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MODERN PENSION PLANS

TRENDS • DEVELOPMENTS • FEATURES

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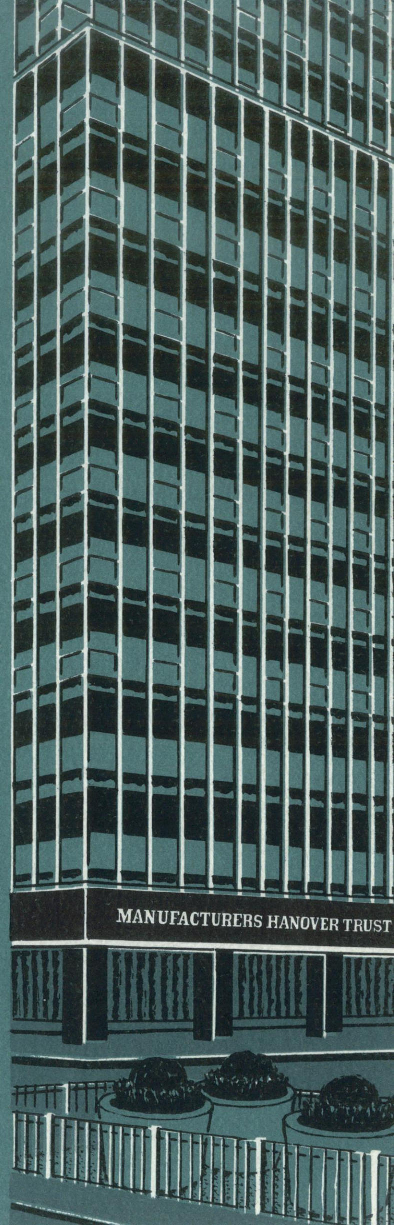

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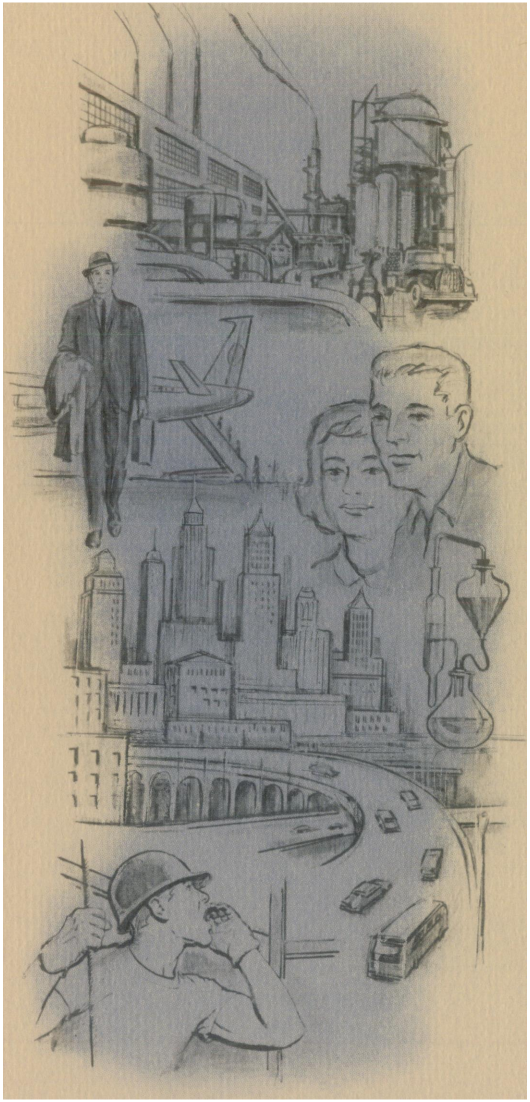

MODERN PENSION PLANS

MANUFACTURERS HANOVER TRUST COMPANY

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

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PREFACE

"Public attention has been focused on corporate retirement practices to a large extent because of a basic demographic shift in our society — the relative growth of the aged. Obviously, corporate retirement practices have a special significance in a society with an increasing—rather than a decreasing — aged population."

"Corporate Retirement Policy and Practices" by National Industrial Conference Board

"The most important thing most managers have learned about pension plans is that they don't stand still. Decisions made a few years ago, during the great rush to provide employee security after World War II, must be constantly reviewed and revised — usually, from the standpoint of costs and benefits, upward."

Bureau of National Affairs, Inc.— "Pensions and Profit Sharing"

Modern Pension Plans

A basic premise of American life is that the future will be brighter than the past. Therefore, it is not surprising that American business and labor continue to display concern for the aged and to show initiative in seeking better ways to meet the problems of retirement—human and economic problems that are part of the future of each and every one.

As the economy has expanded, needs shifted, and our population grown, significant trends have appeared.

New social, economic, demographic and competitive factors have influenced the viewpoints of government, management and labor toward the benefits which should be provided by private pension plans.

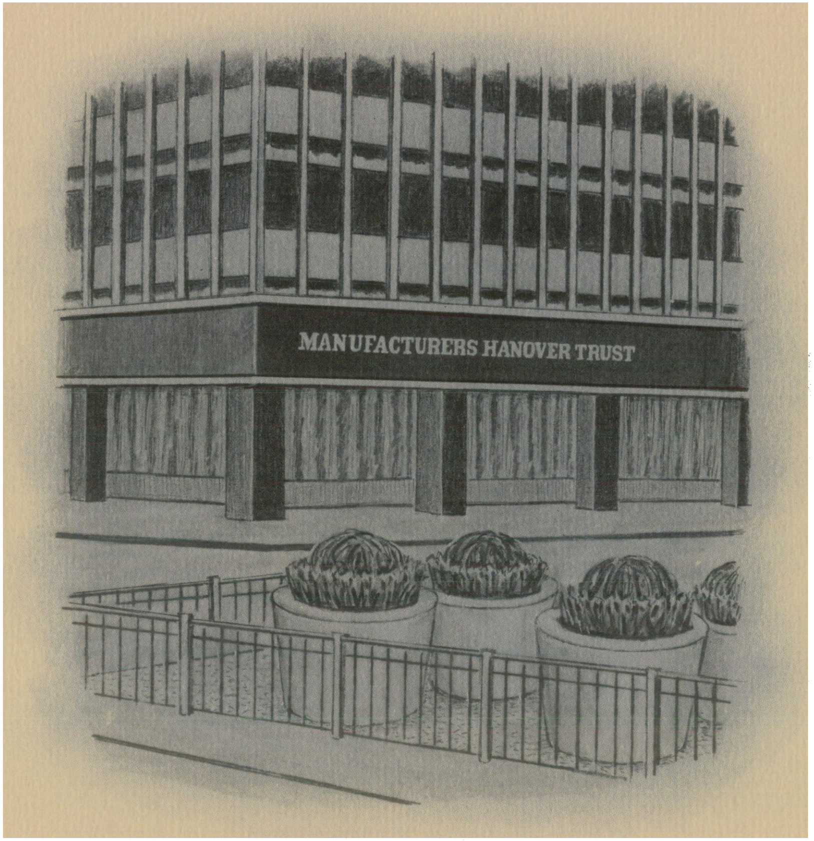
Furthermore, many pension funds have grown much more quickly than originally anticipated. There are instances in which the assets of older pension funds exceed the net worth of companies that established them. Such potential clearly merits a close and continuing attention by senior management.

In this book, therefore, we:

- Review, very briefly, the development of modern private retirement plans, and discuss significant recent trends;
- Consider, in some detail, specific features of modern pension plans that are being given closer attention as new plans are established and older ones modernized; and
- Present in brief form, the essential elements of successful pension plans.

We hope you will find this helpful in determining whether your pension plan is up to date and still effective in every way. This book will be useful also to those who are now considering a new pension plan.

Officers of our Employee Benefit Plans Department talk every day with management and labor leaders concerned about such matters, and work with their actuaries, accountants, and attorneys in finding practical ways to meet their needs. If we could help you reach a sounder decision on your plan, old or new, we would be delighted to do so.


