TRANSACTIONS OF SOCIETY OF ACTUARIES
1953 VOL. 5 NO. 12

RETIREMENT BENEFITS FOR HOME OFFICE EMPLOYEES

A. 1. What plan is most suitable for the smaller company?
   2. How is equity maintained between benefits for Home Office employees and agents?

B. Is it practical to provide hospital and surgical benefits to retired employees and their dependents? Have any companies adopted such a plan and is it proving satisfactory?

MR. G. F. KNIGHT stated that whether a company thinks it has a retirement plan or not, it has one, and it would doubtless find it is a great deal cheaper to set up a formal plan than to administer an informal one which satisfies no one, gives no incentive to the younger men in the organization and attracts no sound men from other companies which have already taken the step.

The retirement plan of the Berkshire was established January 1, 1951. In addition to home office employees, it includes the agency clerical employees, cashiers, etc., who were taken over for that purpose on the home office payroll with proper adjustment being made in the agency expense allowance. Normal retirement age is 65 with special provision for those who were over 63 at the time the plan was instituted. An employee enters the plan after one year of service and the attainment of age 30. Half of the company contributions are vested after 10 years, and after 15 years they are entirely vested if the employee's contributions are left. For single employees, the pension, including the OASI primary insurance amount, is a life annuity determined as a percentage of final salary, defined to be the average salary of the last 5 years of service. The percentage is found by adding 20 to the number of years of service under the plan. The resulting retirement income is increased by $60 annually. The married employees receive a joint and two-thirds survivor pension, the amount of which is the actuarial equivalent of the single life income for single employees. However, they may elect a single life annuity option. The use of the joint and two-thirds survivor pension as the automatic type of settlement makes it possible for a benefit to pass to a survivor, without being subject to estate tax, since no election is thus made on retirement. The plan is contributory—2% of the first $3,600 of salary and 4% of all above $3,600. They are considering reducing this to no contribution on the first $3,600 and 2% of amounts over that.

Mr. Knight felt that their disability coverage is inadequate, and the expansion of this benefit is a problem they must meet. Another of their problems concerns the employee with a survivorship form of retirement benefit who dies shortly before retirement. The widow in this type of case does not receive the benefits which she might well have anticipated getting. They have had at least two cases where early retirement was requested and granted so that the employee concerned could guarantee that his wife had a retirement income.

He concluded that since we are in the business of selling retirement security to individuals and employers, our position is weak until we set our own house in order.

MR. A. T. LEHMAN related how the Union Mutual's informal unguaranteed retirement plan had been found unsatisfactory, and gave the following highlights of their formal plan. The three parts of the plan are a noncontributory pension plan, a noncontributory disability plan, and a contributory pension plan.

The noncontributory part of the plan is a pension to men at 65 and women at 60. The amount of pension is $\frac{1}{3}$ of the last ten years' average salary provided the employee has had 15 years of service. Upon disability prior to retirement and after 15 years' service, the same formula is applied. Employees may remain with the company up to 5 additional years with annual approval of the board. Also, they may retire up to 5 years early at a reduced amount of pension.

Under the contributory portion, which is on a money purchase plan, the employee contributes at least 2% or more of his monthly salary but not more than the lesser of 10% or $100 a month. This is the only part of the plan that is vested. The company makes an annual contribution of $2\frac{1}{2}\%$ of the amount in the fund. This is not interest, but a contribution, and since the plan is approved by the Treasury Department, this contribution is not subject to a tax. Currently, this contributory fund is applied at retirement on the Standard Annuity table at $2\frac{1}{2}\%$ interest.

Although the basic pension is a nonrefund annuity, any employee with a wife, husband, or dependent may elect a straight joint and survivor, joint and two-thirds, or joint and one-half. The contributory portion may be applied under an additional option of a cash refund annuity.

The Union Mutual has partially solved the problem, mentioned by Mr. Knight, concerning a death shortly before retirement where a dependent is involved, by providing liberal group insurance coverage.

MR. J. G. BRUCE, in answering the question concerning the most suitable plan, said that there is no single plan that is best. Almost any pension plan may be proven to be the most suitable provided it fits the circumstances, the history, and especially the budget of the individual company. A good plan is easy to understand, simple to administer, flexible enough to meet inflation and changing Social Security benefits without undue complications, provides the security of comprehensive benefits for retirement and disability, and covers the problem of separation from service by death or by change of job.

He related that some years ago the Colonial Life had to meet the retirement problem against a background of temporary financial weakness. The cost of any kind of funded plan was considered to be too great at that time, and so an unfunded plan was adopted. The annual pension is three-fourths of 1% of the average salary for the last 10 years of service multiplied by the number of years of service, with an annual minimum of $500 and maximum of $5,000. Since the plan could be withdrawn at any time and each year a resolution is passed establishing that the pensions for that year will be paid, no reserve can be required by the state. However, the plan, which is the same for both home office employees and agents, is now in the process of being funded. They are now considering superimposing a contributory plan whereby a 3% contribution by the employee is matched by the company to purchase an additional annuity. The disability problem is handled as it arises by the board of directors passing a resolution retiring the disabled employee.

MR. S. F. CONROD, Chairman of the Forum, commented that the Loyal Protective funded the past service credit over the remaining period to the employee's normal retirement age, and also used a fixed past service employee's contribution in addition to the current service contribution.

MR. W. F. LUMSDEN, in referring to section B, said that the problem of providing hospital and surgical benefits for retired employees has been spotlighted by the recent negotiations between the United Auto Workers and General Motors, Ford and Chrysler. Recognizing that the cost of these benefits for a retired employee, whose ability to pay is less, is likely to be substantially more than for the active employee, the recent contract provisions permitted the retired employees to be included in the active group. He stated that insurance companies should recognize the cost of such benefits when revising their own pension plans, and seriously consider providing the coverage to the retired employee on a noncontributory basis.