Pensions - Financing
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The Trust Investment Method *for Funding* Pension Plans

STATE STREET TRUST COMPANY
BOSTON, MASS.

A VERY IMPORTANT DECISION to be made when an organization establishes a Pension system is how shall the retirement benefits be funded — through investments, an insured method, or a combination of both?

Our experience to date is that almost every organization with which we have discussed this subject had some knowledge of an *insured method*, but few realized that perhaps the *trust-investment method* would provide greater flexibility, both as to operation and payments to the Pension Fund.

There will be situations where insurance, either entirely or in part, will provide the best medium for funding a Pension Plan. This is just as true of funding through investments, and we recommend, since a Pension Plan is definitely a long-term program, that, before a decision is made, the possibilities of both methods be given careful consideration.

While the use of the *trust-investment method* offers no guarantee as does the *insured method*, this should cause no concern if a bank of the standing and long experience of the State Street Trust Company, with its sound and conservative policies, administers the Pension Fund.

Furthermore, it is the actual operation over a long period that determines the cost of any Plan, and, inasmuch as such programs are established to go on for the life of the organization, it would seem logical that any favorable or unfavorable experience as to mortality, investments, or earnings will have the same effect on the ultimate costs of funding regardless of the method used.

A Pension program is not an arrangement by which an organization protects itself against a risk such as loss due to fire, or death of a key executive. It is, rather, a "depreciation reserve" which prepares for the certainty that there will always be the problem of what to do about employees who are working beyond their effective and productive years unless there is a system, such as a Pension Plan, which together with Social Security, makes it possible for the organization to retire employees on a fair and acceptable basis. Here the *trust-investment method* affords advantages for if an organization wishes to solve only its retirement problem, the Plan can be drawn so that the contributions on the part of the employer will be used only for the purpose of providing pensions for such employees who are with the organization at retirement age.

The *trust-investment method* can be most flexible because it offers each organization complete freedom from restriction, except those imposed by Treasury regulations, to write its own Plan and to fund it in the future in the manner best adapted to its particular situation.

Of great importance is the latitude the *trust-investment method* permits in the timing of payments into the Pension Fund, allowing the organization to make maximum contributions in good years and to curtail or even suspend when earnings are off or such funds are needed for important capital expenditure.

A factor which appeals to many executives is that the administration and accounting details falling on management are at a minimum when a competently drawn and installed *trust-investment* Plan is used.

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