MANUFACTURERS HANOVER TRUST

THE DEVELOPMENT OF MODERN PRIVATE RETIREMENT PLANS

A Look Back

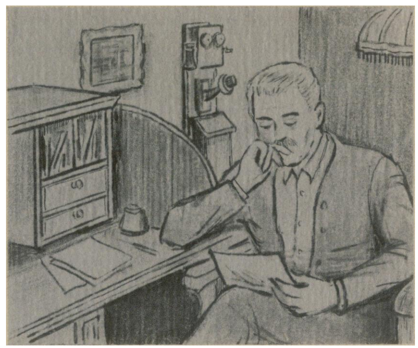
Historically, retirement in America was largely a personal problem. Men and women worked as long as they were able, and then, if personal savings were insufficient, were taken care of by family, church, or friends. Industry, as a rule, was not generally concerned; labor was not strong; the need for personal retirement security was not critical.

In 1930, there were relatively few formal "funded" pension, profit-sharing, or stock bonus plans in existence in the United States, mostly established by the largest and most successful companies. But in response to the economic and social pressures of the Great Depression and, perhaps most significantly, the inception of Social Security in 1937, private retirement plans began to grow quite rapidly. By 1940, such plans covered about 4 million employees. Another 2 million workers gained coverage during the war years, and by 1950 the total was close to 10 million. By the end of 1964, a total of some 25 million employees, about half of those in private non-agricultural industry, were covered.

Also by the end of 1964, accumulated reserves for all private plans were over $75 billion—and yearly benefit payments close to $2¾ billion.

It is estimated that by 1980, 42 million employees, three out of five in private non-farm occupations, will be covered, while reserves will grow to $225 billion.

Most of this has come about as a result of business and labor initiative, with the encouragement of favorable tax laws and labor relations statutes, and the excellent investment performance by pension funds. Since the greatest portion of funds has been entrusted to trust institutions, their influence on investment growth has been of major significance.



These same factors continue as the impetus for current and future growth. The following comment from the report by the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs emphasizes the importance of tax incentives:

> *"The prevailing tax provisions for private pensions make it possible to provide private pensions at a substantially lower cost than that which would result if no special tax provisions were available for pensions. Regardless of how the worker and the employer may share the benefits–in the form of higher pensions or reduced costs–which the special tax provisions for pensions make possible, it is evident that the advantages for both employers and workers are very significant."*

The purpose and nature of pension plans

Usually, the term "retirement plan" includes not only pension but also profit-sharing plans, funded and pay-as-you-go plans, corporate and multi-employer and union administered plans; it also includes those of non-profit organizations and railroad plans supplementing the Federal Railroad Retirement Program.

In this book, we concentrate our attention on *funded corporate pension plans*, established with *the primary object of providing retirement security*, and *promising* employees that they will receive *benefits of a definitely determinable amount.*

The annual contributions toward the advance funding of pensions are based on actuarially determined liabilities and funding schedules. Such contributions tend to be more or less stable, either in dollars or as a percentage of payroll. Many variables, of course, affect accurate determinations of cost, and these must be carefully considered with the actuary. Once the plan is constructed and effected, the company has assumed an obligation that continues *until the plan is revised or amended.*

Modern concepts

As time goes by, retirement plans do become outmoded and inevitably need amendment or revision. The characteristics of up-to-date plans may be so different that revision of an existing plan can be virtually mandatory. Moreover, for competitive reasons, modernization would certainly be desirable.

The more significant trends have been toward –

- Larger, more adequate basic benefits;
- Consideration of variable pensions;
- Liberalized provisions for early retirement;
- Earlier, more rapid vesting;
- Improved provisions regarding disability;
- Inclusion of widows benefits and pensions;
- Improving investment performance;
- Use of asset appreciation to offset costs.

Other developments, secondary but nevertheless important, involve –

- Adjusting to new levels of Social Security;
- Desirability of employee contributions;
- Broader coverage of employees;
- Permitting wider choice in form of payment;
- Funding for post-retirement medical benefits;
- Special problems.

We shall now consider these trends and developments in more detail.

SIGNIFICANT TRENDS IN MODERN PENSION PLANS

Unquestionably, management policies differ markedly from company to company and from industry to industry, and the influence of organized labor may be stronger in some situations than in others. These factors will affect the relative importance to each company of the individual trends which are now discussed; it should be stressed that the sequence followed is not intended to indicate the order of significance for these trends.

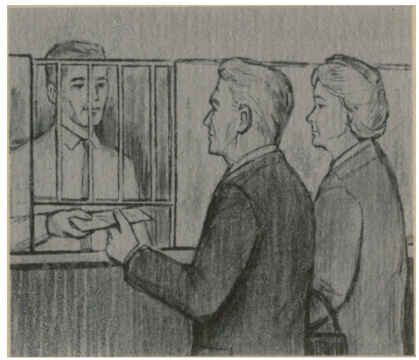
Improved Basic Benefits

As living costs and standards have risen, so has the concept of satisfactory retirement income to provide retirement security. It seems generally accepted now that an income, *including primary Social Security*, of 50% of pre-retirement earnings is desirable – possibly ranging from 60% for the lower-paid employees to 40% for those who earn more.

A good many pension plans use "career-average" benefit formulas based on aggregate earnings of the employee during his years of participation in the plan.

Unfortunately, such formulas have often resulted in inadequate benefits to long-time employees in the company or industry where wage or salary scales have risen substantially during the latter years of their careers. They especially tend to penalize the individual who rises to supervisory or executive status late in life. And compensation increases just before retirement because of inflationary pressures have little effect on a "career-average" retirement benefit.

Many companies have, therefore, shifted in recent years to a "final pay formula" that meets these objections by basing benefits on final pay or average earnings over the last five, ten, or other specified years before retirement.



However, since future salary levels are uncertain, it is more difficult to compute accurately the future cost of a "final-earnings" plan. In the alternative, therefore, some companies prefer to review and improve the benefits under their "career-average" formulas at regular intervals of not more than five years. This enables them to bring benefits in line with current salary levels frequently enough to avoid serious injustice to any retiring employees.

Besides the career and final pay plans, there are those pension plans which provide benefits of a fixed dollar amount; others relate benefits to Social Security in such a way that as Federal benefits increase, amounts payable from the company plan decrease. In the case of union-negotiated plans, a worker's pension is usually based on a flat dollar amount for each year of service. With the passage of time, each of these formulas tends to become outdated—either because of general inflation or rising standards as to adequacy of pensions. In past years, this has been cause for frequent changes to update pension amounts or revise benefit formulas.

Many pension plans impose a maximum amount that may be paid as a retirement benefit. In recent years, for the same reasons, such arbitrary ceilings were increased from time to time or even eliminated.

Because of these frequent changes and constant efforts to eliminate deficiencies, some plans have become quite complex. It is evident that no single formula can anticipate all problems, but the trend toward plans that are at least partially "self-adjusting" seems definite.

Variable pensions

The inflationary spiral of the last 15 to 20 years has had a profound impact on pensioners, who usually could look only to periodic Social Security benefit increases for any offset against higher living costs. Historically, for understandable but not always adequate reasons, voluntary adjustments in pensioners' current benefits by corporate plans have been rare. The impact has also been apparent on older employees who voice concern over the future adequacy of their expected pensions. Pension plans which use a formula relating benefits to salaries of later years have provided protection for changes in purchasing power during an employee's working life; but at best, this is only a partial solution, since the problem still remains for retirement years.

Management, of course, has been concerned with these results and been more inclined toward consideration of some form of a variable pension arrangement. Recently, the AFL-CIO has set, as one of its goals, that "pensions for retired workers should provide a cost-of-living adjustment." The strongest advocate of such adjustments has been the United Automobile Workers International Union, which usually raises the issue in its bargaining sessions, and in fact has negotiated a number of plans which use the Bureau of Labor Statistics Consumer Price Index as a base.

There are two basic types of variable pension arrangements – one is usually known as the "cost-of-living plan," and the other as an "equity annuity plan."

The "cost-of-living" plan gears the amount of benefit payable during retirement to a recognized index—e.g., the aforementioned Consumer Price Index. The amount at retirement would be the normal accrued benefit; or it could be the aggregate of annual credits during an employee's membership in the plan, each annual credit adjusted up or down according to changes in the cost-of-living index. After retirement, the pension payment would be adjusted at least once per year for any significant changes in the index. The employer bears the risk of increases in benefits; actuarially, this becomes only another factor in the determination of costs under the plan.

