

Committee on Pensions:
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Reports. 1962

PENSION COMMITTEE

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Belgian American Educational Foundation, Inc.
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New York, New York

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New York, New York

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Supplementary Report on Pensions

Prepared for

INSTITUTE FOR ADVANCED STUDY

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

January 11, 1962

As requested, we have considered the cost of a modification of the pension programs for permanent faculty members outlined in our report dated October 23, 1961. The modification is to provide a pension for life of 60% of final salary commencing at age 70. For members appointed above age 55, the pension would be reduced by 1/15 for each year over age 55 at appointment. As previously recommended, it is assumed that the benefits would be provided through contracts issued by the Teachers Insurance and Annuity Association of America (TIAA) and the College Retirement Equities Fund (CREF). Such contracts would provide for the application of the member's entire accumulation to provide an annuity to his beneficiary in the event of his death prior to age 70.

Cost of Pensions (as estimated by TIAA-CREF)

Attached to this report is a tabulation of the permanent faculty members showing,

in column (2) - TIAA-CREF policy numbers.

in column (3) - the desired yearly annuity benefit described above,

in column (4) - the yearly annuity benefit which could be purchased with the funds held July 1, 1961 by TIAA-CREF,

in column (5) - the yearly annuity benefit which must be purchased after July 1, 1961 to produce the desired yearly annuity benefit,

in column (6) - the monthly premium payable from July 1, 1961 to the first of the month in which the member attains age 70 to produce the desired yearly annuity benefit.

The computations reflect the rate of dividends applicable up to the end of 1961 to the fixed dollar contracts issued by TIAA (or the guaranteed rates in the policies where, in the case of some of the older policies, they are more favorable). These dividends reflect interest at $3\frac{1}{2}\%$ prior to age 70 and 4% thereafter. Since the computations were made, the TIAA Board has authorized a more liberal dividend scale, effective January 1, 1962, reflecting interest at $3\frac{7}{8}\%$ prior to age 70 and 4% thereafter. If the computations were performed again using the new scale, slightly lower monthly premiums would emerge.

While the monthly premiums are calculated according to the rates and dividends applicable to the fixed dollar (TIAA) contracts, it is assumed that 50% of each premium would be contributed to CREF for investment in equities. (This is consistent with the suggestion made on April 5, 1961 by Mr. Hopkins of TIAA-CREF and included on page V-4 of our previous report.) At age 70 the member would receive a fixed dollar annuity of 30% of his final salary from the TIAA accumulation and a variable annuity from the CREF accumulation (unless he elected to transfer the CREF accumulation to TIAA under the option provided in the contract). The amount of the payments under the variable annuity would differ from those under the fixed dollar annuity to the extent that the experience of CREF differed from the assumptions on which the premiums were computed. Such an arrangement would seem to provide a better hedge against inflation than a fixed dollar payment equal to 60% of final salary.

Before the total cost of the program is considered, it might be desirable to consider the impact of the program on several individuals. As was mentioned on page III-9 of our previous report, twelve of the Institute's current members had TIAA-CREF coverage before coming to the Institute. One of them, Mr. Meritt, now has an accumulation under his TIAA-CREF policies sufficient to provide an income from age 70 in excess of 60% of his current salary. Thus no premium whatsoever is included for him in the tabulation. Also, the monthly premium shown for each of the four youngest members is less than \$187.50, or 10% of their current monthly salary. Since the present pension plan calls for a contribution of at least 10% of salary, if the desire of the Trustees is to liberalize the plan, a minimum premium of 10% of salary should be continued.

The total of the monthly premiums shown in column (6) is \$17,831. If we add \$187.50 for Mr. Meritt and increase the premiums for Messrs. Yang, Borel, Dyson and Lee to \$187.50, the total becomes \$18,230 which is 43.5% of payroll.

This figure is much higher than would be anticipated from Exhibit IIIa of our previous report. The difference arises primarily from the fact (pointed out on page V-5 of our previous report) that the TIAA-CREF policies make it necessary to fund the accrued liabilities associated with each individual over his remaining active years. Since four members, Messrs. Morse, Panofsky, Kantorowicz and Alfoldi, will reach age 70 between now and the end of 1965, very large monthly premiums (totaling \$12,058 at the outset) are required to fund their benefits.

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In order to split the premium of \$18,230 between a relatively stable level premium and the temporary additional premium required to fund the initial accrued liability, we asked TIAA-CREF to compute the monthly premium required (on the basis on which column (6) was computed) to provide a benefit of \$13,500 from age 70 to a new entrant age 41 (the average age of new appointees in Mathematics or Physics) and at 52 (the average age of new appointees in History). The results, \$248 and \$496, are typical of the monthly premiums that will be required for the members appointed to replace Mr. Morse (Mathematics) and Messrs. Panofsky, Kantorowicz and Alfoldi (History). Thus, the monthly premium payable after the four oldest members retire will be approximately

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In summary, the cost to the Institute of the proposed program will be about 18.9% of payroll (or 13.9%, if the current rate of employee contributions is continued) plus the amounts required to fund an initial accrued liability of about \$212,000. While these figures are not directly comparable to those contained in our previous report, they appear to us to be reasonable and appropriate.

