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THE VARIABLE ANNUITY

Will It Yield More Dollars for Retirement?

[by Leonard E. Morrissey]

Dartmouth College

The Amos Tuck School of Business Administration

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Will It Yield More Dollars for Retirement?

PROBABLY no issue has so sharply divided the insurance industry in recent years as the variable annuity—a new plan for retirement based upon common stocks. Prudential is for it; Metropolitan is against it. Most of the other companies are watching closely from the sidelines while the two giants fight it out. The immediate question is whether insurance companies should be permitted to issue the variable annuity. They are now generally prohibited from doing so by state laws. Pending legislation, which would enable them to issue variable annuities, is opposed not only by members of the insurance industry but also by mutual fund and investment banking groups.

The public—although it may not be aware of the debate over variable annuities—has more than a bystander's stake in it. For if the backers of this new retirement program are right, the public may obtain some protection against inflation and earn a higher rate of return on its savings. Opponents challenge the soundness of the plan and its workability.

The key questions raised by this debate warrant further study. For example, what are the advantages and disadvantages of the variable annuity to the policyholder and to the life insurance company? How does the variable annuity plan work? How does it differ from a conventional annuity?

A conventional annuity provides equal dollar payments while a variable annuity provides dollar payments of fluctuating amounts in accordance with changes in common stock prices and dividends. Both types of annuities are payable for the life of the participant.

Several insurance authorities have contended that the words "variable" and "annuity" are contradictory. They cite many cases in which courts have defined "annuity" in terms of *fixed amounts*. Others point to decisions which contain no reference to fixed amounts, emphasizing only the regularity of payment for life. The merits of the opposing arguments are not discussed here because the term has become established by usage. Nevertheless, it should be noted that possible misunderstanding might arise in the minds of those who look upon all annuities as promising payments of fixed-dollar amounts.

Pioneering Study Paves the Way

CURRENT interest in variable annuities is largely attributable to the College Retirement Equities Fund (CREF) which was established in 1952 by the Teachers Insurance and Annuity Association (TIAA). TIAA was formed in 1918 by the Carnegie Corporation of New York to provide retirement annuities contracts for college teachers.

TIAA has always issued conventional fixed-dollar annuity contracts. They have served their purpose quite well during periods of stable or falling prices. But inflation can create havoc with any retirement plan based entirely on fixed-dollar benefits. For example, after World War II it gradually became evident that TIAA was failing to provide adequate retirement income for college professors in terms of purchasing power.

Colleges already had wrestled with this problem in protecting the value of their endowments. In an effort to protect their schools against inflation and declining endowment yields, many college trustees turned to common stocks. It is not unusual today for privately endowed schools to invest 50 per cent or more of total endowment funds in common stocks. To some college trustees it seemed inconsistent to seek protection for their institution while ignoring the same problem as it affected the retirement incomes of faculty members. Meanwhile TIAA had no choice but to comply with New York law and confine its investments to bonds, mortgages and other debt instruments.

In 1950, under the direction of Dr. William C. Greenough, vice president of TIAA, TIAA began an extensive study of possible means of overcoming the difficulties caused by inflation and reduced investment yields. The possibility of combining common stocks with fixed-dollar obligations was considered. As a result of this study it was concluded that it is unwise to commit *all* of one's retirement savings to dollar obligations and it is equally unwise to commit *all* of one's retirement savings to equity investments. Retirement contributions that are invested partly in debt obligations and partly in common stocks offer promise of supplying retirement income that is reasonably stable in purchasing power.

On what facts were these conclusions based? The Greenough study covered the 70 years from 1880 to 1950. It was found that—following an accumulation period of 20 to 30 years—a combined fixed-dollar and variable-dollar annuity would have maintained purchasing power better than a conventional fixed-dollar annuity. Experience would generally have been good for a much shorter accumulation period of five to ten years assuming the professor did not both retire at a time of depressed stock prices and die shortly thereafter. Retirement alone at a time of depressed prices is of little consequence, for only a small part of the total accumulation will be payable each year. For example, a retiring professor, age 65, and his wife, age 62, would have a combined expectancy of nearly 20 years. Thus, each year only about 5 per cent of the variable units would be converted to cash.