The "equity" pension arrangement is usually modelled on the plan of the "College Retirement Equities Fund" (CREF), affiliated with the Teachers Insurance and Annuity Association. A specified portion of the total pension will fluctuate in relation to the market value of underlying investments, primarily common stocks, and will reflect the excess or deficiency of investment income to the assumed rate. The balance of the pension will be fixed as under a conventional pension plan. Under the "equity" arrangement, the employer's costs are not directly affected; the expectation is that variations in the combined pension payment will approximately reflect changes in cost of living.

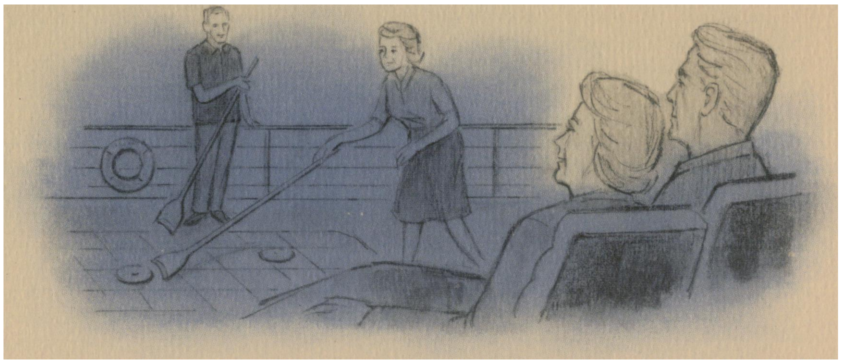
The variable annuity has now been with us for over 10 years and although it originally created much interest and was widely discussed, it was not much used; however, it has recently been gaining in popularity.

Liberalized provisions for early retirement

The trend toward more liberal provisions for early retirement – i.e., before 65 – is one of the more marked of recent years. Many observers believe that the automotive industry settlement of 1964, with its supplemental allowance to encourage early retirement, is significant for the future.

Labor sees early retirement as one way of sharing work and partially solving the problems of job scarcity and automation. Management, concerned about the same problems, feels freer to cut back unprofitable operations and eliminate a substantial number of jobs if it can do so without depriving long-time employees of their fair—and perhaps much-needed—benefits under a company pension plan.

Early retirement has always appealed to certain employees, who genuinely look forward to pursuing other interests. And management has also found it useful to be able to retire early the superannuated workers whose inefficiency is costly and whose very presence can be so discouraging to able younger employees ambitious to move ahead.



Eligibility for early retirement still depends, of course, on certain age requirements, such as age 55, or age and service combinations, like age 55 and 15 years. Company consent is often required, and benefits will usually be actuarially reduced. However, more and more plans are making the matter one entirely of employee option, and are increasing the benefits.

Some of the ways in which plans make early retirement more attractive are:

- Offering the same benefits at early retirement as at normal retirement, usually after age 60 or thirty to thirty-five years of service.

- Reducing the differential between the benefits payable at normal retirement and those available earlier.

- Making early retirement benefits at their actuarially reduced amount, but supplementing this until age 62 or 65 when Social Security begins.

- Combining basically improved early retirement benefits with a cash severance pay plan.

Such "improvements" as these do not come without a price – e.g., the cost of automotive pension plans was doubled in one round of negotiations, due in large part to improved early retirement provisions. Furthermore, actual costs are difficult to estimate accurately; predictions are unsure when it comes to judging how many employees will want to retire early, or what improvements in production or automation will provide savings to offset added costs. There is always the danger of making early retirement so attractive that you would lose some important employees prematurely.

Many imponderables affect company policy on early retirement. Labor pressure, employee preferences, the effects of automation, and actuarial predictions must all be weighed thoughtfully before management can judge the wisest course for itself.

Earlier, more rapid vesting

Closely related to early retirement is the vesting feature–i.e., the provisions specifying when an employee becomes eligible for all or part of his retirement benefits whether or not he remains with the company. Vesting provisions vary widely, but generally include certain service and age requirements. Early vesting, of course, tends to free employees to retire early or shift jobs, and does protect them if they are laid off or discharged (whatever the reason).

It is important to note what the President's Committee concluded on vesting:

> *"The Committee is convinced that a vesting requirement is necessary if private pension plans are to serve the broad social purpose justifying their favored status. The Committee, therefore, recommends amendment of the Internal Revenue Code to require that a private pension plan, in order to qualify for favored tax treatment, must provide some reasonable measure of vesting for the protection of employees."*

From the employer's point of view, the major drawback of accelerated vesting is added cost. Benefits that might otherwise never have to be paid must be paid, and there is the possibility that some employees will leave earlier to the disadvantage of the company. On the other hand, as with early retirement, management feels freer to establish manpower policy, shut down certain operations, automate, or discharge inefficient individual employees if vesting is there to ease the blow to those dropped.

There appears to be a trend to liberalize vesting rights, and many companies have already done so. Others are planning to take similar steps to meet competitive pressures and the expressed objectives of organized labor.

Improved provisions regarding disability

Disability presents a particularly difficult problem, both for a company and its affected employees. Disability is no respecter of age or of the pocketbook. It can begin early, last long, and be extremely costly. Disability statistics indicate that out of every two hundred men age 35 today, seventy are likely to be disabled for more than three months (for an average period of over five years) before they reach age 65. Moreover, disability for seven of these will be permanent.

Provisions for disability benefits differ widely from industry to industry, depending largely on the natural hazards of various occupations. Solutions for salaried employees are usually not suitable for hourly-paid workers; moreover, the collective bargaining process has produced wide differences in such benefits. In any event, management today generally recognizes the importance of some form of disability protection and is applying various methods to provide it.

Short-term disability is frequently handled by a formal salary-continuation plan, financed by the employer directly out of company funds on a pay-as-you-go basis. Long-term disability benefits for younger employees or those with short service are being increasingly provided through insurance, often related to group life or major medical coverage.

In pension plans, disability benefits are usually provided for employees who become *totally and permanently disabled* after 10 or 15 years of service. There is also frequently an age requirement. The disabled employee may be entitled either to the pension benefits he has accrued up to the time of his disability (often without actuarial reduction) or to some selected flat amount, such as $100 a month. To prevent duplication of benefits, in some cases disability pensions are offset by Social Security or Workmen's Compensation payments.

While there is no clear-cut single pattern developing, the trend nonetheless is to provide broader disability benefits, possibly through some combination of salary-continuation plans, long-term disability insurance and pension plans.

Widows pensions and benefits

So long as women continue to outlive men, the welfare of a widow will be a natural concern—to the employee, the employer, the government.

In these days, it is not unusual corporate practice to provide group life insurance coverage for twice to three times an employee's annual salary, with the company paying most of the costs; often this insurance is continued after retirement for substantial, although reduced, amounts. Until recently, however, few corporate pension plans included any income benefits for widows other than those available through election of an optional mode of benefit payment such as the "contingent annuitant" option.

On the other hand, Social Security has included benefits for widows, which have been periodically increased; also, federal, state and municipal pension plans often provide for widows of employees.

Several factors have induced corporate management to give a closer look to this aspect of employee benefits.

1. An employee's search for security ex-

tends beyond retirement income for himself. He fears that, in case of his death, his widow may be physically unfit to hold, or be unable to find, employment to supplement an inadequate income. Statistically, remarriage would solve the problem in limited instances only.

2. Should an employee die in active employment, group life insurance of twice or even three times annual salary would provide little income. After deducting funeral expenses and costs of settling the estate, this might leave a widow, aged 55 to 60, with an income less than 15% of the employee's salary.

3. Should a married employee die after retirement, his widow would receive an income from the pension plan only if an option, such as the contingent annuitant, were in effect. But, many employees are deterred from electing this option because of the penalty to the employee's retirement income. An option to provide 100% continuation to the widow would result in approximately a 30% reduction in his income; a continuation of 50% to the widow would penalize him about 15%.

4. Despite actuarial explanations to the contrary, employees tend to look upon pension reserves as monies accumulated on their individual behalf. They consider total forfeiture of the reserve in case of death before retirement to be unjust. So, an employee might take early retirement and elect a contingent annuitant option to protect his widow against a total loss of his equity in the plan.

Practically, the problem is much the same whether an employee dies before retirement and his widow receives nothing, or he dies after retirement and the pension stops.

The term "widows pension" is used here to distinguish payments to widows which begin after an employee's retirement from "widows benefits" which commence because of an employee's death before retirement.