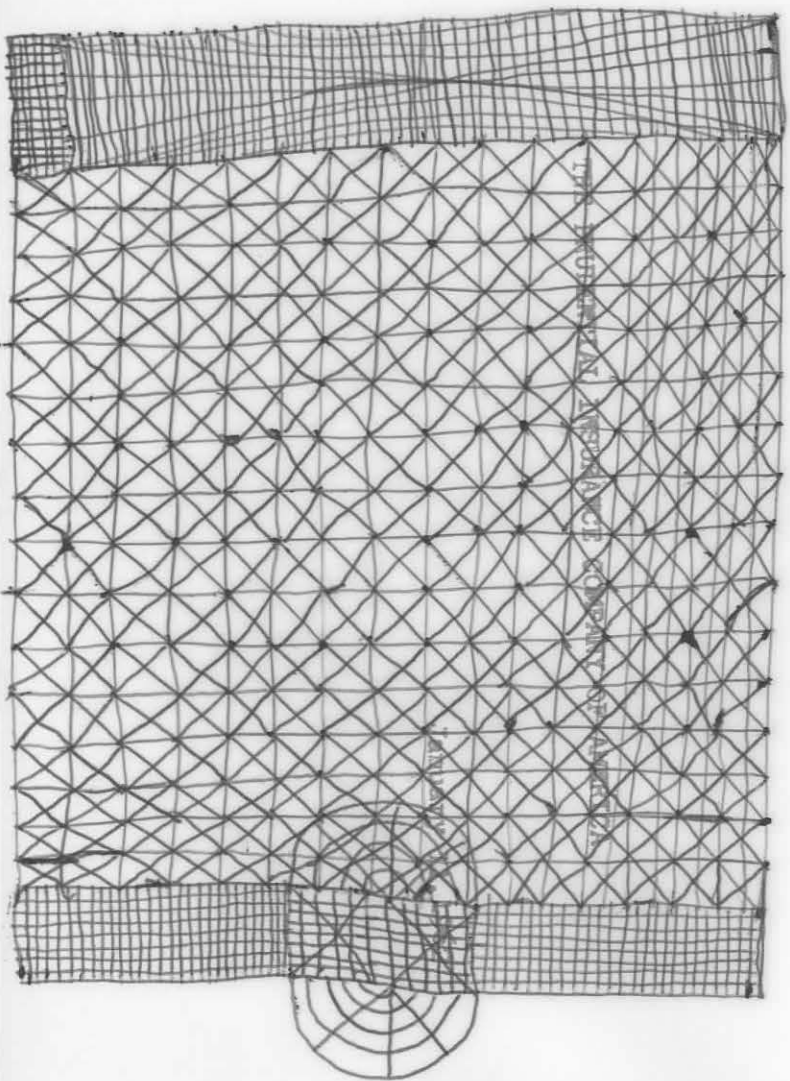
INSTITUTE FOR ADVANCED STUDY

(1)	(2)	(3)	(4)	(5)	(6)
<u>Name</u>	<u>A Number</u>	<u>Desired Benefit</u>	<u>Paid-Up Annuity At Age 70</u>	<u>Column 3 Minus Column 4</u>	<u>Monthly Premium Needed 7/1 to Buy Column 5</u>
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Morse, H.	A- 3471	13,500	10,008	3,492	3,344
Panofsky, E.	A- 14128	13,500	9,788	3,712	4,357
Kantorowicz, E.	A- 77662	13,500	2,385	11,115	2,425
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	A- 81855				
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Dyson, F.	A- 78597	13,500	5,934	7,566	116
Lee, T.	A- 86965	13,500	4,257	9,243	1

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Cost of Pensions (as estimated by TIAA-CREF)

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In order to split the premium of \$18,230 between a relatively stable level premium and the temporary additional premium required to fund the initial accrued liability, we asked TIAA-CREF to compute the monthly premium required (on the basis on which column (6) was computed) to provide a benefit of \$13,500 from age 70 to a new entrant age 41 (the average age of new appointees in Mathematics or Physics) and at 52 (the average age of new appointees in History). The results, \$248 and \$496, are typical of the monthly premiums that will be required for the members appointed to replace Mr. Morse (Mathematics) and Messrs. Panofsky, Kantorowicz and Alfoldi (History). Thus, the monthly premium payable after the four oldest members retire will be approximately

$$\$18,230 - \$12,058 + \$248 + 3 (\$496)$$

or \$7,908 which is 18.9% of payroll. The initial accrued liability associated with the four oldest members may be approximated by the value as of July 1, 1961 of the excess of the monthly premiums shown in column (6) over premiums of \$248 (Mr. Morse) and \$496 (Messrs. Panofsky, Kantorowicz and Alfoldi). Assuming 4% interest and the survival of each member to age 70, this amounts to \$212,000.

In summary, the cost to the Institute of the proposed program will be about 18.9% of payroll (or 13.9%, if the current rate of employee contributions is continued) plus the amounts required to fund an initial accrued liability of about \$212,000. While these figures are not directly comparable to those contained in our previous report, they appear to us to be reasonable and appropriate.