Taking a hypothetical case from the Greenough study, a professor who contributed $100 per year towards the purchase of a fixed-dollar annuity from 1900 to 1930 would have received an annual annuity upon retirement in 1930 of $552. Instead, had he contributed $50 annually toward a fixed-dollar annuity and $50 toward a variable annuity, he would have received a fixed annuity of $276 (one-half of $552) plus a fluctuating amount from the variable annuity. His combined annuity would have ranged from $503 in 1932 to $1,007 in 1950. Only in 1932 would the combined annuity have been less than the fixed-dollar amount of $552. Over a 20-year period of retirement the fixed annuity would have provided $11,040; the combined annuity, $14,617. As a matter of interest, a 100 percent variable annuity would have paid $18,188. However, the annual payments would have fluctuated from a low of $454 to a maximum of $1,194, a range which would have made personal budgeting extremely difficult for the policyholder.

The total annuity payments over the period of retirement is important, but of greater significance is the relationship between annual annuity payments from a combined fixed-variable annuity and the cost of living. Even at the depth of the depression in 1933 the purchasing power of the dollar was not as high as the average purchasing power of the dollars contributed towards the retirement plan from 1900 to 1930. In 1933 the policyholder was receiving dollars worth 98 per cent of the dollars he had contributed; in 1949 only 54 per cent. Because of appreciation and rising dividends of common stocks the combined annuity would have provided sufficient additional dollars to keep up with the rising price level in 13 of the 20 years of retirement. In the remaining seven years the annuity payments never would have dropped below 84 per cent of what was required to maintain stable purchasing power. These seven years were not consecutive. They would have occurred at times when commodity prices rose more rapidly than common stock prices such as at the beginning of World War II, and the period following price decontrol in 1946.

How the CREF Program Works

The College Retirement Equities Fund was established by a Special Act of the New York State Legislature in March, 1952. It started operating on July 1, 1952, under the supervision of the New York State Insurance Department and has grown rapidly. At July 31, 1955, it had assets of approximately 22.7 million dollars and over 20,000 participants. Premium receipts now exceed $650,000 per month.

A policyholder can allocate up to 50 per cent of his premiums to CREF; at least 50 per cent *must* be allocated to TIAA toward the purchase of a fixed-dollar annuity.

Each CREF premium purchases a certain number of accumulation units which are similar to shares in a mutual fund. The policyholder is credited with additional units purchased with the dividends received by CREF. The value of the unit is computed monthly. The value of one accumulation unit, originally set at $10.00, ranged from $9.35 to $17.11 between July 1, 1952 and July 31, 1955.

While accumulation units are similar to shares in a mutual fund, there are several important differences between CREF and a mutual fund:

(1) The holder of a CREF certificate—or his beneficiary—receives a life income determined by actuarial principles. He cannot outlive his benefits. At no time can he "cash out" of CREF and there are no provisions for cash surrender or loan values. On the

other hand, the holder of mutual funds shares may redeem them at will.

(2) The holder of a CREF certificate has no current tax liability for the dividends or capital gains of the fund credited to him. The Commissioner of Internal Revenue has ruled that CREF is an annuity subject to taxation only after the certificate holder begins to receive annuity payments. But a mutual fund must distribute annually virtually all of its earnings and capital gains to its shareholders to avoid paying a heavy Federal income tax. These dividends and capital gains are then taxable to the shareholder.

(3) CREF is supervised as an insurance company by the New York State Insurance Superintendent while a mutual fund is regulated and supervised by the Securities and Exchange Commission.

