

Group Annuity Federal Disclosure Act Reports

What have been the effects of the Federal Disclosure Act?

What problems have developed and how have they been met?

Has the Act brought about increased communication of plan operations to employees?

MR. PHILIP D. ANDERSON opened the discussion by referring to the apprehensions in the insurance industry of the many problems created by the Federal Disclosure Act when it was passed by Congress, not the least of which were the administrative problems involved in the many required reports. He stated that it was fortunate that the United States Labor Department had devised report forms, after inviting suggestions from the insurance industry, which allowed enough flexibility to minimize the amount of preparatory work on the part of those reporting information.

The John Hancock was able with relative ease to furnish information to its group annuity contract holders last year so that they might furnish to the Labor Department the Description Form D-1 then required. Currently, the John Hancock is producing information to its group annuity contract holders to enable them to complete the Annual Report Form D-2. The John Hancock is furnishing information on a calendar year basis. The use of such a basis has made the reporting fairly economical because the required data can be taken directly from Policy Exhibit information and financial information which is regularly produced in the preparation of the Company's Annual Statement.

The release consists of a facsimile of Exhibit A-1 which includes the basic Policy Exhibit and financial data applicable to the contract holder, a form similar to Exhibit A-2 streamlined to lend itself to the mass production of entries, an attachment to Exhibit A-2 covering the actuarial assumptions, and an actuarial report where necessary. The release will be handled through group annuity specialists who are located in offices throughout the country. These specialists have maintained a close contact with contract holders in their service work and, therefore, will be able to provide on-the-spot assistance if there are any problems that arise.

The cost of handling the D-1 and D-2 reports for almost 500 contract holders has been approximately \$5,000 a year. The cost has been attributable for the most part to the appropriate proportions of clerical and supervisory salaries of employees. It does not recognize considerable executive time which was spent in the early days of the Disclosure

Act. It is estimated that releases will be sufficiently routine in the future so that costs may drop to about \$2,500 a year.

The John Hancock has not noticed any increased communication of plan operations to employees. Only one employer has asked for assistance in preparing a summary of the Annual Report which might be given to employees.

In closing, Mr. Anderson said that while this topic refers only to the Federal Disclosure Act, it might be interesting to note current developments in connection with the Massachusetts Disclosure Act. He stated that the John Hancock did not agree with Administrative Board's interpretation of the type of plans subject to the provisions of the Massachusetts Disclosure Act, and has joined with a group life insurance policyholder and a group annuity contract holder in seeking a declaratory judgment on the scope of the Act. The group life insurance argument has been brought before the Supreme Judicial Court of Massachusetts and a decision is being awaited. The group annuity argument will follow. He also noted that the Board administering the Massachusetts Disclosure Act had granted a deferment of filing until June 1, 1960, to certain policy-owners because of the impending judgment.

MR. SHEPHERD M. HOLCOMBE stated that the Connecticut General had also established procedures so that the production of Form D-2 was now on a fairly routine basis. He referred also to problems arising because of the absence in the Disclosure Act of interpretative regulations. This, he said, has put insurance companies in a position of interpreting the Act for the contract holders. He mentioned specifically the problem of determining the proper meaning of "current and past service liabilities" as well as the proper construction in establishing unfunded liabilities. Mr. Holcombe noted no increased communications of plan operations to employees as a result of the Disclosure Act, except in the case of one or two employers who wanted information available in a form which might serve as the basis for a release to employees.

MR. AUBREY WHITE discussed a problem which has faced Ostheimer & Company (Pension Consultants) in the case of pension plans which are handled on a split-funded basis. He referred in particular to such a plan where an insurance company had completed a D-2 form with respect to their portion of the coverage. In such cases, he said, the consulting firm has found it difficult to use their own estimates of actuarial liabilities without overlapping some of the values furnished by the insurance company. He also referred to the difficulty in some cases in ascertaining what are current and past service liabilities.

MR. WILLIAM E. MOODY stated that Huggins and Company (consulting organization) had noted almost no increased communication of plan operations to employees from organizations using trustee plans.

In response to the inquiry if anyone could offer ideas as to what had been accomplished through the Federal Disclosure Act, MR. ANDERSON said he felt that the Act had not been in force long enough to give a positive answer. He indicated that the Act was drawn up in such manner as to allow private citizens to institute legal action in the event that abuses are uncovered through the disclosure of information. It may be, he stated, that people are as yet unaware of this fact or too unsure of themselves to take action.

MR. CHARLES D. WILLIAMS said that the Labor Department had done a good job in developing standard forms that met both the requirements of the law and the practicalities of a widely diversified employee benefit field. He noted that a fairly large number of people had visited the Labor Department to look at the disclosure forms which have been filed. It was apparent that many were brokers and consultants rather than employees. This, he said, doesn't mean that the Act was not being used in accordance with its original purpose but that other uses were being made of the Disclosure Act filings.