

## Proposed Revision of the Pension Plan

January 30, 1941

THE BOARD OF DIRECTORS,  
AMERICAN SMELTING AND REFINING COMPANY,  
120 Broadway,  
New York, N. Y.

Dear Sirs:

### I.

The system of pensions for employees embodied in the Pension Plan established in 1912 has been in operation for twenty-eight years. Throughout this period the Plan has provided that

"the Company reserves the right at any time to alter or amend the Pension Plan in such manner as the Board of Directors shall determine, and any such alteration or amendment shall take effect upon notice thereof from the Board of Directors to the Pension Board".

As empowered by the Revised Statutes of New Jersey, the Company, pursuant to resolution of its stockholders, converted the system into a trust, to which the Pension Fund was transferred, by Deed of Trust dated April 4, 1930. The Deed of Trust provided that the trust thereby created was for the purpose of providing for the payment of pensions to employees

"pursuant to the provisions of the Pension Plan of the Company, as such provisions are now framed and as they may be from time to time amended in accordance with the terms thereof", and that within the meaning of the instrument the Pension Plan "shall be understood to be the plan as now set forth and as the same may hereafter from time to time be further amended".

The Deed of Trust further provided that the Company, as trustee,

"may invest the Pension Fund in whole or part, and contributions made thereto by employees or by the Company, in annuities, payable to employees as provided in the Pension Plan, and upon such investment the monies so invested shall cease to be a part of the trust fund or estate".

### II.

Pursuant to the power of amendment reserved, the Pension Plan has been amended from time to time, both before and after its conversion into a trust.

Pensions provided for by the plan as originally adopted were furnished without cost to the employees, and were paid out of the Pension Fund set aside by the Company or contributions thereto made by the Company. The Plan was amended in 1930 to provide increased pensions to employees electing to become contributors together with the Company; and a contract was entered into with the Metropolitan Life Insurance Company for the purchase with employees' contributions and corresponding Company contributions of annuities for contributing employees, in accordance with a provision of the Pension Plan that

"payments by the Company and by contributors toward the cost of pensions shall be paid into the Pension Fund and applied solely for the purposes of this plan, and may be invested in the discretion of the Pension Board, including investment in immediate or deferred annuities from an insurance company authorized to do business in the State of New York, without restrictions, except that all monies received from employees shall be invested in such annuities".

As originally adopted, the benefits of the Pension Plan extended to all employees of the Company and its subsidiaries within the United States. By two amendments the extent of the original coverage was reduced by excluding from the benefits employees in two groups. (1) In 1932, owing to the reduced earnings of the Company and reduced income from the Pension Fund due to the depression, it was deemed wise to amend the Pension Plan by making it inapplicable to employees of subsidiaries or properties acquired by the Company

after January 1, 1930. (2) In 1935, following the passage of the Federal Social Security Act, the Plan was amended by excluding all employees entering the service of the Company or its subsidiaries after January 1, 1936, and by providing that pensions payable to employees still covered should be reduced to the extent of one-half of payments received under the Government Pension Plan, with due protection in respect to Company pensions payable to contributing employees.

### III.

Consideration of the actual working of the Pension Plan as so amended in the light of the experience gained in its administration, and of suggestions received from the Metropolitan Life Insurance Company derived from its wide experience in the investment of pension funds and in the payment of pensions by means of annuities, induced the Pension Board to make a fresh study of the Pension Plan of this Company and of other comparable companies, with a view to determining whether or not certain revisions of the Plan were desirable in the interest alike of the Company and its employees. As a result of this study the Pension Board believes that the Pension Plan should be revised in the following particulars, and so recommends.

1. That the original scope of the Pension Plan in respect to employees covered be restored to the extent of including employees entering the service of the Company or its subsidiaries since January 1, 1936, employees entering the service as employees of the Federated Metals Division of the Company and employees over forty-five at date of employment, whose annual earnings amount to \$1,900 or over and who elect to become contributors, effective as to services hereafter rendered.

For the most part, these groups of employees came to be excluded from the benefits of the Company's plan partly in order to reduce pension costs during the depression, but chiefly on the theory that the newly enacted Federal Social Security Act would thereafter give such employees pension benefits substantially equivalent to the benefits provided by the Company's plan, and that since the Company contributed in taxes to the support of the Federal system it was under no obligation to do more. In practice, this theory appears to have been justified as regards employees in the lower salary brackets; and to that extent no change is proposed. But as regards employees receiving higher remuneration—amounting to \$1,900 or more per year—the theory did not work out as expected, owing to the limited amount fixed as the maximum pension payable under the Federal Act, which in the case of higher salaried employees failed to give them on retirement relative benefits in relation to their former income and standard of living at all comparable to the corresponding benefits received by employees in the lower salary brackets. It is felt that the total exclusion of these groups of employees from pension benefits under the Company's plan unjustly discriminated against employees working side by side with other employees of the Company who are covered by the present plan, and that such discrimination is not warranted by the mere fact that they entered the service of the Company at a later date. This amendment will not enlarge the scope of the plan in respect to non-contributing employees. This amendment will become effective if 75% of all eligible employees, or 75% of the eligible employees in a particular group or groups, elect to become contributors. There are approximately 570 eligible employees in these groups.