(4) As previously noted, a CREF certificate may be purchased only in conjunction with a fixed-dollar TIAA contract. The buyer of mutual-fund shares has no similar restriction imposed upon him.

These differences are important. As discussed in a later section, most of the opposition of mutual fund groups centers on the tax aspect and the matter of supervision. A further difference of less significance is found in the "load" charge. CREF employs no agents and minimizes its clerical expense by requesting the colleges to withhold premiums from their employees and remit them monthly. These economies permit an operating expense deduction of only 4 per cent of premiums received, about one-half the usual mutual fund "load."

Still another difference between CREF and most mutual funds is found in the investment policy of CREF. A portion of this policy, as stated in CREF's constitution, is as follows:

(a) It is desirable that the corporation keep its assets at all times exclusively in investments having equity characteristics.

(b) It is desirable that the corporation take advantage of the principle of dollar cost averaging by periodic purchases as funds become available, keeping as fully invested at all times as is practicable since:

(i) the normal participant in the benefits of the corporation will make regular monthly contributions over a period of many years and will receive monthly retirement benefits for life:

(ii) there is no need to anticipate demand for large sums of cash at any one time since the certificates of participation do not provide for cash withdrawal.

(c) It is desirable that the corporation's funds be diversified as to type of industry and growth and yield characteristics.

While the foregoing policy statement does not restrict CREF investments to common stocks, these are the only investments likely to be made and the only ones made to date. At March 31, 1955, the largest holdings were in du Pont (4.1 per cent) and Standard Oil Company of New Jersey (3.7 per cent). Other sizable holdings were: Monsanto Chemical, Union Carbide and Carbon, General Electric and International Business Machines.

TABLE I

CREF'S HOLDINGS OF COMMON STOCK

AS OF MARCH 31, 1955

Industry	*Per Cent of Total Investment*	*Number of Companies*
Oil	18.1	9
Public Utility	17.4	15
Chemical	16.0	6
Building	6.4	6
Electrical Equipment	5.4	2
Non-Ferrous Metal	4.7	4
Paper	4.4	3
Automobile	3.8	2
Office Equipment	3.5	2
Retail Trade	3.2	2
Food	2.9	2
Container	2.7	2
Railroad	2.1	2
Steel	.5	2
Miscellaneous	8.9	5
	100.0	64

The large number of low yielding "growth stocks" in the CREF portfolio has influenced the earnings of the fund. The dividend return credited to participants for the fiscal year ended March 31, 1955, was 3.8 per cent of average total assets; for the previous year it was 4.3 per cent. Earnings credited to most TIAA fixed-dollar contract holders were at the rate of 2¾ per cent in both the calendar years 1953 and 1954. While the differences between CREF and TIAA earnings appear small at first glance, it might be noted that at the end of thirty years the CREF retirement fund would be about 25 per cent larger than the TIAA fund—assuming a continuing difference of about 1¼ per cent between the rates of earnings.

With rare exceptions, a participant in CREF will never be vulnerable to the level of stocks at any one time. Neither the date of entering the plan nor the date of retirement is particularly significant. CREF is essentially a long term program which for many younger faculty members and their wives will cover a span of 50 or more years. At no one time will a large sum be either invested in the fund or withdrawn from it. For a man age 35 who retires at age 65 there will be 360 monthly premium payments. Each payment will be invested in a diversified list of top quality common stocks at varying market levels. If he and his wife have a joint life expectancy of 20 years following retirement, CREF will make 240 annuity payments. The whole plan from beginning to end will involve some 600 payments spread over 50 years.

Unlike the accumulation units, which are valued monthly, the annuity units are revalued once a year. It was believed that policyholders would prefer to receive twelve identical monthly payments in preference to a constantly changing amount. This means that a rapidly rising or falling stock market occurring after the revaluation date will not affect the value of the annuity unit until the following year.