There are numerous ways in which widows benefits and widows pensions can be implemented; the form, which they may take, is varied. But, before a company adopts any arrangement, its entire employee benefit program should be evaluated in conjunction with the pension plan—especially the group life insurance and profit-sharing plans. Duplication, pyramiding, and deficiencies in aggregate benefits for any age group must be avoided. Since widows' features are added to a program on the basis of a need applying only to married male employees, rather than as a right of all employees, there will be the problem of avoiding a sense of discrimination among female and unmarried employees.

Manufacturers Hanover Trust added widows pensions and widows benefits to its retirement program recently. Their features are set forth here, not as a recommendation, but purely as an illustration of one company's approach to solving a deficiency and correcting a distortion in its employee benefit program.

If an employee of the Bank dies before retirement, but after age 55 and completion of 10 years of credited service, a combination of benefits from group life insurance (three times salary) and the pension plan is used to provide a widows benefit. After payment to the widow of a lump sum not exceeding one-half year's salary, the remaining group life insurance proceeds are applied under a settlement option to produce equal monthly instalments for the first 10 years. After 10 years, provided the widow is alive and has not remarried, a widows benefit equal to 40% of the member's accrued pension benefit to the date of his death becomes payable.

Upon a member's death after retirement, a widows pension equal to 40% of his normal pension is continued to the widow until she dies or remarries. This is in addition to post retirement group life insurance proceeds of one-half year's salary. If a member wishes to supplement the 40% pension continuation to the widow, he may, prior to retirement, elect a contingent annuitant option in lieu of part (not more than 60%) of his normal pension.

Since widows pensions replaced substantial post retirement insurance, additional costs to the Bank were considered reasonable. Also, by deferring commencement of widows benefits while using life insurance proceeds to provide an income during the first 10 years, a pyramiding of death benefits for the 55 to 64 age group was avoided. An important advantage to the Bank was the right to prefund the non-insured benefits as part of the pension plan with appropriate deductions for tax purposes – a privilege not available for post retirement group life insurance.

While the above is but one example of how protection to widows can be provided under a pension plan, arrangements are possible in many other forms. Although the widows pension has not been as widely applied as the widows benefit, there is evidence of much greater interest now in this newer development.

Improving investment performance

The inevitable effect of expanded benefits and broader coverage—both acknowledged trends—is an increase in pension costs. Actuaries, as well as other analysts, have continually stressed investment earnings as the prime element in reducing the true costs of retirement benefits. Now, as their own funds burgeon and as their investment understanding broadens, management is recognizing the full impact of this fundamental, that *costs will be reduced if investment performance is improved.*

As a natural consequence, corporations have turned for another look at their pension funds, so as to assess investment performance and consider possible areas of improvement. Some of the evident developments thus far have been:

1. A more detailed scrutiny of pension fund investment portfolios.

2. Derivation of intricate formulas by actuaries, corporations, and corporate trustees to measure investment performance.

3. A comparison of the fund against companion funds or available general statistics.

4. An increased rapport between management and the corporate trustee.

5. Elimination of restrictions on types and classes of investments.

6. An increased interest by management in broader investment areas, e.g., private placements, mortgages, sale and leaseback arrangements and other types often avoided previously.

7. Appointment of corporate trustees as successors to groups of individual trustees.

This attention and activity by corporations with their pension fund investments has had a stimulating effect on corporate trustees. Banks have responded by increased activity within portfolios, an intensified effort to find and evaluate new investments, and a rebalancing of funds among classes of securities to maximize return. The net result has been an appreciable and satisfactory improvement in income and growth of such funds.

We can assume that management's interest in the investments for their pension funds will not decrease. It can be expected that insurance companies will strive to attain the success of corporate trustees with pension funds. Competition among banks in investment performance will continue. All of which can only redound to the benefit of trusteed pension plans through better investment results.

Application of asset appreciation

The "1964 Survey of Pension Plans" prepared by the Securities and Exchange Commission reported that the aggregate $63.4 billion market value of private non-insured funds included $12 billion of unrealized profits in common stocks—an appreciation of 57.7% over the book value of common stocks and of 18.9% over that of total investments.

The prevalent method of valuing pension trust funds for tax purposes and actuarial computation of liabilities employs book values as its base—for common stocks, this would be cost. Thus, substantial market appreciation has tended to distort the true financial status of many pension plans, especially those which have invested in common stocks for a longer time. Many companies have eyed these appreciated amounts with concern; should they be utilized to reduce costs? might they be used to increase benefits and improve the plan? could there be criticism by the Internal Revenue Service? Although these unrealized assets can be an effective hedge against possible market fluctuations and a contingency reserve for adverse experience by the pension plan, realization of such assets could only be effected by sale and reinvestment of the appropriate securities.

However, since 1957 the Treasury Department has permitted recognition of such unrealized asset appreciation without "physical disposal" by adoption of an acceptable alternate valuation method. Any such new method would require approval by the Internal Revenue Service and must not lead to possible underfunding; once adopted, it should be followed consistently and cannot be replaced by book valuation later.

As a result of this ruling, numerous methods have been devised and, upon approval by the Internal Revenue Service, adopted. One method used by a number of corporate plans recognizes appreciation in the market value of common stocks by "writing off" each year a specified percentage, such as 15%, of the difference between cost and market value of common stocks, on an individual basis; each year, the market value of the common stocks is determined and after taking into account any adjustments in previous years, the specified percentage of the uncapitalized value, if any, is applied to reduce contribution requirements. Another approved approach is to substitute an average market value of the common stock portfolio during the preceding five years in place of cost for valuation purposes. Of course, each of these methods is more complicated than this over-simplified explanation.

Whether recognition of unrealized appreciation is desirable for any particular plan depends on such factors as the actuarially assumed rate of interest, the type of benefit formula, the proportion of funds invested in equities, and the general earnings record of the company. Before any corporation decides to adopt the alternate valuation method, all the implications and possible effects should be thoroughly analyzed with the actuary and the corporate trustee.

Other Important Developments

The major trends previously discussed would appear to be of significance to almost all companies. Other trends may affect plans to a greater or lesser degree, depending on the industry or the individual circumstances of the company.

Adjusting to new levels of Social Security benefits

Originally, many pension plans were established to supplement modest Social Security benefits. Sometimes benefits paid from the plan were a specified amount less all or part of Social Security—the so-called "offset" plan. Or a plan's benefit formula was "integrated" in a way that recognized Social Security payments but avoided paying a larger aggregate percentage of compensation to higher-paid than to lower-paid employees.

Although Social Security was, in one sense, a base for such plans, most companies for some years tended to disregard the relatively minor changes and adjustments which took place in Social Security. Now, however, that benefits and contributions have grown quite significantly, companies find it essential to review pension programs whenever increases in Social Security wage bases or benefits come into effect.

Desirability of employee contributions

At one time – during the 1940's – most corporate plans required employees to contribute to the cost of pensions. Social Security, which supplied the original and greatest impetus to pension plans, was supported by taxes on both employer and employee; and federal, state and municipal employees were required to contribute to public pension plans. Several other reasons made it quite natural to extend the practice into private pension plans. It made saving for retirement a joint effort by employer and employees, and the employee's savings provided an added feature – the accumulated amount would be refunded on termination of service before retirement or paid to his beneficiary in event of his earlier death. Since such contributions reduced an employer's pension costs, in many cases this helped provide greater benefits under the plan than might otherwise have been possible.

Since the 1940's, however, there has been an obvious gravitation away from employee contributions. Several factors make employee contributions unattractive. They have a lesser value in building retirement benefits since termination of service or prior death requires a refund; Treasury regulations do not allow employees to deduct their contributions currently for income tax purposes; also, increasing Social Security taxes are having an impact on employees' take home pay. Management is aware that all of this tends to make contributions unpopular with employees, especially the younger. It is noteworthy that practically all union-negotiated plans are being financed by contributions from the corporation alone.

As a result, in recent years new plans have seldom required employee contributions, and many existing plans have been amended to reduce or entirely eliminate them. It appears quite likely that, unless income tax laws are revised to permit current deductions to employees for their contributions, the drift in this direction will continue.

Broader coverage of all employees

There are still many plans today which limit participation to certain groups or classifications of employees. Such plans qualify for Treasury approval as long as they do not improperly discriminate in favor of officers, supervisors, stockholders, or other highly compensated employees. Thus it is possible for some plans to include salaried employees while leaving out hourly workers, or to include only employees earning in excess of the Social Security wage base. In certain cases, plans cover only employees in certain divisions or locations.

