Pensions (1950)

ARE YOU CONSIDERING A RETIREMENT PLAN FOR YOUR EMPLOYEES?

Pensions

Many companies have found it desirable to supplement "Social Security" with their own Employee Retirement Plans. Chicago Title and Trust Company has assisted a number of such companies in establishing Plans. This booklet is based on the experience we have gathered over the years, in working out and administering these Plans and the Plan established for our own employees.

We do not pretend in this brief space to present an exhaustive study of the subject of Employee Retirement Plans. We hope, however, that this booklet will help you to clarify your own thinking, and guide you toward a satisfactory solution of the problem of employee retirement in your company.

CHICAGO TITLE AND TRUST COMPANY

OBJECTIVES OF EMPLOYEE RETIREMENT PLANS

Employee Retirement Plans are designed to take care of loyal employees systematically after they reach retirement age . . . thereby eliminating the employee's fear of lack of security in his old age. The businessman recognizes, however, that such Plans also lead directly to an improvement in the employee-employer relationship and to greater flexibility in personnel management. These forces contribute to smoother and more profitable operation of a business. The employee is given an important added incentive toward a deeper interest in his job and this yields greater production efficiency, lower turnover, and more effective use of the labor force. Such benefits, plus the social obligation which employers recognize, have caused a very rapid increase in the number of companies which have adopted or are considering Employee Retirement programs.

WHAT KINDS OF RETIREMENT PLANS ARE THERE?

Retirement Plans fall into three general categories: the profit sharing, the pension trust, and the insurance-annuity type. Plans developed under some of these types are relatively inflexible and may become difficult to maintain when business conditions change. Others have a high degree of flexibility, both in their obligation on the company and in the manner of distributing benefits to participating employees.

These basic types of Plans have many variations, and frequently two or more are combined in a comprehensive retirement program. Since a company may wish to cover a special group of employees (salaried workers, for example, as distinct from those earning wages or those earning more than $3,000 annually), the company may have different types of Plans in operation for different groups.

Whatever Plan is adopted should fulfill Government requirements, so that the Plan will receive the benefits provided under existing Federal income tax laws. Broad coverage within the group of employees to which the Plan applies is a principal requirement. The Plan must be for the exclusive benefit of employees and their beneficiaries; the funds contributed by both employees and employer must be kept separate from those of the business and used for no other purposes than those of the Plan; and the Plan cannot discriminate in favor of officers, shareholders, supervisory or highly compensated employees.

Some companies pay the whole cost of a Retirement Plan. Others require that the employee beneficiaries make some contribution toward their own retirement funds.

In general, the advantages of joint participation are that: (1) it gives the employees a systematic method of saving with income tax advantages; (2) it provides skilled investment services; (3) it creates a feeling of partnership between employee and employer; and (4) it increases the employee's sense of security, because the joint program results in larger retirement benefits.

No income tax is paid by the employee on the company's contribution toward his retirement until after he retires or leaves the company's employ. Then, since his income after retirement is reduced, the tax burden is relatively light. Therefore, *the employee gets greater benefit from a company's contribution to his retirement fund than he would from an equal increase in his wage or salary.*

SELF-ADMINISTERED RETIREMENT PLANS

Each of the several types of Plans has its advantages for particular companies. Some companies favor the guarantee of retirement benefits offered by the insurance-annuity types of Retirement Plans in spite of their relative inflexibility.

An increasing number of companies appear, however, to be favoring the self-administered types—the Pension Trust Fund and the Profit Sharing Plan.

Pension Trust Plans

Under the Pension Trust, the Plan provides for benefits upon retirement for each participating employee, governed by a formula which takes into consideration salary and years of service. A contribution schedule is worked out, based on the payrolls of the employee group covered, the expected annual turnover and other actuarial factors. The contributions to the fund may be made solely by the employer company or employees may be required to contribute. The schedule contemplates that the expected retirements of employees in each year and the accrued obligations according to years of service will be covered by the accumulated contributions and income from investments.

An independent corporate trustee such as Chicago Title and Trust Company invests the fund at the direction of representatives of the company or at its sole discretion. A close relationship is maintained between the trustee and the company's management in the administration of the Plan.

PROFIT SHARING PLANS

We find, from our experience and that of our customers, that a Profit Sharing Plan, either alone or in conjunction with one of the other types of Retirement Plans, is especially satisfactory to both employee and employer.

The Profit Sharing Plan establishes a trust—the employer paying into the trust a predetermined percentage of the company's profits each year. Since the company contributions are based on profits, they are never a burden. The Profit Sharing Plan avoids an inflexible year-in-year-out payment program characteristic particularly of insurance plans. Such a Plan also permits of flexibility in the manner of paying out benefits on death or retirement, and it can be amended in later years if experience, conditions or change in laws make it advisable.