INSTITUTE FOR ADVANCED STUDY

(1)	(2)	(3)	(4)	(5)	(6)
<u>Name</u>	<u>A Number</u>	<u>Desired Benefit</u>	<u>Paid-Up Annuity At Age 70</u>	<u>Column 3 Minus Column 4</u>	<u>Monthly Premium Needed 7/1 to Buy Column 5</u>
Oppenheimer, J.	A- 52898	\$18,000	\$ 6,774	\$11,226	\$ 637
Morse, H.	A- 3471	13,500	10,008	3,492	3,344
Panofsky, E.	A- 14128	13,500	9,788	3,712	4,357
Kantorowicz, E.	A- 77662	13,500	2,385	11,115	2,425
Alfoldi, A.	A- 97382	10,800	1,341	9,459	1,932
Meritt, B.	A- 4469	13,500	14,007	--	--
	A- 81855				
Kennan, G.	A-103133	13,500	3,029	10,471	604
Cherniss, H.	A- 59994	13,500	6,193	7,307	418
Meiss, M.	A- 17603	13,500	4,531	8,969	510
Burling, A.	A- 94406	13,500	3,471	10,029	526
Godel, K.	A- 45501	13,500	4,323	9,177	435
Weil, A.	A- 63138	13,500	4,237	9,263	436
Thompson, H.	A- 14120	13,500	6,735	6,765	296
Whitney, R.	A- 16034	13,500	7,228	6,272	268
Stromgren, B.	A-103716	13,500	3,666	9,834	403
Montgomery, D.	A- 19499	13,500	5,673	7,827	277
Selberg, A.	A- 71156	13,500	4,819	8,681	190
Pais, A.	A-118786	13,500	2,185	11,315	234
Yang, C.	A- 82011	13,500	5,709	7,791	128
Borel, A.	A-118785	13,500	2,595	10,905	172
Dyson, F.	A- 78597	13,500	5,934	7,566	116
Lee, T.	A- 86965	13,500	4,257	9,243	1

REPORT ON PENSIONS

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INSTITUTE FOR ADVANCE STUDY

**Report On Pensions
Prepared For**

INSTITUTE FOR ADVANCED STUDY

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

October 23, 1961

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REPORT ON PENSIONS

INSTITUTE FOR ADVANCED STUDY

Introduction and Summary

As requested, we have discussed with the Director and the General Manager of the Institute the question of changes in the Institute's present plan. This report is intended to cover the principal subjects raised during this discussion. It includes cost estimates which are intended to enable the Trustees to determine whether or not a program of continuing level salary payments for life to permanent faculty members is feasible for the Institute. Alternative benefit improvements which would be less costly than the level salary program are also suggested. A supplementary memorandum (Exhibit VI) outlines some pertinent tax information.

Regardless of the type of program adopted by the Trustees, this report recommends that the Institute continue to take advantage of the facilities of the Teachers Insurance and Annuity Association of America and the College Retirement Equities Fund (TIAA-CREF) to provide income to its inactive members and their dependents.

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I Present Arrangements for Providing Pensions

These are in accordance with the recommendations made March 29, 1957 to the Institute's Special Pension Committee by the Industrial Relations Counselors Service, Inc. (IRCS). The specifications were stated succinctly in Section III of the IRCS report which has been reproduced and attached as Exhibit I of this report. Also attached, as Exhibit II, are the comments made by the IRCS on the present plan at the time it was proposed. These comments are still pertinent. Two points should be noted:

- (1) The Old Age, Survivors and Disability Insurance (OASDI) wage base has been increased from \$4,200 to \$4,800. The IRCS recommendation, at the end of Exhibit II, that "the annual earnings breaking point of \$4,200 (for the non-faculty plan) be expressed as the maximum amount of annual earnings credited for OASDI benefits" was not adopted, perhaps by oversight. It seems desirable that the non-faculty plan be amended at this time to incorporate this recommendation, whether or not it is decided to make other changes in the plan.
- (2) The primary Federal Old Age Benefit has been increased. The table shown in Exhibit II has been revised to reflect this increase.

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II Cost of Present Arrangements for Providing Pensions

The table shown below indicates the cost for the fiscal year 1960-61 according to information furnished by the Institute.

Faculty Members

Contributions (5% of salary) made by 22 members	\$24,900
Matching contributions made by Institute	\$24,900
Additional contribution made by Institute to provide \$10,000 minimum (on behalf of 10 members)	<u>10,921</u>
Total contributions by Institute	<u>35,821</u>
Total cost	\$60,721

Non-Faculty Employees

Contributions (5% of excess of salary over \$4,200) made by 19 employees	\$ 3,286
Matching contributions made by Institute	\$ 3,286
Contributions made by Institute to provide benefit based on first \$4,200 of salary for 42 employees	<u>18,839</u>
Total contributions by Institute	<u>22,125</u>
Total cost	\$25,411

The total contributions by the Institute represent 7.1% of payroll for faculty members and 11.3% of payroll for non-faculty employees.