There is a trend, encouraged in some measure by the Internal Revenue Service, for pension plans to include a broader spectrum of employees and to make eligibility for participation less stringent. Moreover, indications are that the Treasury is taking a closer look at plans whose limitations appear to be discriminatory "in effect."

Wider choice in form of payment

Many older plans restricted benefit payments to the single method specified by the plan or permitted one or two optional forms, usually only the contingent annuitant option (joint and survivor). If options were available, strict conditions as to their election were imposed and committee or employer approval was necessary.

In more recent years, the trend has been to broaden the optional choices and to liberalize the conditions under which they may be elected, so that today, plans offer a variety of actuarially equivalent selections. Typically, these would include the contingent annuitant option in a variety of forms, an option guaranteeing payments for a minimum selected period of years, and a "catch-all" option which would provide for any reasonable and actuarially equivalent option, including payment in a lump sum, provided the selected option does not violate the Internal Revenue Code.

Sometimes these options are permitted to take effect on the death of the employee prior to retirement so long as the death occurs after age 55 or 60; it would be assumed that the employee retired on the day preceding his death. To obtain this early application of an option, the employee's benefit at normal retirement date would be actuarially reduced; in essence, by the reduction of his benefit, he would be purchasing a widow's or spouse's benefit, or insuring some equity in the pension accumulations during the years preceding normal retirement.

It is now quite common in cases of early retirement to permit election of a Social Security adjustment option. Here, benefit payments in the early years prior to commencement of Social Security benefits at age 62 or 65 would be increased to approximate the aggregate received from both, once Social Security payments commence.

Post retirement medical benefits

Prior to the advent of Medicare, there was an obvious trend towards prefunding medical coverage for retired employees. In 1962 the Internal Revenue Code was amended to permit corporations to deduct as current expenses certain contributions to the pension plan earmarked for medical expenses of retired employees and their dependents.

With the passage of Medicare in 1965, and its extensive basic hospital coverage, important revisions in current hospitalization plans, even their discontinuance, may be needed. For those companies considering post retirement medical insurance, the problems of providing this coverage might now be resolved.

However, there will still be need of protection against expenses of private nursing care and prescriptions. Also, corporations may decide to finance the voluntary supplemental portion of Medicare which covers physician and surgeon fees and additional medical expenses not included in the basic plan.

Special problems

Certain changes in the structure of our economy have affected the direction and organization of corporate business. In turn, this has created problems for companies in the design and maintenance of pension plans—principally in two areas.

1. Pensions for Employees in Foreign Operations.

Complex problems arise in including or establishing pensions for U.S. citizens abroad who are on the home payroll, local nationals, U.S. citizens on the foreign payroll, and possibly third-country nationals. Knowledge of U.S. tax laws and regulations, as well as pension practices in the foreign country, are necessary. In some countries, pensions are considered a basic part of compensation and may even be compulsory; government sponsored plans, comparable to the U.S. Social Security program, will differ; applicable tax laws and acceptable funding procedures vary from country to country. Usually tax treaties between the U.S. and foreign countries or among foreign countries will have a direct bearing on the plan and its operation.

Despite the difficulties, corporations involved with foreign operations find it necessary or consider it desirable to make comparable pension arrangements for the employees so involved.

2. Mergers, Acquisitions, Spin-offs.

These and other corporate reorganizations are increasingly common in the business world today. Parties to a merger or acquisition often find widely differing retirement programs are involved. While continuation of the separate programs, without change, may sometimes be feasible, more commonly a single plan incorporating the better features of each will evolve.

Frequently substantial differences exist in the degree of advance funding of pension obligations. Companies involved in these corporate changes have found it imperative to appraise the value and costs of pension programs before such transactions are consummated. Hidden liabilities can be of such magnitude as to alter the financial terms of the transaction significantly.

Although it is impossible to spell out in the formal drafts of the pension plan and trust agreement all the details of procedure, corporations find it important to include general provisions so that transfer of assets and assumption of pension liabilities by the acquiring company may be accomplished smoothly and without adverse tax consequences. Quite often amendments to the plan or trust agreement are necessary at the time of the transaction, but, at least, repeated changes can be avoided.

DESIGNING A PENSION PLAN AND TRUST AGREEMENT

The decision to establish or modernize a pension plan is always a management determination, approved by the company's or corporation's board of directors and also, in some instances, by the stockholders. Although certain trends and developments have emerged, judgement as to what is practical, possible, or best for your company and your employees remains of central importance. You may be influenced and guided by others, but the final decisions are yours.

Accordingly, we believe it will be helpful to review in this section the basic decisions to be made. Creation or amendment of a pension plan does not, to be sure, involve only the company itself. Expert assistance is necessary from consulting actuary and company legal counsel, and is also available from our Employee Benefit Plans Department here at Manufacturers Hanover Trust. The knowledge we have gained by experience with numerous and different plans should be very helpful in reaching solutions that will best meet your objectives.

Because decisions as to plan design have important consequences, it is essential to employ the services of legal counsel and consulting actuary at an early stage. Counsel will be familiar with the Treasury and other legal requirements that must be met if the many tax advantages of "qualified" plans are to accrue to the company, to the participants and their beneficiaries. The actuary, working closely with the company, can suggest alternatives supported by cost estimates. Together, counsel and actuary will best assure the employer that the plan will qualify for tax purposes and achieve company goals. Company counsel, of course, has final responsibility for drafting the plan and associated documents and for their submission to the Internal Revenue Service for formal qualification.

Basic definitions

Every plan must include certain basic definitions which give meaning to all that follows. Among the most important are:

1. Employee-participants.

The plan must describe the employees to be covered, i.e.—salaried or hourly paid, only those who are permanent or full time, those employed in specified divisions or locations, and so on.

There is considerable flexibility allowed as long as discrimination in favor of officers, stockholders, supervisors, or the highly compensated does not result.

2. Credited service.

Credited service is usually defined as continuous service with the employer. Such absences as military service or other authorized leaves of absence without pay are usually not held to break continuity of service. On the other hand, it is customary to exclude such periods of authorized absence when computing an employee's pension. Employers have considerable latitude with respect to defining credited service, and provisions vary widely from company to company.

3. Compensation.

The plan definition of compensation is vital if it directly affects the amount of the pension to be ultimately paid. Generally, compensation is defined as *base compensation only*. One typical plan defines the term as *"the regular, fixed compensation received by the employee from the company, but excluding any overtime pay, bonus, commission, retainer fee or contribution by the company to any benefit or insurance plan, including this plan."* Occasionally, however, special compensation may be included, for example, commissions under a plan covering salesmen, or overtime pay.

Once the plan has defined who is to be covered, the service to be credited, and the compensation base on which benefits are to be determined, subsequent provisions go on to clarify essential ingredients.

In presenting the following summary and discussion of the principal points to be covered—and decisions to be made—we believe it will be helpful to give extracts from actual plans, and then to comment briefly, noting possible variations, without attempting to cover all alternatives.

Eligibility

"Each employee on the plan's effective date, and any person who becomes an employee thereafter, shall become a member of the plan on the first day of the month following the month in which he has both—
(a) completed one year of continuous service, and
(b) attained age 25 but not age 60."

Eligibility provisions do, in practice, contain many different combinations of service and age requirements. However, in most instances the Internal Revenue Service will insist that the period of service not exceed 5 years and the age not be over 30. Although a maximum age is not necessary initially, it may be desirable with respect to future participants.

Under plans negotiated with collective bargaining units or covering hourly paid employees, eligibility is frequently defined in terms of a minimum period of service, such as 10 years by the time of retirement.