The profit sharing provision is also attractive to the employee. He feels he has a personal stake in the enterprise. He gets more satisfaction from his work and an additional incentive to increase his efforts. Finally, there is the probability that his accumulated fund on retirement may provide greater security than he would have under a pension plan.

If the profits are distributed in cash at the end of each year, they are often quickly dissipated . . . and at best are a negligible factor in *future* employer-employee relations.

But where such profits are accumulated, they may provide security for the employee and his dependents in case of disability, severance, retirement or death. Meanwhile, profit sharing can assure the employee's continued loyalty over his most productive years and rewards his loyalty when he most needs an accumulation of savings.

During the years of his employment, the worker knows that every dollar of profit he can earn for the company means more for his retirement compensation and his old age security. This additional incentive means that he has a personal interest in the full productive efficiency of his co-workers, and they in his.

The administration of any Profit Sharing Plan should be entrusted to a Corporate Trustee capable of investing the funds to best advantage—with the experience and competence to assume, with the company's management, the details of administration, such as keeping of records and the distribution of benefits strictly in accordance with the provisions of the Plan.

The experience of Chicago Title and Trust Company indicates that businessmen prefer that Retirement Plans established for their companies have these features:

> Responsibility for investing and conserving the assets of the fund should be delegated to an independent Corporate Trustee, such as Chicago Title and Trust Company.
>
> Employees as well as management should contribute to the fund.
>
> The company should not obligate itself to a contract that can become too burdensome under adverse conditions.

Many companies have established Retirement Plans which embody both profit sharing and pension programs. The Retirement Plan established by Chicago Title and Trust Company for its own employees has essentially this structure.

WHAT CHICAGO TITLE AND TRUST COMPANY CAN DO TO HELP YOU ESTABLISH AN EMPLOYEE RETIREMENT PLAN

There is no one best Plan for all companies. The Plan you adopt should fit your special conditions. It should take into consideration such factors as the average age level and character of your employees, labor turnover rate, the relative stability or instability of your earnings and employment rolls.

There are three principal elements to an Employee Retirement Plan: actuarial, legal and financial. The three elements are so closely interlocked in the creation and the administration of a Plan that it is unquestionably soundest policy for the three professional consultants to work together with the company's management from the very inception of the development of the Plan.

In the development of the Plan, Chicago Title and Trust Company is prepared to:

1) consult with the management of the company, its counsel and actuary in the consideration of all types of plans, their variations, and their application to the special conditions and objectives of the company.

2) assist the management and its attorneys and actuaries in formulating the final Plan, with detailed provisions for contributions, benefits, forfeitures, investment policies, administrative structure, record keeping and reports to employees and management.

3) assist in working out the many details of procedure necessary to put the Plan in operation.

As Trustee for an Employee Retirement Plan, Chicago Title and Trust Company is prepared to:

1) Receive and administer as Trustee all funds contributed by the management and employees,

2) Make disbursements to beneficiaries in accordance with the provisions of the Plan,

3) Invest all funds as received, including income on investments, according to the investment powers of the Trust Agreement,

4) Maintain complete records of all contributions, investments, gains, losses, income, employee's equities, allocations of forfeitures, and disbursements to beneficiaries,

5) Make periodic reports to the management and the participating employees.

Chicago Title and Trust Company has been named as Trustee in the Retirement or Profit Sharing agreements of a number of companies. They include firms in metal working, mail order, furniture, millinery, finance, heating equipment, stoves, confection, machinery, wholesale distribution and other lines of business. Whether or not we ultimately play a part in the administration of the Employee Retirement Plan established by your company, we are happy to make our knowledge and experience available.

Obviously, in this brief booklet we cannot answer all the questions of the employer who is considering the adoption of a Retirement Plan—or is wondering if the Plan his company is using is the right one under present conditions. However, our Trust Officers are fully qualified to develop with you, your attorney and actuary an insurance, pension trust or profit sharing retirement plan which will best serve the needs of your company and your employees, and meet governmental requirements.

An Employee Retirement Plan which is well suited to your company's special conditions cannot be developed overnight. Actuarial calculations and many other steps must be taken before the Plan can be declared in operation. It is advisable, therefore, to begin detailed consideration of the program well before the end of the tax year in which you will want it to become effective. Morever, it should be conceived not on the basis of your company's operations this year or for the past few years, but as a continuing program which you are willing to support in good years and bad.

Experience indicates that many companies have delayed establishing Retirement Plans because of the great confusion as to the types of Plan, or because they hesitate, in these uncertain times, to make commitments of fixed contributions for years to come. Where a Plan has not been adopted, it is highly important for the future welfare of the company that something be done *now* about the retirement problem. A Profit Sharing Plan may well be the answer.

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Our experience and services are at your disposal. One of our Trust Officers will be happy to make a prompt appointment with you to discuss Employee Retirement Plans—with no obligation.

CHICAGO TITLE AND TRUST COMPANY