As indicated in Exhibit I, participation in the plan is compulsory for permanent faculty members. Contributions based on earnings in excess of \$4,200 are optional for eligible non-faculty employees. Of twenty-five employees eligible to make such contributions during 1960-61, six failed to do so. These employees receive salaries in the \$4,500-\$5,400 range and with one exception were appointed in 1956 or later; thus, most of them have only become eligible to contribute quite recently. If a plan providing optional matched contributions is to be continued for non-faculty

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employees, it seems desirable to make sure that each employee is made fully aware of the advantages of participation at the time he or she first becomes eligible to contribute. If all eligible members had contributed in 1961, the additional cost to the Institute to match their contributions would have been only \$200.

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III Level Salaries for Life for Faculty Members

Part A of this section describes the financial implications of the adoption of a program of level salaries for life for permanent faculty members. Part B outlines two alternative programs and compares their cost, expressed in terms of level annual contributions, with those of the present arrangement. Part C discusses other considerations relevant to level salaries for life.

A. Financial Implications

If the Institute commits itself to continue the full salary of each permanent faculty member for life, it is committing itself to future increases in total salary costs for faculty members, even if there is no future increase in the number of members who are able to take an active part in the affairs of the Institute. The increases will occur as it becomes necessary to appoint new faculty members to replace those current members who are still alive but who no longer have sufficient health and vigor to participate actively in the selection and guidance of the temporary members appointed by the Institute and in the direction of the special projects performed by the Institute for the government and for private foundations. (Such members will be referred to in this report as "inactive members".)

The increases in cost will continue until a stable group of inactive members is reached. In such a group, the number of members dying will be roughly balanced by the number of members becoming inactive. Once such a stable group emerges, the salary cost will remain constant as long as no important change occurs in either the number of active members

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or the level of lifetime salary. Before committing itself to a program of level salaries for life, therefore, it is important for the Institute to make certain that it will be able to afford the program's ultimate as well as its initial cost. If the Institute were to discontinue its pension plan arrangements for faculty members with TIAA-CREF, the investment income of the endowment fund would have to support the gradually increasing salary costs as the inactive group moved toward maturity. Alternatively, if salary payments to an inactive member were to be made by an outside agency, that agency would have to receive funds in advance of the member's retirement. These funds must also arise from the investment income of the endowment fund. The essential difference between the two arrangements is that under the second the outside agency (TIAA-CREF for example) would invest the amount received by it in preparation for later disbursement while under the first arrangement the endowment fund would handle the investments. The choice of funding methods is discussed more fully in Section IV.

It seems desirable to measure the cost of a salary continuation program as a level percentage of the salary payments made to active faculty members recognizing that this does not commit the Institute to a program of advance funding through an insurance company or other outside medium. The level cost figure would be equally valid if the amounts required for future salary payments to inactive members were retained in the endowment fund, provided satisfactory accounting

III-3

safeguards were adopted. Such safeguards would involve gradual recognition that an increasing amount of the endowment fund is needed to produce the investment income required to meet payments to inactive members.

In evaluating the relative advantages of the funding methods discussed in Section IV, the point to remember is that a specific program will eventually use up the same amount of the endowment earnings regardless of the method of funding chosen. Level cost computations are simply an accounting device to express this cost in a form in which it may easily be compared with the earnings available to meet it.

B. Two Alternative Programs and Their Costs

In Exhibit IIIa, two alternative programs are outlined in comparison with the present arrangement. Program A provides a level salary for life of \$22,500, the present gross salary. Program B provides a level salary for life of \$21,375, the present net salary after deduction of the 5% compulsory contribution to TIAA. Since it is assumed that either program would be on a non-contributory basis, the adoption of program A would result in a net salary increase to faculty members while program B would merely continue the present net salary level.

It is assumed in either case that the contributions made by the Institute on a member's behalf would be accumulated at interest and in the event of his death before age 70 would be used to provide an

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income to his dependents. (This benefit is similar to that now enjoyed by the members under their TIAA-CREF policies although with the adoption of a program, such as A or B, which is much more costly than the present arrangement, the amounts of death benefit would gradually increase to a point considerably above their current level.)

It is also assumed that for members appointed above age 55, the salary payable after age 70 would be reduced by one fifteenth for each year over age 55 at appointment. This is simply an extension of the limitation imposed by the present plan on the minimum pension (see Exhibit I) and is intended to permit the Institute to appoint members at advanced ages without incurring prohibitive costs to support them in their inactive years. Presumably such members will have made some preparations for their old age before joining the Institute.

In order to express the cost of programs A and B in terms of level annual contributions, it is necessary to make certain assumptions. The accuracy of the results of the computations naturally depends on the extent to which these assumptions are realized. The following are the assumptions that have been made:

- (1) interest at 4% (while investment earnings and capital appreciation combined have been substantially in excess of this rate in the recent past, a long-term funding program must consider the likelihood of much less favorable returns in the future);

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- (2) a mortality table recognizing the current rate of improvement in mortality (this table is used by the Prudential in many of its group annuity rate and dividend calculations);
- (3) an **assumption** that members become inactive on the average at age 70 (this relatively high "retirement age" seems appropriate since faculty members have no teaching assignments);
- (4) an assumption that no members leave the Institute for other employment (in the Institute's history of almost thirty years only two such terminations have occurred);
- (5) an assumption that administrative expenses will account for 4% of the cost of the program (this is the expense charge in TIAA's guaranteed rates);
- (6) an assumption that the average age at appointment is 41 for members in the School of Mathematics and Physics and 52 for members in the School of Historical Studies (these ages were derived from a survey of appointments made since 1945).

