience of the future is fundamental to trustworthy cost calculations. He indicated that the experience under group annuity contracts is available through the Group Mortality Committee of the Society of Actuaries, but that mortality experience on noninsured plans would be desirable. He raised a number of basic questions as to the nature and scope of any such study of the experience of noninsured plans and also raised the question of whether the Society's Committee on Group Mortality should direct such a study with a Committee enlarged to include Consulting Actuaries. He said the problem is of such general interest and importance to the actuarial profession that the facilities of the Society of Actuaries should be explored and the increasing number of our members specializing in the pension field could devote some time to a study of the question as a contribution to the profession. He suggested that one approach would be to appoint a Committee, with consulting actuaries constituting a majority, to study and report on the problem.

MR. C. T. FOSTER said that he believed we should attempt to gather more mortality statistics to be used in noninsured pension plans which cover the hourly paid employees of all classes of industry as he feels existing statistics are not applicable to such groups. He thought that probably the study should be divided into two or three broad industrial classifications, perhaps clerical, semihazardous and hazardous. Investigation of mortality on lives over age 60 may be sufficient if group life experience is considered adequate at younger ages. He hoped the competitive spirit among consulting actuaries will not outweigh the desire for professional cooperation. He urged that other consulting actuaries, as well as any insurance company actuaries who are interested, join him in forming a committee to study the problem.

MR. J. K. DYER, JR., was pessimistic about obtaining any useful mortality statistics on noninsured retirement plans.

MR. J. A. HAMILTON said that nowadays we are frequently faced with the question, "Given a certain schedule of contributions, expressed in terms of cents per hour, what will the benefits be?" He referred to a strike in current operation not because of disagreement on pension benefits to be granted but rather as to the funding method which is to be adopted. From a cost accounting standpoint, he said, the costs of pension benefits should be charged against current income as the benefits accrue. It is not always easy to say just when a benefit accrues but certainly under a pay-as-you-go plan there is no attempt to relate accruing benefits and pension costs. This lack of a normal cost accounting relationship has been a major criticism of the pay-as-you-go arrangement. He referred to the position taken by the American Institute of Accountants not very long ago in which they recommended that past service costs be allocated over present and future years and charged against the income of those years. He went on to say that one cost accounting by-product about which management is a little uneasy is the future treatment of pension liabilities in annual statements.

MR. C. T. FOSTER listed the following considerations as influencing the basis of funding: (1) the pattern established or being established by other corporations in the industry of the employer, (2) the future course of union strategy, (3) the possibility of changes in social security, (4) the desirability of keeping annual contributions at a level rate, (5) interest of executives in their own pensions, (6) Treasury Department regulations, (7) insurance company restrictions, (8) the financial situation of the employer, (9) public reaction.