Annual changes in the value of the annuity unit have no effect upon the value of an accumulation unit since two entirely separate funds are maintained: an accumulation fund for those saving toward retirement; an annuity fund for those receiving benefits. The determination of the value of the annuity unit, in addition to adjusting for any overpayment or underpayment caused by market shifts during the previous year, is also influenced by dividend yield and mortality factors.

Since the establishment of CREF the value of an annuity unit has been as follows:

TABLE II

VALUE OF CREF ANNUITY UNIT

FOR YEAR ENDED APRIL 30

1953	$10.00
1954	9.46
1955	10.74
1956	14.11

While the recent change from $10.74 to $14.11 is 31 per cent, it should be noted that the retired professor's *total* income did not increase 31 per cent since there was no change in his TIAA fixed-dollar annuity. While this change was advantageous to retired professors a comparable downward valuation could occur. From 1930 to 1932 total income from a combined annuity would have fallen 45 per cent, while prices declined approximately 18 per cent. There is little doubt that a decline of 45 per cent in dollar income, only partially offset by price changes, would have imposed severe hardship on many participants. However, despite this drop in annual income, the total income for the three years, 1930-32, from the combined annuity would have been approximately 25 per cent more than that from a fixed annuity.

Interest in Variable Dollar Plans Is Growing

SINCE 1952 interest in the variable annuity has grown rapidly. Several prominent corporations now offer retirement plans that bear some similarity to the TIAA-CREF program. Among these are:

National Airlines
Long Island Lighting Corporation
Chemstrand Corporation
Boeing Airplane Company

Some mutual funds now offer plans in which term life insurance is used to guarantee completion of a program for the accumulation of mutual fund shares. These plans are only remotely similar to the CREF type of variable annuity. They provide no method of systematically liquidating the accumulation over the participant's life.

The first attempt to make a CREF-type variable annuity available to the public was in 1954 when a bill to establish the Variable Annuity Corporation of America passed the New York Legislature. But the bill was vetoed by Governor Dewey. It was opposed by the

New York State Association of Life Underwriters on the grounds that the public might associate the word "annuity" with a fixed-dollar guarantee. In 1955 a similar bill was introduced in New York to establish the Variable Life Income Corporation of America. The word "annuity" was dropped, and the revised bill would have authorized the issuance of variable annuities only to groups and not to individuals. The bill died with the adjournment of the legislature in March. The bill was opposed by Metropolitan Life, National Association of Investment Companies, Investment Bankers Association, and National Association of Security Dealers. Unsuccessful bills have also been introduced in New Hampshire, Maryland, and Texas.

The Variable Annuity Life Insurance Company was licensed in Washington, D. C., in early August of this year, and thus became the first life insurance company offering variable annuities. The new company has $1,000,000 in capital and surplus and plans to "undertake to be admitted to do business in states where there is a demand for our service." George E. Johnson, formerly vice-president and general counsel of TIAA, is president of the new corporation. The *National Underwriter,* an insurance weekly, commented editorially that "the launching of Variable Annuity Life Insurance in Washington, D. C., is a momentous occasion for the life insurance business and the insuring and investing public. It means that the log jam has been broken—that those who have argued that the variable annuity should not be offered to the general public have lost their campaign because here is a company that can sell the variable annuity to anyone who cares to buy. True, the purchaser may have to buy it via Washington for a while. But if he wants it badly enough he can get it."

The *National Underwriter* editorial continues, "the fact that a variable annuity can be purchased without the buyer's having to be a member of some special group, like college teachers, or an employee of one of a handful of corporations adds tremendously to the pressure for licensing the Washington company in other states and for legislation permitting life companies generally to write variable annuities."

The ability of the Variable Annuity Life Insurance Company to operate outside of Washington, D. C., appears contingent upon Prudential's success or failure in Trenton. Prudential introduced its legislation in Trenton on March 7, 1955. The bills would permit the establishment of a segregated asset account which would operate much like CREF. Acceptance by the New Jersey Legislature of the Prudential's proposals would undoubtedly open the door in other states and it would be only a short time before numerous other life companies entered the field.