Using the above assumptions under program A the level annual contribution required over a period of twenty-nine years (the assumed active membership of a new appointee in Mathematics or Physics) to provide the salary payments of \$22,500 from age 70 and also the accumulated contributions on death prior to age 70 is \$4300. The corresponding level annual contribution for a new appointee in History is \$8,600. The corresponding contributions for program B are 95% of those for program A. Thus if level annual contributions were made for all members from the date of appointment, and if the present distribution of fourteen members in Mathematics and Physics and

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eight in History was to be maintained, the level annual contribution required to provide salary payments and death benefits under program A would be \$130,433 while the level annual contribution under program B would be 95% of \$130,433 or \$123,911. These amounts are shown in line 2c of Exhibit IIIa.

In fact, however, past contributions of this magnitude have not been made for the members now active. Exhibit IIIb shows for each member:

- (1) the single contribution required as of July 1, 1961 to provide the salary payments of \$22,500 from age 70 under program A and also the contribution with interest on death prior to age 70,
- (2) the estimated total accumulation held for the member by TIAA-CREF on July 1, 1961 and
- (3) the value as of July 1, 1961 of level contributions of \$4,300 (Mathematics and Physics) or \$8,600 (History) per year to age 70.

The total of column (1) less the sum of the totals of columns (2) and (3) equals \$744,400. This is an estimate of the amount in excess of \$130,433 which must be contributed under program A in the coming years in order to compensate for deficiencies in past contributions for current members. Such an amount is sometimes called an "accrued liability." If this accrued liability is funded over a period of, for example, twenty years, the annual contributions required from the Institute would be increased by \$53,600. The comparable increase

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for program B would be \$48,400. These amounts are shown in line 2d of Exhibit IIIa.

Since it was assumed above that the accrued liability would be funded in twenty years, it might be expected that after that time the cost would be reduced to the levels shown in line 2c. It should be remembered, however, that any future increase in the level of salary paid to active members will automatically increase the accrued liability since contributions up to the date of the increase will have been based on the old, rather than the new, salary level. Thus the amounts which were assumed to be sufficient to fund the initial accrued liability over a period of twenty years may be required after that time to fund the additional liability generated by salary increases.

Line 2e of Exhibit IIIa compares the total annual cost to the Institute of programs A and B with the cost of the present arrangement and line 3 expresses these costs as percentages of the present direct salary cost for permanent faculty members. From these figures it appears that program A should be adopted only if additional funds of \$148,000 per year can be committed to this purpose. Similarly, program B should be adopted only if additional funds of \$111,000 can be committed. Expressing these amounts as a percentage of present salaries to active members, program A represents an increase in the cost of benefits to inactive members and death benefits from 7.1% to 36.6% of present salaries while program B represents an increase from 7.1% to 29.3% of present salaries.

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If it is felt that a program of level salaries for life is desirable but that the cost quoted for program B is prohibitive, a reduction could be effected by eliminating or reducing the death benefits provided. Such a step should only be taken after careful deliberation, however, since large death benefits would seem to be desirable for a group such as this where all but one of the members are married. Deaths occurring after age 70 can be handled through a last survivor option such as that currently provided under the TIAA-CREF contracts. (Under such an option, the member could accept a reduced income after age 70 in return for a guarantee that an income--either 50% or 100% of the reduced amount--would be payable to his widow for as long as she survives after his death). Protection in the period before age 70 is also important, however. If a member is counting on a lifetime salary to support himself and his wife during their old age, his death shortly before age seventy could leave his widow in serious difficulties unless a substantial death benefit were provided. Thus it is recommended that the death benefit be retained at least at its present level (accumulation of contributions of 10% of salary) and that consideration be given to increasing it to the accumulation of all contributions (as provided in program A and B).

C. Other Considerations

Not only is the cost of providing full salary payments in inactive years substantial, there are some considerations that suggest that a member's income needs may be less in his inactive years and, therefore, that some of the money required to provide such payments might be better spent either in increasing salaries during active years or in

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providing other types of fringe benefit.

Some of the factors that reduce a member's income needs are:

- (1) receipt of Social Security payments (from the earlier of "retirement" or age 72),
- (2) additional income tax exemptions for the member and his wife, and
- (3) retirement benefits purchased by the individual member. (While the level cost computations assumed that all benefits purchased through TIAA-CREF would be used as offsets to the lifetime salary payments, the Institute might feel that the twelve current members who had TIAA coverage before coming to the Institute should be permitted to enjoy benefits purchased before appointment in addition to lifetime salary payments).

Moreover, many major items of expense such as the education of a member's children, are usually confined to his active years.

These considerations suggest that a partially reduced salary may be suitable for inactive years. Of course, it may be argued that if full salary payments are provided and the member elects a last survivor option an appropriate reduction occurs.