2. That as regards present contributing employees the limitation upon the base pension of a maximum of \$3,000 per year be removed as to annuity credits accruing after May 1, 1930, and that there be substituted therefor the limitation that the base pension be not accrued on any part of salaries in excess of \$20,000 per year, but that such limitation shall not adversely affect any annuity credit already accrued.

Heretofore there was a limitation upon the amount of the base pension payable, but no limitation upon the amount of the increased pension payable to contributors within the limits of 1% of the total salary. Hereafter, the basis for employee contributions under the plan and for the total benefits with respect thereto will be limited to the first \$50,000 of annual salary. The effect of this revision of benefits will be a moderate increase in the total pensions payable to contributing employees in the higher salary brackets with long periods of service with the Company, but at the same time the maximum pensions payable to those eligible will be in amounts below that of pensions paid by the majority of comparable companies to employees of the same class. This revision is desirable also in order to bring the benefits applicable to old contributors in line with the benefits for new contributors brought in under the amendment recommended in the preceding paragraph, thus avoiding discrimination between the two classes. To secure the desired result, this amendment should be made retroactive to May 1, 1930. There are now approximately 900 employees contributing under the present plan, of whom less than 50 will be affected by this amendment.

3. That the Pension Fund, to the amount necessary, be applied at this time to the purchase of annuities for the entire pension liability of the Company accrued to date.

Heretofore annuities have been purchased for pensions currently accruing to contributors. By purchasing annuities at once for all past services of both contributing and non-contributing employees, and by purchasing currently thereafter annuities for future services as pension rights currently accrue, the entire pension liability of the Company would be definitely known at all times. This would have the advantage of replacing an indefinite obligation with a fixed and certain obligation. It would have the further advantage of removing doubts and uncertainties concerning the application of the income tax law. The primary advantage of the change, however, bears on the management and safety of the Pension Fund, for which the Company is now responsible as trustee. The problem of wisely investing and reinvesting monies of a trust fund, and buying and selling securities for that purpose, with a view to securing the best income yield consistent with safety of principal, is not a problem with which officials of an industrial corporation are best qualified to deal. Investment management calls for special training, experience and judgment, as well as a special organization for investigation and appraisal, prepared to give the time and attention necessary for making required changes and reinvestments. The regular performance of such work is a primary function of a great insurance company such as the Metropolitan Life, which accordingly is both officered and equipped for the proper management of investment funds. The great resources of such a company coupled with the governmental supervision to which it is subject is a guarantee of the safety of the funds which it administers. And in view of the great spread of its investments, a major insurance company is ordinarily able to obtain a larger income yield than an industrial corporation. The transfer of the bulk of the Pension Fund in payment for annuities is essentially a funding operation. It involves no change in the ultimate disposition of the Pension Fund, which was created to be used as to both principal and income in the payment of pensions and which in the regular operation of the present plan would be wholly exhausted when the claims of the last beneficiaries were satisfied. In a sense this is anticipated by the funding proposed; and thereafter the duty of managing the funds and making pension payments will be shifted from the Company to the Insurance Company, which is peculiarly fitted for the work because of the nature of its business. The Company loses nothing by the transfer, since by the terms of the trust, which is now irrevocable, no part of the fund is available for corporate purposes apart from the payment of pensions. The transfer should involve no added cost to the Company above the cost of the present plan.

4. That termination of employment for any cause in the case of a contributing employee after arriving at the age of forty-five years and after at least ten years of service and five years as a contributor, shall not result in forfeiting the employee's right to receive on reaching the age of sixty-five years the pension accrued during his period of service in which he was a contributor, provided his contributions are not withdrawn.

This granting of a vested right to a pension under the conditions stated is recommended by the Insurance Company and is in conformity with modern practice. It is a feature designed, not only to give the contributing employee an added sense of security and greater freedom from worry over his financial status in old age, but to enable the Company to keep the pay roll free of employees who by reason of growing infirmity or incapacity cannot keep step with their fellow workers. The Company might well hesitate to discharge an employee grown inefficient, when his discharge would involve the added hardship of loss of pension. Without this provision, the employee, until the time of retirement is actually reached, faces the possibility of discharge up to the very eve of his qualification for a pension. The Insurance Company advises that, based on past experience, it is estimated that the cost of this change will be almost negligible.

In the appended summary outline of the Pension Plan the revisions proposed are more specifically indicated by the parts italicized.

#### IV.

With respect to costs—

The annual cost of administering the present plan since May 1, 1930, has averaged \$315,000. This average would have been materially higher but for the fact that during the period the earnings of the Pension Fund were at times abnormally high. The cost of the present plan is due normally to increase moderately for a period and then normally to decrease gradually throughout the life of the plan. This expense has been defrayed out of income or profits of the Pension Fund and direct contributions thereto made by the Company to make up deficiencies of income. Although the principal of the Pension Fund has increased since 1930 by about a million dollars to its present amount of about seven million dollars, the net income of the Fund has dwindled from about \$366,000 in 1931 to \$217,000 in 1940, owing to the lower yield of investment securities.