The Pros and Cons

A NUMBER of compelling arguments have been presented for passage of this legislation:

(1) The sale of individual annuities has dropped sharply in recent years. People who might formerly have purchased retirement annuities evidently have sought other means of providing a retirement income. Partly this reflects the growth of company pension plans and expansion of the social security program. But in addition the fixed annuity has become less attractive. Increasing longevity and lower yields have sharply reduced the income available from a fixed-dollar annuity. For example, a woman, age 60, will receive approximately 5.7 per cent per year under current interest and mortality assumptions. The annuity payments would, of course, liquidate her investment and stop at her death.

(2) Many larger corporations have established trusteed pension plans under which the trustee is authorized to invest a proportion of the fund in common stocks. Under present rules there is no effective way for insurance companies to combat this trend. An increase from 3 per cent to 4 per cent in the annual return on pension fund assets will lower ultimate pension costs by approximately 20 per cent. It is immaterial whether the increase is realized through higher yields or appreciation of securities held in the fund. The possibility of substantially lower pension costs has influenced many companies in establishing a trusteed plan.

(3) It is generally conceded that the likelihood of further inflation over the long term exceeds the probability of declining prices. Established government policies to maintain full employment by fostering low interest rates, maintaining farm commodity prices, and adopting deficit financing are all recognized as inflationary forces. It is unlikely that the continuing pressure for higher wages

on the part of organized labor can be fully offset by greater productivity. Carrol Shanks, Prudential's President, has been quick to point out, however, that acceptance of the variable annuity idea does not involve embracing inflation as a national policy, nor does its success depend upon further inflation. Mr. Shanks states, "The variable annuity proposal is by no means dependent for its justification on a prediction of more inflation. The attractiveness of stocks in a retirement program is tied to the expanding economy, which is something to be expected and hoped for whether or not the value of the dollar goes down."

(4) It is clear that the variable annuity is going to be offered to the public by someone. This is essentially like any other annuity contract that guarantees liquidation of a principal sum over the lifetime of the participant. This is an area in which only life insurance companies are experienced.

Opponents of variable annuities have cited these objections.

(1) "The greatest tragedy that could happen to the life insurance business is for us to get into the variable annuity. We sell on a fixed-dollar basis and if the public ever figures that it is necessary to buy annuities to make life insurance come out right, we would have an extremely hard time selling insurance." This statement by Holgar J. Johnson, president of Institute of Life Insurance, summarizes the two most important points made by opponents within the life insurance industry. The first of these is that the life insurance industry has established over its long history an unimpeachable record for meeting its obligations. These obligations have always been in terms of fixed dollars, and consequently the public has come to associate insurance companies with payment of fixed-dollar amounts. Any other basis would lead to confusion and loss of confidence. One industry leader stated, "I don't want to receive letters from policyholders asking me why they received only $80.00 this month when it was $100.00 last month." The second point made by Mr. Johnson is that the industry can not sell fixed-dollar contracts with one hand and variable contracts with the other since successful sale of the variable annuity would necessitate pointing out to the buyer some of the weaknesses of the traditional fixed-dollar contract.

(2) The insurance industry is regulated by the various states. Fear has been expressed that large scale purchases of common

stocks by life insurance companies would open the door to federal regulation.

(3) Some critics contend it will be impossible or impractical to train agents to sell both fixed-dollar and variable-dollar annuities.

(4) Life insurance companies, as holders of large blocks of common stocks, might be regarded as dominating many important corporations—which they cannot do through bonds.