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IV Comparison of Funding Methods

Many possibilities are available. The present TIAA-CREF plan could be improved to provide the new level of benefits. Alternatively, future contributions could be diverted to another funding medium and used to provide benefits which, in combination with those provided by the contributions already made to TIAA-CREF, would be sufficient to meet the new level of benefits. The principal alternative funding mediums are:

- (1) insurance companies,
- (2) corporate trustees, and
- (3) the Institute's own endowment fund.

TIAA-CREF is essentially an insurance company operation. If insured benefits are to be purchased in the future it seems desirable to continue to purchase them from TIAA-CREF which has handled the Institute's retirement plan for twenty-seven years and which provides retirement plans for 995 other educational institutions.

If future benefits are not to be insured, the services of a corporate trustee would not seem to be required for pensions if they are not required for the Institute's endowment funds. A program of earmarking specific portions of the endowment and its income for pension purposes under competent actuarial guidance should have all the advantages of a trustee plan.

If these generalizations are accepted the choice may be reduced to making future contributions to TIAA-CREF or leaving them in the Institute's endowment fund. In order to consider these alternatives it seems desirable to compare TIAA-CREF with the Institute's endowment fund under three headings:

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- A. Fixed dollar investment experience
- B. Equity investment experience
- C. Mortality provision.

Each of these comparisons is made below. A recommendation based on these conclusions is made in Section V.

A. Fixed dollar investment experience

Exhibit IV attached compares the net yield on permanent investments acquired by the Institute in each of the nine most recent fiscal years with the net yields on permanent investments acquired by TIAA during the corresponding period. Yields were compared on acquisitions rather than existing portfolios in order to reflect relative results in the same market.

Two points are evident from Exhibit IV. First, the yield obtained by TIAA on bonds exceeded those obtained by the Institute in seven of the nine years and averaged almost $\frac{1}{2}\%$ higher. Second, the yield obtained by TIAA on its acquisitions of other investments (primarily mortgages) exceeded the yield obtained on its bond acquisitions in each of the nine years.

Thus TIAA has consistently obtained a higher yield in the bond market than has the Institute and, through its mortgage investments, has widened the gap between its experience and that of the Institute on fixed dollar investments.

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B. Equity investment experience

Exhibit V attached compares the rate of dividend earnings plus the rate of increase in market value during each of the seven most recent fiscal years on funds invested at the beginning of such years for the Institute's common stock investments and for CREF. The basis of calculation of these rates is described below.

For the Institute, the net amount of new money invested in the common stock portfolio each year was determined. In all but two recent years (1955-56 and 1956-57) this amount has been negative. The market value of the portfolio at the end of the year was then adjusted on the assumption that this net amount was deposited in or withdrawn from the portfolio just after the end of the year. The desired rate was obtained by dividing the sum of the common stock dividends and the adjusted increase in market value during the year by the market value at the beginning of the year. As an example, the calculation of the rate for the fiscal year ending June 30, 1960 is shown below.

Book amount of sales of common stocks (Sch I)	\$ 668,997
Profit on sales of common stocks (Sch I)	<u>2,003,253</u>
Market value of common stocks sold	2,672,250
Market value of common stocks acquired (Sch I)	<u>2,331,810</u>
Net amount withdrawn during year from common stock portfolio	340,440
Market value of common stocks at end of year (Sch I)	<u>20,823,678</u>
Adjusted market value of common stocks at end of year	21,164,118
Market value of common stocks at beginning of year	<u>22,004,400</u>
Adjusted increase in market value of common stock during the year	- 840,282
Dividends on common stocks (est. from Exhibit D and Schedule I)	\$ 587,828
Rate = $\frac{587,828 - 840,282}{22,004,400} = -1.1\%$	

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From CREF we obtained information as to the number of accumulation units resulting at the end of each fiscal year from 100 units purchased on June 30, 1953 and as to the value of an accumulation unit at the end of each year. Since dividend earnings are reflected in additional units while changes in market value are reflected in changes in the unit value, we were able to derive from this information rates which are comparable to those obtained for the Institute. For example, the number of units on June 30, 1959 would be 121.39. Based on the unit value of \$26.07, the accumulation would be worth $121.39 \times \$26.07$ or \$3,164.65. On June 30, 1960, the number of units would be 124.24, the unit value \$27.24 and the accumulation worth $124.24 \times \$27.24$ or \$3,384.21. Thus the CREF rate comparable to the Institute's - 1.1% is $\frac{3,384.21 - 3,164.65}{3,164.65}$ or 6.9%.

From Exhibit V it is apparent that CREF's results have been more favorable than the Institute's in five out of the seven years and over the whole seven year period have been better by more than one fifth.

C. Mortality Provision

TIAA retirement plans covering 112,000 lives and CREF with 72,879 participants are able to take full advantage of mortality risk pooling. Thus if the Institute provides its payments to inactive members on an insured basis, the cost to the Institute will be based on the average mortality experience of large numbers of lives. If

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the Institute's faculty members live beyond their life expectancies, the extra cost will simply balance the savings realized by TIAA-CREF when the members of some other educational institution fail to live out their full expectancies.