The extended coverage recommended in paragraph 1 above will involve an estimated additional initial cost of \$65,000 per year, gradually increasing to an estimated additional cost of \$200,000 per year. But this additional cost will be more than offset by the decrease in the cost of providing pensions for employees under the present plan as the latter leave the service under pension or otherwise.

The revision of benefits recommended in paragraph 2 above will involve an estimated additional initial cost of \$18,000 per year; but this additional cost will steadily grow less until it disappears, since no new employees are to be brought within the present plan.

The funding of all pension liability accrued to date, recommended in paragraph 3 above, will involve the transfer of \$6,183,000 (estimated) out of the Pension Fund from the Pension Trust to the Insurance Company. This transfer will involve no added cost above the cost of the present plan. After the purchase of accrued annuities there will still remain in the Fund \$1,000,000 approximately. This balance may be utilized as and when it may seem desirable in defraying current pension costs, in whole or part.

The added cost of vesting pension rights in certain cases, recommended in paragraph 4 above, cannot be exactly estimated, but the Insurance Company advises that, based on past experience, it should be almost negligible in amount.

As stated above, all figures as to costs are estimates only. As to the extended coverage recommended in paragraph 1 above, they are based on the assumption that 75% of all eligible employees will elect to come under the plan. Obviously, an increase or decrease in the number of employees participating will affect costs accordingly.

Respectfully submitted,

THE PENSION BOARD, by

ROGER W. STRAUS  
Chairman

F. H. BROWNELL

CHARLES EARL

J. C. EMISON

F. G. HAMRICK

Members.

# PENSION PLAN OF AMERICAN SMELTING AND REFINING COMPANY

## SUMMARY OUTLINE

Proposed revisions indicated by parts italicized

EMPLOYEES COVERED at present are those who were in the Company's service and eligible on December 31, 1935.

EMPLOYEES EXCLUDED at present are (a) employees of subsidiaries acquired after January 1, 1930 (e. g. Federated); (b) all other employees entering the service after January 1, 1936; and (c) employees over 45 at date of employment.

*Extend coverage to include employees entering the service of the Company or its subsidiaries since January 1, 1936, employees entering the service as employees of Federated and employees over forty-five at date of employment, whose annual earnings amount to \$1,900 or more and who elect to become contributors, effective as to services hereafter rendered.*

### PENSION PAYABLE:

(a) A base pension (1% of salary at May 1, 1930, times years of service up to that date, plus 1% of total salary from May 1, 1930, to retirement date) payable to non-contributors and contributors alike, limited to a maximum of \$3,000 per year. Paid wholly by Company. *Retroactive to May 1, 1930, as to the first \$20,000 of salary received in each year since then, the limitation upon the present base pension to contributors of \$3,000 per year to be removed, and as a substitute limitation the base pension to contributors not to be accrued on any part of such salary in excess of \$20,000 per year.*

(b) A pension increase (1% of salary) payable to contributors, with no maximum limitation. Paid chiefly by employees and in smaller part by Company. *Accruals to be limited to first \$50,000 of annual salary.*

(c) *To the group included under the extended coverage (1% of the first \$3,000 of salary, plus 2% of the next \$17,000, plus 1% of salary in excess of \$20,000 but not in excess of the first \$50,000, for each year of service from commencement of amended plan), paid by employees and Company, limited to a maximum pension of \$20,000 per year.*

ANNUITIES are purchased (a) for pensions currently accruing to contributors from May 1, 1930, to date, and (b) for pensions currently accruing to non-contributors at Baltimore. *Annuities to be purchased, not only currently for currently accruing pensions, but at this time for the entire pension liability accrued to date.*

SOCIAL SECURITY BENEFIT, for which employees and Company each pay one-half of the tax. One-half of the benefit is deducted from the base pension paid by the Company. *This deduction will be replaced by appropriate adjustment in the rate of pension accrual.*

MATURITY OF PENSION RIGHTS. Apart from cases of total permanent disability, employees become eligible for pension after completing twenty years of service and having reached the age of sixty-five (sixty years in certain cases and fifty years in the case of females). *A contributing employee, after reaching the age of forty-five and after completing ten years of service and having been a contributor for five years, to have a vested right to receive on reaching the age of sixty-five the pension accrued during the period in which he was a contributor, provided his contributions are not withdrawn.*

PENSION FUND. Accrued pension liability incurred to date is at present provided for by the Pension Fund held by the Company in trust. *Provide for the ultimate discharge of such accrued liability now by applying the Pension Fund in the amount necessary to the purchase of annuities in required amount; the remainder of the Pension Fund and the income thereof, supplemented by contributions from employees and the Company, to be applied in the purchase of annuities for future pension liability or in the discharge of other pension obligations.*