Retirement dates

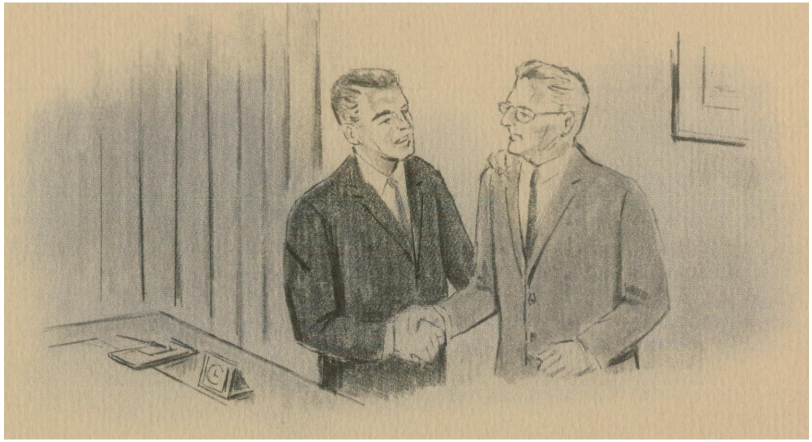
"Normal Retirement Date. The normal retirement date of a member shall be the first day of the month coinciding with or next following his 65th birthday, or the first of the month following the effective date, whichever occurs later."

Age 65 remains by far the most common for normal retirement, although other ages, both before and after 65, are sometimes used. In certain plans, normal retirement may occur at any time between ages 65 and 68. An additional minimum service requirement is sometimes specified, and special provisions may be included to cover eligible employees who are within 5 or 10 years of age 65 at the time the plan is established.

> *"Early Retirement Date. A member who has both attained age 55 and accumulated 10 years of credited service may, with consent of the retirement committee, retire on the first day of any month thereafter."*

Most plans permit early retirement no sooner than ten years before normal retirement. Other possibilities include age 60 and a period of required service, such as 15 or 20 years. Some plans eliminate the service requirement and the necessity to obtain the retirement committee's consent. If committee consent *is* required, care must be taken to comply with Treasury requirements that benefits granted do not exceed the value of vested benefits, which are covered later in this section.

In most plans, the amount of pension paid on early retirement remains the actuarial equivalent of the normal amount. However, as we noted earlier, the modern trend is to liberalize reduction factors and the conditions under which benefits are payable.



> *"Deferred Retirement Date. Upon the written consent of the company, a member may remain in the active employ of the company after his normal retirement date on a year-to-year basis, but in no event shall his retirement be deferred beyond age 70."*

Most larger companies have compulsory retirement at the normal retirement date. If deferred retirement is to be allowed, the provision must be carefully phrased, as this is a matter which often creates dissatisfaction among those who are compelled to retire normally. A maximum cut-off date is advisable, but not required.

In some plans, employees start to receive their pensions at normal retirement date, whether or not they actually retire. More frequently, the amount of pension is frozen at normal retirement, but payments do not begin until actual retirement. Other possibilities are: (a) to freeze the pension amount but increase payments actuarially to reflect the later retirement age; or (b) give additional credit, within certain limits, for salary and service beyond normal retirement in figuring the amount of pension. Since alternatives have cost implications, the deferred retirement provision should be thoroughly considered by the employer with the advice of his actuary.

Amount of retirement benefits

Innumerable variations exist in the methods used to determine pension amounts. The decision depends primarily on the type of plan and the nature of the employee group covered. The following excerpts are typical in form, but not necessarily in percentages and amounts, of those frequently used.

(1) For benefits based on final-average compensation:

> *"1½% of the average annual salary received by a member during the last five years of his credited service up to $6,600, plus 2% of such salary in excess of $6,600, multiplied by the member's credited service up to a maximum of 30 years."*

(2) For benefits based on career-average compensation:

> *"Past Service Benefit – 1% of a member's annual salary on the plan's effective date up to $6,600 plus 1½% of such salary in excess of $6,600, multiplied by the member's credited service prior to the plan's effective date."*

> *"Future Service Benefit—1½% of a member's annual salary up to $6,600 plus 2% of such salary in excess of $6,600, per year of credited service subsequent to the plan's effective date."*

(3) For benefits based on fixed amount per year of service:

> *"An employee eligible for a normal retirement benefit shall receive an individual monthly retirement benefit equal to $4.25 multiplied by his total years (computed to the nearest one-twelfth) of credited service."*

The salary "breaking point" in the first two formulas cited above reflects the change in the Social Security tax base approved by Congress in 1965. Many alternative percentages in the formula are possible; however, those which are selected must meet the special "integration" rules issued by the

Internal Revenue Service from time to time.

Although the inclusion of past service benefits under a career-average formula is optional, usually some credit for past service *is* included. If desired, a maximum period of past service to be counted may be imposed.

Other types of formulas include: a uniform percentage of all salary multiplied by years of service, either inclusive or exclusive of part or all of primary Social Security; maximum and/or minimum benefits, expressed in dollars or as a percentage of salary.

The fixed benefit per year of service formula above is typical of those worked out in negotiated plans with unions. Actually, the formula above quoted was the one agreed on in the 1964 automobile industry negotiations. The benefit amount will vary according to bargaining patterns in different industries.

Payment of benefits

Under most plans, the pension is paid for life, and payments cease when the retired employee dies. If employees contribute to the plan's cost, however, the employee or his beneficiary must receive at least the equivalent of his own total contributions.

The most common alternative form of payment available to the employee is the contingent annuitant option (sometimes called the joint and survivor option). Typical of such a provision is the following:

> *"A member may elect to receive a reduced retirement benefit, payable monthly during his lifetime, with payments to continue after his death, in full or in a specified percentage, to a contingent annuitant designated by the member. The reduced retirement benefit shall be the actuarial equivalent of the benefit the member would have received at his normal or early retirement date, as the case may be."*

Such provisions usually contain other restrictions as to the time by which the election must be made, cancellation of the election, and rules regarding various survivorship situations which may arise.

As has been pointed out, more and more options are being made available in pension plans at both normal and early retirement.

Disability benefits

> *"A member (i) who has completed at least 15 years of credited service and has attained age 45 and has become totally and permanently disabled as determined by the retirement committee, and (ii) whose application for a disability benefit under the Federal Social Security Act has been approved, shall receive a retirement benefit in an amount equal to his accrued normal retirement benefit as of the date of such disability retirement."*

Note that the above does not involve the actuarial reduction usually applied to early retirement benefits, but this is quite common to disability provisions. Other disability formulas provide a specified, fixed dollar amount per year of service, payable until normal retirement date, at which time the normal pension benefit (accrued to date of disability) applies.

Vesting provisions

The term "vesting" is used in pension plans to describe the conditions under which a participant is entitled to his earned pension credits even if his services are terminated. A typical vesting provision might read as follows:

> *"A member whose employment with the company is terminated for any reason, other than death or retirement, after he both has attained age 45 and has completed 10 years of credited service shall be entitled at his normal retirement date, if then living, to a retirement benefit equal to the benefit accrued as of the date of such termination of employment."*

Under present law vesting is not required except at retirement or on termination of the plan. As previously noted, however, vesting provisions are becoming more and more prevalent as a result both of bargaining pressures and the needs of management.

In addition to basic age and service requirements, other vesting provisions are often added. Possibly, "graded" vesting might be specified: for example, 50% of accrued pension credits would vest after 15 years of credited service, and vesting would increase 10% a year to 100% after 20 years. In addition, payments may begin at an earlier age with actuarial reduction, as in early retirement.

Employee contributions

An important question to be decided in designing a plan is whether or not employees are to contribute to its cost. If decided affirmatively, the following typical, or similar, provisions would appear in the appropriate sections of the plan:

> *"For each year of his membership in the plan, a member shall contribute 4% of his annual salary. In no event shall a member make any contributions under the plan after his normal retirement date."*

> *"A member whose employment with the company is terminated for any reason other than death or retirement shall be entitled to withdraw in a lump sum his accumulated contributions plus credited interest to the date of withdrawal."*

> *"In the event a member dies before his normal or earlier retirement date, his beneficiary designated hereunder shall receive his accumulated contributions plus credited interest to the date of the member's death. In the event such member dies after his normal or earlier retirement date, his beneficiary shall be entitled to payment in a lump sum of the excess of his accumulated contributions plus credited interest to the date of his retirement over aggregate monthly benefit payments received by the member."*

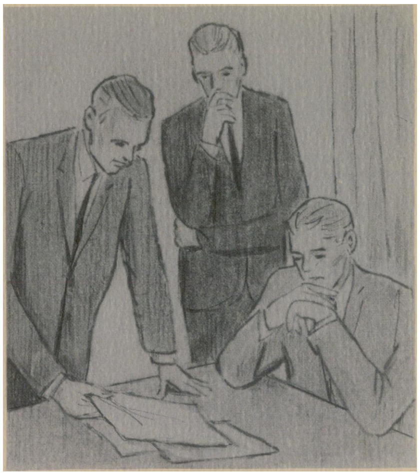
The trend has been toward plans which are financed by the employer alone; under negotiated plans, member contributions are rare. Sometimes plans for salaried employees are contributory, but the employees' contributions are not usually a major portion of total costs. Often no contribution or a decreased rate of contribution applies to that portion of salary subject to Social Security taxes.