If the Institute decides to provide salary payments to inactive members through earmarking part of its endowment fund it must consider the possibility that its members may experience greater than average longevity. To appreciate this fully, some examples may prove helpful. Suppose the Institute at some time had only 5 inactive members. To simplify the calculations, assume each is aged 70. The reserve required by TIAA (or any other institution with a sufficiently large pool of covered lives) to provide payments of \$22,500 to each of the 5 men for life is about \$1,000,000. However, if no pooling is undertaken, the cost of providing the benefits may vary widely from this figure. There is a 10% chance that it will exceed \$1,310,000* and a 1% chance that it will exceed \$1,570,000. If there were 10 men instead of 5, the reserve required with pooling would be about \$2,000,000. Without pooling there is a 10% chance that the cost of the benefits would exceed \$2,440,000 and a 1% chance it would exceed \$2,800,000. Variations of this magnitude could have serious implications for a program of level salaries for life adopted on the assumption of average mortality.

* Computations based on Transactions of the Actuarial Society of America, Volume XXXIV page 240.

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V. Recommendations

A. Permanent Faculty Members

From the results of the comparisons made in Section IV, it seems more advantageous for the Institute to continue making contributions to TIAA-CREF than to retain in its endowment fund the amounts required to provide salary payments to inactive members.

If TIAA-CREF is to continue as the Institute's funding medium, it seems advisable that its recommendations be obtained before a new plan is adopted. As part of the preparation for this report a discussion was held with Messrs. Donald Hopkins and George Harrison. These gentlemen appreciate the unusual character of the Institute and would undoubtedly be of great assistance in designing a specific program for the Institute once the Trustees have made a general decision as to the level of cost which the Institute can support.

The principal questions for the Trustees to consider might be formulated as follows: Is a program of level lifetime salaries involving the costs outlined in Section III B above feasible for the Institute? If not, approximately what level of additional level cost can be supported? What relative emphasis should be given to benefits for (1) aged members, (2) disabled members and (3) member's widows? Comments on these questions are given below.

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Even if it should be decided that the cost of level salary payments for life is prohibitive, there are many different ways in which the plan could be improved at moderate cost. One of the most obvious of such improvements would be an increase in the minimum income objective above its present level of \$10,000. As noted in Section II, the amount contributed by the Institute during fiscal 1960-61 to provide for this minimum was only \$10,921 or 2.2% of the total salary paid to faculty members. Furthermore only ten of the present twenty-two members are expected to benefit from this minimum.

A different type of liberalization would be the adoption of a plan to provide benefits to members in the event of total and permanent disability or a plan of graded group life insurance which would supplement the return of TIAA-CREF annuity contributions to provide a satisfactory level of income to the widows of members who die at relatively low ages. Each of these plans has much to recommend it.

In the estimate in Section III B of the cost of providing level lifetime salaries no direct recognition was given to the possibility of total and permanent disability at low ages. It was simply assumed that the average age at which a member would become inactive would be 70. Since the value of level lifetime salary payments of \$22,500 to a disabled man age 45 is about \$250,000, it is unsafe (in a small group such as the Institute's permanent faculty) to rely on the expectation that some members may continue active at ages beyond 70 to offset the extra costs which would be incurred if one or two members become inactive at an early age through

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total and permanent disability. A total disability benefit insurance program, such as that provided by TIAA, would allow the Institute to average its experience with those of many other groups. If a member became totally disabled he would receive a monthly income from TIAA until the earlier of recovery or age 65 and both his own and the Institute's contributions for his TIAA-CREF annuity (up to a maximum monthly limit) would be waived during the same period. At age 65, the annuity which could be provided by his TIAA-CREF accumulation would be paid to him.

Under the graded group life insurance program offered by TIAA, level insurance in an amount such as \$20,000 would be provided up to age 50 with a decrease of approximately \$1,000 at each subsequent age until a level minimum of \$2,000 applicable at ages 68 and over is reached. While the combination of this benefit with that provided in connection with the TIAA-CREF annuity contracts would not continue a specific proportion of the member's salary to his widow, it does provide a reasonable pattern of protection at a reasonable cost. The cost is controlled in two ways: (1) the provision of smaller amounts of group insurance at ages where mortality rates are higher and (2) the use of a fixed schedule of benefits which reduces administrative detail.

If it is decided to adopt a program of level salaries for life, certain difficulties may be encountered in the use of TIAA-CREF annuities to provide salary payments to inactive members. Some of these are listed below:

1. TIAA-CREF underwriting rules require policies for faculty members to be wholly vested in the member (except in the case of additional

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policies purchased to bring benefits up to a minimum such as the Institute's present \$10,000). Among the member's vested rights are

- a. the choice of the date on which his annuity is to commence,
- b. the election of last survivor and other options, and
- c. the choice of using his CREF accumulation to purchase a variable annuity or a fixed dollar annuity.

