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# CASH WITHDRAWAL RIGHT

What are the considerations for or against the granting of a cash withdrawal right to large pension policyholders?

MR. JOHN C. ARCHIBALD pointed out that the primary purpose of a retirement plan is to provide retirement income benefits at as low a cost as possible and that long term securities with a minimum amount of liquidity are generally the best type of investment to solve this problem. The granting of a cash withdrawal privilege in the event the plan is terminated or the amounts transferred to another carrier poses exactly the opposite type of investment problem, since the demand will vary widely from time to time and a higher degree of liquidity is necessary.

Where a plan is trusteed and not insured, the assets are entirely separate and can be withdrawn and transferred to another trustee simply by the physical change of the actual securities. Their market value determines the basis for the surrender value, and since no guarantees are made there are no cash withdrawal guarantees. Under an insured plan, however, the funds are not separate but are part of the entire assets of the company and belong to all types of policyholders. The basis for any cash benefit payments for individual employee terminations is set forth in the policy. The experience figures which are shown to pension policyholders all state the amount of the funds on a book value basis and not on a market value basis, giving the impression that the amount in the fund would be available if requested. However, when cash withdrawal of an entire plan fund is considered, the market value of securities has to be taken into account, since in times such as the present, market values are considerably less than book or amortized values. Moreover, requests for withdrawals tend to be made at a time when the market value of securities is depressed. If new money coming into the insurance company from other sources were used to provide these withdrawal values, it would mean that the continuing policyholders would be denied the advantage of securing the high interest rates that could otherwise be obtained for them.

Mr. Archibald noted that the trustees handling pension funds are sophisticated investment managers in many instances and that, since large sums of money are involved, it would be difficult to outline a basis which would appear reasonable in normal times and yet give sufficient protection in unusual times. He cautioned that it would not be fair to continuing policyholders to permit a withdrawal value greater than the pro-rata share of the market value of the company's assets, and since this figure varies widely and would be subject to wide differences of opinion among competent investment people, the situation indicates that the lump sum withdrawal right is not one which could be guaranteed. Where some basis of cash withdrawal is necessary, he felt that a method of paying out the value under the contract, less necessary surrender charges for expenses, over a period of say ten years would be appropriate.

MR. ROBERT F. LINK outlined the cash withdrawal provision of the Equitable's deposit administration contracts. This provision will be included in new deposit administration contracts if requested. It may also be added to an old contract, in which case it applies only to purchase payments received after the effective date of change. The payment is equal to 95% of the amount taken out of the fund, and the Equitable reserves the right to pay in installments over a ten year period, starting one year from the date of request. If the employer expects to continue contributions after making a cash withdrawal, the Equitable's consent is required for the withdrawal to be made. For dividend purposes they hold modest extra reserves with respect to funds which are subject to this recapture. Also, depending on current investment conditions, they may charge against the dividend experience an amount higher than that actually paid.

Mr. Link stressed the potential interference with investment operations inherent in the granting of a cash withdrawal right and pointed out that the new federal income tax law makes it desirable to keep capital gains and losses at a minimum or see that they emerge conveniently. He also emphasized the problem of equity among policyholders where a large cash payment to one contract holder may adversely affect the investment results of the continuing policyholders.

The possibility of writing more cases, thereby obtaining additional money to invest at the current high yields, was mentioned as an advantage. If, however, a company uses the select investment income approach, this benefit doesn't reach existing contract holders. For the employer there is the advantage that he can withdraw any unapplied amounts if the insured plan seems not to be working out well. The provision may permit some investment manipulation in split funding cases.

MR. RAYMOND W. BENDER stated that, when a cash withdrawal provision has been included in a Prudential deposit administration contract, the provision has usually taken the form of a right, under certain circumstances, to transfer 95% of the unallocated considerations to a substitute funding medium. This transfer can be made at the company's option over a period of ten years. He agreed with the previous speakers on the disadvantages of such a clause from the standpoints of dividend and investment operations. Mr. Bender warned that there has been a tendency toward unwarranted liberalizations in the percentage to be paid out and the payout period. In addition, the offering of incomplete guarantees on deposit administration contracts, where the company has the right to change the interest rate or annuity purchase rates on money already received, places the contract holder in a position where he feels he has a right to withdraw any unapplied amounts if such changes appear unreasonable.