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LIFE AGENTS' RETIREMENT PLANS UNDER NEW YORK STATE EXPENSE LIMITATIONS

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W. C. McCARTER:

This outline of typical provisions of agents' retirement plans and application of the New York expense limitations should be very helpful to companies considering revision of their agents' plans. My discussion is confined to two points on which I think some further elaboration is indicated.

The author states in his outline of typical plan provisions that applying contributions each year to purchase small amounts of paid-up deferred annuity benefits will give much the same result as the money purchase method, under which contributions are accumulated to retirement and applied in one sum to provide the retirement benefits. Actually there can be definite advantage for both the agent and company in the former approach.

Under the money purchase method, practical considerations dictate that the annuity payment rate which will apply for the accumulated funds at retirement be stipulated in the plan, and as a consequence formal amendment of the plan is necessary each time that rates are adjusted to allow for change in annuity costs. Such periodic rate adjustments are avoided under the paid-up annuity plan, since the plan payment rate can be stipulated not as a fixed amount but rather as a percentage of the immediate annuity or life option payment rate in use at the time the contribution is made.

Another advantage of the paid-up annuity plan is that it eliminates the need for carrying a company contribution fund account, and where this fund has been allowed as a death benefit, life insurance benefits can be substituted. Insurance not only provides a more logical form of death benefit, under which both minimum and maximum amounts can be stipulated, but also has the advantage that as insurance it is exempt from Federal income tax in the year of the participant's death.

In the second section of the paper where valuation of security benefit costs is discussed, it is suggested that the McConney-Guest Modified Agents' Survival Table be used.

Judging from Northwestern Mutual experience in recent years, I would question whether this table accurately reflects current experience, and hence whether it may safely be assumed as basis for computing nonvested benefit costs.

While our experience rates by number of agents follows substantially the same pattern as in the McConney-Guest table, the rates by amounts of new business produced differ from that table, particularly in the early years under contract, as shown in the following table:

Contract Year n	Rate of Termination $(_wq)_n$		
	McConney-Guest	Northwestern Mutual 1950–55 Experience	
		By Number of Agents	By Amount of New Business*
1..........	.430	.325	.131
2..........	.370	.289	.108
3..........	.285	.195	.059
4..........	.225	.160	.079
5..........	.185	.144	.092

* All terminations were assumed to occur as of the end of the contract year, and production for the 12 months preceding termination was taken as the production in the year of termination, except for the first year where $12/m \times$ (actual production for m months) was used.

(AUTHOR'S REVIEW OF DISCUSSION)

PETER M. TOMPA:

I am grateful to Mr. McCarter for the discussion he presented.

In making the statement of equality of results of the two methods used to provide agents' retirement benefits (annual purchase of paid-up deferred annuities vs. accumulation and application at retirement) I was concerned with the financial results only. Mr. McCarter has properly pinpointed the advantages of the former method.

As to the use of the McConney-Guest table (MCG table) for valuation of nonvested benefits, the suggestion of its use is based on the New York Insurance Department's usual acceptance of the table as a valuation standard. I did not mean to suggest that costs to the Company can be accurately measured by that table. For that purpose individually developed tables will probably give a more accurate picture.

I should like to supplement the short mention of the Social Security status of agents contained in the final section of the paper by calling the reader's attention to a subsequent memorandum of the Social Security Administration dated April 25, 1956, clarifying some of the points left unanswered in previous discussions.