The sharpest opposition to the Prudential's proposal, however, has come from the securities industry. The National Association of Investment Companies, National Association of Securities Dealers and Investment Bankers Association of America have all expressed strong disapproval. A committee of the Investment Bankers Association of America reported that the variable annuity, if legalized for issuance by life companies, "carries a very distinct threat, not only to the investment company industry, but to the entire investment banking business." The investment bankers have seen a substantial share of their business disappear as the result of the direct placement of bonds by borrowers with life insurance companies. The possibility that many future stock issues might not require underwriting if insurance companies were ready buyers is a chilling thought to investment bankers. However, the mutual funds would probably be the first to feel insurance company competition. A good part of the rapid growth in open-end mutual fund shareholder accounts from 500,000 at the close of 1945 to 1,900,000 at June 30, 1955, is probably attributable to buyers planning for retirement. The added attractions of having dividends compound tax-free and the guarantee that benefits cannot be outlived would tend to divert these savings from mutual funds into variable annuities.

Mutual fund opposition has been based upon this tax aspect and the type of regulation to which the issuers of variable annuities would be subjected. The owner of mutual fund shares must report annually for tax purposes his dividends and capital gains; this is not true for the holder of a variable annuity contract who has no current tax liability for either earnings or capital gains received by the insurance company. The mutual funds do not consider the usual type of state insurance regulation to be adequate for variable annuities.

In reference to variable annuities, the executive committee of the

National Association of Investment Companies recently adopted the following statement: "The National Association of Investment Companies believes the public interest is served by federal regulation of the offering of securities to the general public, particularly when such offerings are in the form of investments such as common stocks." The S. E. C. has reported that it has under study the question of its jurisdiction in regulating the sale of variable annuities.

One amusing bit of testimony cropped up in Trenton when a banker expressed fear of losing much of his individual trust business because the variable annuity is just "too good."

Several insurance company officials also believe the variable annuity would be a good thing if issued only on a group basis. They point out that group contracts are negotiated with men who should have no difficulty understanding the variable annuity. This would permit the insurance companies to compete with trusteed plans for pension business. Others who do not approve of the variable annuity in any form would favor increasing the limit of insurance company investments in common stocks. Companies domiciled in New York State are limited to 3 per cent of total resources or one-third of surplus, whichever is smaller. Companies domiciled elsewhere but doing business in New York must substantially comply with these requirements. Another objection has been raised by opponents who believe only the biggest firms can make the plan work. One official stated, "Perhaps the variable annuity is a good thing for the Prudential with its resources, but how about the hundreds of smaller companies which would have to offer it to be competitive?"

Some Implications of the Variable Annuity

WIDESPREAD adoption of the variable annuity by life insurance companies has several interesting implications. First of all, it would greatly increase the demand for some common stocks. Life insurance companies have been a small factor in the stock market; at June 30, 1955, only about one billion of total life company resources of 87 billion consisted of common stocks. On the other hand, they hold an estimated 45½ per cent of outstanding corporate bonds, about 36 billion dollars. In the first half of 1955 life insurance companies made aggregate investments of 9 billion dollars. If adoption of the variable annuity, coupled with a growing tendency to look more favorably upon equities, should cause as little as 5 per cent of new investment to be made in common stocks, insurance company holdings of these stocks would increase nearly a billion dollars in one year. The significance of an increase of this amount may be judged by noting that the total mutual fund holdings of common stocks at December 31, 1954, was estimated at 5.2 billion dollars.

The common stocks now held by life insurance companies consist primarily of the so-called "blue chips." There is evidence that the present supply of these issues is inadequate to meet the rising demand of institutional buyers. Many of these issues have been bid up to the point where dividend yields are little more than yields from high grade bonds. In several instances, these stocks are yielding substantially less than bonds. In recent years many of these issues have had annual turnover rates as low as 4 to 5 per cent of total outstanding stock. As more and more stock has gone into "strong hands" the floating supply has tended to drop. One of the attractions of the variable annuity—the presumed higher yields of stocks over bonds—would disappear if this condition continued.