Death benefits

While some pension plans include lump-sum death benefits in addition to pension payments, death benefits are more commonly provided independently under group life insurance policies. As noted earlier, such insurance is often supplemented by optional forms of pension payment under which pensions are continued for a beneficiary after an employee's death. If desired, widow's benefits can be added to the plan as discussed on pages 9 through 11.

Administrative and miscellaneous provisions

The administrative provisions of pension plans set forth the duties of the retirement committee, which is appointed by the company's board of directors to administer the plan. The committee is generally responsible for uniform interpretation of the plan, determination of employees' rights, and maintenance of proper records. In these important responsibilities, it is aided by company counsel and the consulting actuary. The actuary, for example, will certify the amounts of pension to be paid to each employee when he retires and may actually maintain the individual employee records for the committee. The committee also issues instructions to the trustee of the fund, and is usually responsible for filing reports required by governmental bodies, such as those specified in the Welfare and Pension Plans Disclosure Act.



Other provisions included in one form or another in pension plans cover such matters as:

- Limiting the rights of employees to those specified in the plan;
- Prohibiting the attachment or assignment of benefits;
- Setting forth the general provisions regarding the trust fund to which contributions are to be made;
- Amending or terminating the plan; and
- Making of payments to retired employees who may become physically incapacitated or mentally incompetent.

The Trust Agreement

For tax purposes, a qualified plan must be a funded plan; furthermore, contributions under a trusteed plan must be made to a trust fund. Accordingly, the essential companion document to the pension plan itself is the trust agreement between the company and the trustee. Most trust companies have developed forms of trust agreements that they prefer to use, at least as a model, but the basic purpose of all of them is the same. The trust agreement describes the creation of the trust, and the investment responsibilities and administrative duties of the trustee.

The most significant provisions of the trust agreement cover investment responsibilities and powers, both as to the trustee's discretion and the types of securities permitted. A variety of provisions may be used in granting the trustee investment discretion—ranging from full discretion to the very limited. However, experience indicates that restricting the trustee in the performance of its responsibilities tends to restrict the investment opportunities as well.

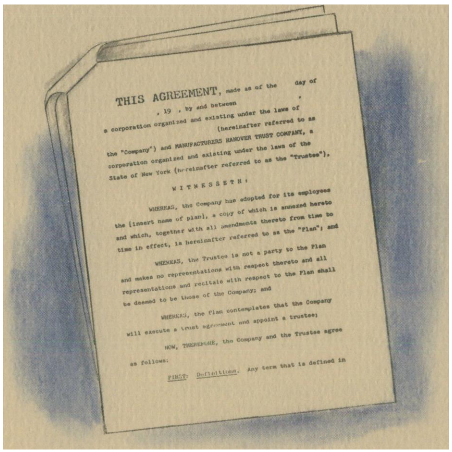
A typical investment provision in the trust agreement could be:

"To invest and reinvest the fund,

without distinction between principal and income, in shares of stock (whether common or preferred) or other evidences of ownership, bonds, debentures, notes or other evidences of indebtedness, unsecured or secured by mortgages on real or personal property wherever situated (including any part interest in a bond and mortgage or note and mortgage whether insured or uninsured) and any other property, or part interest in property, real or personal, foreign or domestic, whether or not productive of income or consisting of wasting assets, without any duty to diversify and without regard to any restriction placed upon fiduciaries by any present or future applicable law, administrative regulation, rule of court or court decision."

Usually, securities issued by the company itself are excluded. If permitted, on the other hand, such investments would usually be made only at the specific direction of the corporation, thus relieving the trustee of any responsibility for such investments. Among the investment powers, it is also customary to include the right to make use of commingled funds maintained by the trustee for investment of qualified pension trusts.

Other important provisions of the trust agreement cover the accountings to be rendered by the trustee, resignation or removal of the trustee and appointment of a successor, and amendment of the terms of the agreement. A provision prohibiting diversion of the assets of the trust for purposes other than the exclusive benefit of plan participants and their beneficiaries is required by the Internal Revenue Code.



THIS AGREEMENT, made as of the day of , 19 , by and between a corporation organized and existing under the laws of (hereinafter referred to as the "Company") and MANUFACTURERS HANOVER TRUST COMPANY, a corporation organized and existing under the laws of the State of New York (hereinafter referred to as the "Trustee"),

W I T N E S S E T H :

WHEREAS, the Company has adopted for its employees the [insert name of plan], a copy of which is annexed hereto and which, together with all amendments thereto from time to time in effect, is hereinafter referred to as the "Plan"; and

WHEREAS, the Trustee is not a party to the Plan and makes no representations with respect thereto and all representations and recitals with respect to the Plan shall be deemed to be those of the Company; and

WHEREAS, the Plan contemplates that the Company will execute a trust agreement and appoint a trustee;

NOW, THEREFORE, the Company and the Trustee agree as follows:

FIRST: Definitions. Any term that is defined in

Qualifying The Plan

Once the plan and trust agreement are in a form acceptable to all the parties, but before irrevocably committing any funds, it is desirable to obtain a determination from the Internal Revenue Service that the plan and trust agreement meet the requirements for qualification under the Internal Revenue Code. Treasury Regulations and Procedures specify what papers and statistics will have to be submitted to enable the Internal Revenue Service to make the determination. In filing for such approval, counsel for the company will have obtained whatever supplemental information is necessary from the actuary.

A formal letter stating that the plan and trust qualify for tax purposes will be issued in due course by the Internal Revenue Service—or the company will be advised of any changes deemed necessary to secure the qualification.

A MODERN CORPORATE TRUSTEE

It is clear, from what has been discussed so far in this book, that pension plans have come a long way from the simple, often modest, monthly check to a retired employee. Present-day plans, numerous in their variations, contain auxiliary benefits, often extend payments to dependents, protect payees against inflation, and support rising standards of living. Moreover, present trends indicate that the future is sure to bring many other improvements—and these may often be complex.

As modern pension plans have evolved, so have the responsibilities of trustees increased, as well as the expectations as to their investment performance. It was once thought sufficient by some for a pension fund to be invested primarily in U. S. Government and standard corporate bonds with modest percentages in the best-known common stocks. The modern corporate trustee must be alert to every form of investment in seeking sound, productive investment opportunities and timing purchases and reinvestments for the best results; it must also be able to furnish prompt, effective administration and supply essential information on technical and tax problems and trend developments. Under the circumstances, the employer naturally seeks a *corporate trustee with technical know-how, experience, and a history of investment excellence.*

Manufacturers Hanover Trust Company has these attributes—as well as the organization and resources to provide the required services in this important and highly specialized field. We also strive constantly to apply our skill and imagination to improve results beyond the normal or expected. The investment of trust funds has been a major activity at Manufacturers Hanover for approximately a century; it has administered and invested pension trust funds for more than 25 years. Thus the Bank offers you the *experience of an organization which works with and serves many of America's largest and most successful corporations.*

Employee benefit plans a speciality

The officers and staff who devote themselves exclusively to servicing employee benefit plans comprise a large segment of the Personal Trust Division. Although concentrating solely on these plans and trusts, this group utilizes all the available resources of Manufacturers Hanover for the benefit of pension accounts.

The officers of each section specialize in their own areas, but also work as an effective team whenever special problems develop.

• ***Research and Development Section.*** Officers of this section are skilled technicians whose highly specialized knowledge and experience prove most helpful in the early stages of the design of a plan or when critical decisions on existing plans are to be made. Many have had prior experience with actuarial firms and as insurance executives, accountants, lawyers, and administrators of corporate plans. In addition to staying abreast of all the latest developments, these officers participate in the research and origination of new ideas and methods. Their familiarity with the latest trends, as well as successful techniques employed by other plans, enables them to contribute constructively to discussions with company officers, attorneys, and accountants.