The Prudential's economists feel, however, that corporate growth will require sufficient new stock issues to eliminate any problem of a diminishing supply of equities. A similar view was expressed by Keith Funston, President of the New York Stock Exchange, in an address at the First Dartmouth-Tuck Business Conference, June 23, 1955. Mr. Funston estimated that corporations will require 160 billion of outside financing in the next 10 years. If one-fourth, the ratio since 1945, of this money is raised through the sale of equities, we would have a demand for 40 billion. Mr. Funston contended that many corporations have added to their debt because of a restricted market for new stock, and that a more reasonable ratio of debt and equity in raising new money would be a 50-50 split. Should this materialize, and it does not appear to be an unreasonable expectation, the demand for new equity money would mount to 80 billions in the next 10 years.

The purchase of low yielding stocks may well prove to be sound over the long term if higher dividends can be reasonably anticipated. And these same low yields should make new equity issues more attractive to corporations thus permitting a higher payout of earnings to stockholders. In a recent *Fortune* article, William B. Harris and Sanford S. Parker estimate that by 1959 corporations will increase the payout ratio from the current 55 to 65 per cent and that this increase coupled with higher corporate profits will cause total dividends to jump 65 per cent.

Two other implications suggested by adoption of the variable annuity principle are of interest:

(1) Would increased holdings of common stocks by life insurance companies lead to an undesirable degree of influence over corporation affairs? Present common stock holdings of insurance companies do not appear inordinately high. Furthermore, it is likely that life insurance companies will be very slow to acquire a significant proportion of any corporation's outstanding common stock since the industry is still sensitive to the Armstrong Commission Hearings of 1905. These hearings resulted in the order that all New York companies divest themselves of stock holdings, an order which was in effect until 1951 when limited stock purchases, as previously noted, were permitted. The 1951 revision of the New York Insurance Law prohibits acquisition by any insurance company of more than 2 per cent of the outstanding common shares of any corporation.

(2) In the purchase of bonds, a life company need not limit itself to prime risks; it can frequently purchase issues with something less than a triple A rating. This is far less true in the case of common stocks, particularly industrial issues, where purchases have been confined to the stocks of relatively few top grade companies. Would increased funds for investment in these few issues facilitate the rapid growth of established firms while providing little capital for new or more risky ventures? To some extent, a larger flow of insurance funds into high grade common stocks should free other capital for these new or less stable enterprises.

Conclusions

The variable annuity should be made more widely available to the public. Much of the opposition to it centers on the questions of supervision and possible misunderstanding of how it operates. The problems of supervision do not appear insolvable, and intelligent administration by the issuing companies should do much to avoid misunderstanding.

The arguments in favor of the variable annuity are impressive.

Competent authorities estimate a high rate of growth for our economy over the next several decades. Also, many of these same authorities anticipate a continuing slow decline in the value of the dollar. These forecasts should be considered by those planning for retirement. In the past, the holder of a fixed-dollar obligation has not shared in the nation's economic expansion nor has he had any protection against rising prices. The variable annuity offers considerable promise of leading to greater public participation in the expected benefits of a growing economy. It should also provide the participant with some protection against any future inflation.

For several reasons, life insurance companies are the logical issuers of variable annuity contracts. They have large, well-trained agency forces which are capable of appraising the needs and resources of prospective variable annuity policyholders. Life insurance companies selling through agents have always taken considerable pride in their agency forces and have stressed the services provided to policyholders by their agents. Life insurance companies are virtually the only organizations with personnel competent to deal with the actuarial problems associated with the issuance of variable annuities. These companies have won public confidence. They have a high stake in maintaining this confidence by carefully advising each prospective buyer of the advantages and risks of a variable contract.

The variable annuity is a new venture which breaks sharply with the well established fixed-dollar tradition of the life insurance industry. Its future effect on both the policyholder and the life insurance industry may be substantial. To the policyholder, if offers the hope of higher retirement income. To the company, the variable annuity promises a new opportunity for growth and greater services to the public.

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