• ***Administration Section.*** It is the responsibility of this section to see that the duties of the trustee are carried out in accordance with the pension plan and trust agreement. Each account is under the personal supervision of an officer who has been thoroughly trained in all administrative aspects of pension plans. The broad experience of these officers is effective during the initial phases of plan design in assuring the plan's administrative feasibility in every respect; moreover, subsequent amendments frequently require their assistance. In addition to the day-to-day administration of the trust, these officers must be prepared to solve any intricate problems which could not be anticipated in the formulation of the plan, but so often occur.

• ***Investment Section.*** Unquestionably, the critical measure of success of a pension fund is investment performance. The Investment Department of the Personal Trust Division is staffed with professionals who specialize in the productive investment of pension funds. Here, too, each account is under the personal supervision of a senior officer who knows the account intimately and is familiar with all relevant factors, including actuarial assumptions and company objectives. The initial investment policy is based upon information obtained in discussions with company management and its consultants. Constant review ensures adjustments to meet changed conditions or to reflect new information acquired in subsequent consultations. From the moment the first contribution is received, the investment officer seeks that combination of investments which will achieve the best results for the trust.

Broad range of investment facilities

The full resources of the Trust Division and of the Bank—organized to meet the needs of all customers—are applied by the investment officer in the buildup of the investment portfolio. Thus, each pension trust account benefits from the full range of Manufacturers Hanover's financial knowledge and experience.

• ***Investment research.*** In the complex modern financial world, sound investment decisions must be based on a thorough knowledge of pertinent facts. The Investment Research Department maintains a large staff of experienced analysts who spend their full time evaluating the entire range of available securities—including private or direct placements. Evaluations are maintained on a continuous basis, thus providing the investment officer with up-to-date information for effective investment management.

• ***Real estate and mortgage investments.*** Manufacturers Hanover was among the first commercial banks to provide a complete mortgage origination and management service for its customers through its Real Estate and Mortgage Department. In addition to being an excellent source for mortgage investments of all types and sizes, this department works with investment officers to seek and evaluate proposed sale and leaseback arrangements for pension accounts. Its experience and wide contacts in the real estate field offer pension funds sound opportunities for increased investment return.

• ***Special investment opportunities.*** Because of Manufacturers Hanover Trust's prominent position in the New York financial community, special investment opportunities are continually brought to our attention. Since it is one of the nation's largest commercial banks and trust companies with substantial funds constantly available for investment, major corporations, brokers, and other institutional investors frequently submit direct placements and large blocks of bonds and common stocks, often on very attractive terms. This provides our pension accounts with favorable possibilities for superior investment results.

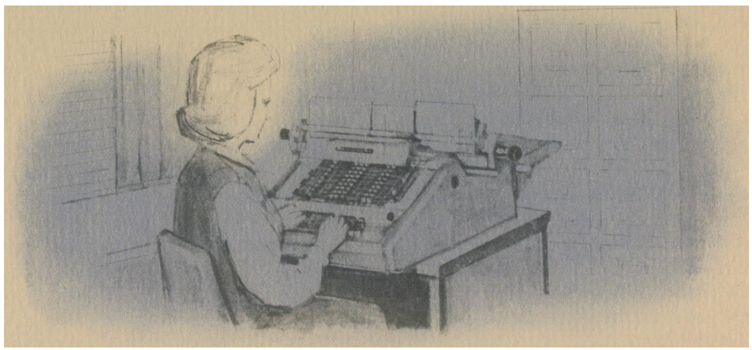
• ***Pooled investment funds.*** While pooled funds provide diversification of risk and participation in favorable investments which might not otherwise be available to smaller accounts, they also often meet the special needs of medium sized and large accounts. In 1955, Manufacturers Hanover pioneered in the development of commingled investment funds for pension accounts and received Treasury approval of its Group Trust. Its aggregate assets of over 100 million dollars are divided between a Common Stock and a Fixed Income Fund. Several hundred individual plans are currently participating. The investment experience has been excellent.

More recently, the Bank has established a Pooled Mortgage Fund. This fund is particularly suitable for larger pension trusts which can allocate substantial sums to this form of investment, and provides an increased rate of return and broad diversification within this investment class.

Administration and operational services

The progressive and often unique characteristics of service by Manufacturers Hanover are important to any company seeking a competent trustee.

• ***Depth in personnel.*** All details in connection with pension plans and trusts are handled by carefully trained specialists under the close supervision of experienced officers. Whatever his function, each officer and employee is backed by individuals familiar with the specific requirements of each account. A program of training is continually in progress to develop additional



personnel so that the continuity of competent service will never be broken.

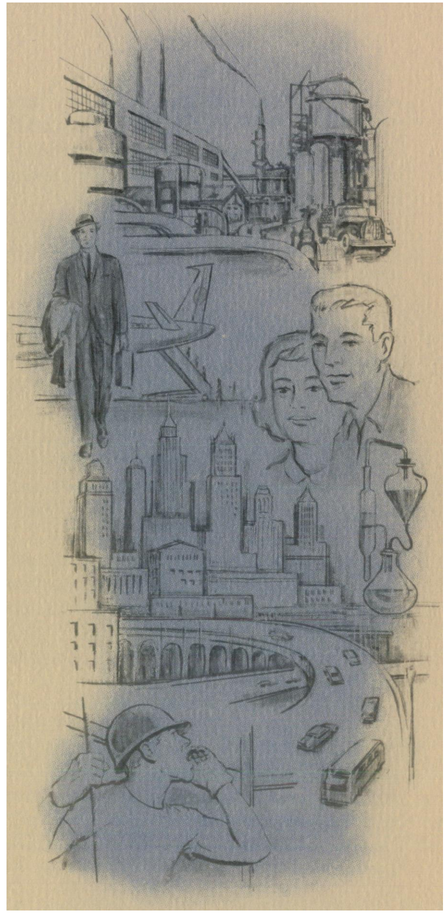
• ***Electronic data processing equipment.*** An extensive computer complex has been applied to accounting and clerical functions throughout Manufacturers Hanover Trust Company. This equipment is to be utilized for the Employee Benefit Plans Department to improve speed, accuracy, and efficiency wherever possible. Not only is Manufacturers Hanover among the most advanced of financial institutions in automation, but it continually researches new applications of this equipment to serve its customers better.

• ***Promptness in payments.*** Pensioners and their beneficiaries are naturally anxious to receive their benefits as soon as they are entitled to them. Our system at Manufacturers Hanover assures prompt and punctual distributions in accordance with the pension plan.

• ***Reports for tax purposes.*** Because of a qualified plan's tax exemptions and deferrals, various reports are required by government authorities. Our annual accounting statements include information required by the Internal Revenue Service from the employer (Form 2950) to substantiate the deductions claimed for contributions under the plan. As trustee, we also file with the Internal Revenue Service the additional annual information return (Form 990-P) to maintain the tax-exempt status of the fund. Where the Internal Revenue Service or a state requires information from the trustee on pension payments, the pensioners receive duplicates for their own records.

• ***Reports of investments.*** The annual accounting of each pension trust includes a statement showing contributions and disbursements, details of all security purchases and sales during the year, and a list of investments showing cost or book value, market value, and other pertinent data. Quarterly listings of investments, as well as monthly cash statements, are submitted as required.

• ***Modest cost.*** Manufacturers Hanover's fees for the standard services to pension funds are based on a uniform schedule applicable to all accounts. Additional fees for special services vary with plan requirements. Basically, these charges are reasonable and competitive; they are in effect the shared cost of a specialized service—already in existence and here to be used to advantage by others. All fees are, of course, a deductible expense to the employer.



AN INVITATION TO YOU

Modern pension planning affords unique opportunities to meet a wide variety of human, corporate, and social needs. It requires thorough analysis, imaginative thinking, and effective investment performance and administration.

We invite you to telephone us or come in to see us at Manufacturers Hanover Trust and meet the officers of our Employee Benefit Plans Department. They are always available to review and discuss all aspects of modern pension, profit-sharing, and employee benefit plans generally, as well as to help you solve your specific problems.

Such initial discussions involve no obligation on your part whatever. They do, however, give you the opportunity to become acquainted with the skill and experience of an organization devoting its full time to this most important activity.

MANUFACTURERS HANOVER TRUST COMPANY

EMPLOYEE BENEFIT PLANS DEPARTMENT

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