In theory, each of these rights could interfere with the operation of the program, however little difficulty would probably be experienced in practice. By terminating direct salary payments at the earlier of (1) age 70 and (2) the date the member elects to receive his annuity, the Institute can establish a strong incentive for the member to choose age 70 as the starting date for his annuity. In view of the considerations in Section III C, it seems advisable that the election of last survivor options should be encouraged rather than discouraged. Similarly, persuasive arguments can be advanced for allowing a member to elect to receive a variable annuity in his inactive years even though the resulting payments would not be identical in amount to the salary payments received during his active years. One method of obtaining a reasonable balance between payments during active and inactive years is to divide all contributions equally between TIAA and CREF with the stipulation that the contributions be sufficient to provide a level salary for life on the assumption that all premiums are allocated to TIAA. This recommendation is comparable to one made by Mr. Hopkins for redefining the current \$10,000 minimum in a memorandum sent to the Institute on April 5, 1961.

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2. The costs computed in Section III B assume the total accrued liability will be funded in level installments over a period of 20 years. Because of the nature of TIAA-CREF's policies, it may be necessary to fund the accrued liability associated with each individual over his remaining active years. Since this period would be extremely short for those members now approaching age 70, it might be necessary to adopt a "retirement age" later than 70 for these members in order to keep the cost down to a reasonable level in the next few years.

Despite these considerations, continued participation in TIAA-CREF is recommended. Its excellent investment performance, its opportunities for pooling mortality risks and its ability to guarantee benefits to faculty members and their dependents seem to be sufficiently important advantages to outweigh the respects in which the provisions of its contracts conflict with the objectives of the Institute.

B. Non-Faculty Employees

As noted in section II, the cost to the Institute of the present plan for non-faculty employees represents 11.3% of payroll while the cost to the Institute of the present plan for faculty members represents only 7.1% of payroll. As will be seen from Exhibit II, the benefits provided to an employee with 35 years service at age 65 under this plan plus Social Security result in continuation of a substantial proportion of average pay. Thus the retirement plan for these employees seems to require no

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immediate attention except to change the "earnings breaking point" as recommended in Section I and to make sure that all employees eligible to contribute are made aware of the advantages of doing so. If it should subsequently be decided to continue the faculty plan on the basis of voluntary contributions matched by the Institute but to increase the percentage which may be contributed, consideration should then be given to making a similar increase in the percentage for non-faculty employees.

If it is decided to adopt either a plan of disability benefits or a plan of graded group life insurance benefits for faculty employees, it would seem desirable also to introduce such a plan for non-faculty employees.

Exhibit I

III. SUMMARY OF PROVISIONS OF PROPOSED PENSION PROGRAM

A. FOR FACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Compulsory for faculty members.

3. Normal Retirement Date

June 30 coinciding with or next following the 70th birthday.

4. Contributions

Faculty: 5 percent of salary to retirement.

Institute: Matches member's contribution and is allocated to CREF.

5. Benefits

Normal: TIAA-CREF annuities provided with joint contributions.

Minimum: \$10,000 per year, including all benefits under TIAA-CREF and primary federal old age benefits, reduced one-fifteenth for each year over age 55 at entry into plan.

6. Vesting

Fully vested as purchased.

7. Options

As available under TIAA-CREF contracts.

B. FOR NONFACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Employees aged 30 or over after two or more years of service.

3. Normal Retirement Date

First of the month following 65th birthday.

4. Contributions

Employees: May elect to contribute 5 percent of annual earnings in excess of \$4,200 (minimum \$1 per month).

Institute: Entire cost of pensions on first \$4,200 of employee's annual earnings and matches employee's contribution on earnings in excess of \$4,200 per year. The contributions are allocated 50 percent to CREF.

5. Benefits

Past Service: 1 percent of first \$4,200 of annual earnings on July 1, 1957, for each year of service to July 1, 1957, excluding service before age 30 and first two years of service.

Future Service: 1 percent of first \$4,200 of annual earnings for each year of participation plus TIAA-CREF annuities purchased on earnings in excess of \$4,200 per year.

6. Vesting

Fully vested after five years of participation in the plan.

Annuities may be repurchased if in force for less than five years, or have a repurchase value of less than \$2,000.

7. Options

As available under TIAA-CREF contracts.

Exhibit II

IV. COMMENTS ON THE PROPOSED PENSION PROGRAM

A. PARTICIPATION IN COST

1. Faculty Members

The proposed pension plan for faculty members provides for continued faculty participation in the cost. This is customary in the large majority of university retirement plans. The cost of any supplement to provide the specified minimum retirement benefit would be paid for annually entirely by the Institute through TIAA-CREF.

2. Nonfaculty Employees

The proposed pension plan for nonfaculty employees does not provide for employee participation in the cost of the basic benefits computed on the first \$4,200 of annual pay. It also may be noted that \$4,200 is the maximum annual pay for purposes of OASI. On that portion of annual pay in excess of \$4,200 the employee may elect to contribute 5 percent and the Institute then would match his contributions.

The proposed basic noncontributory pension plan for non-faculty employees assures automatic pension coverage of all permanent employees. This eliminates the problem the Institute otherwise would have had to face for employees reaching retirement age who would not have participated in a contributory plan because they felt they could not afford to contribute. In addition, most plans demanded by unions are

noncontributory and the trend in industry is to noncontributory pensions, especially on the first \$4,200 of annual pay. It may also be noted that Princeton University has a noncontributory retirement plan for its non-faculty employees.

We recommend that the contributions of faculty members and other participants always be allocated to TIAA and that the Institute's contributions be allocated to CREF in such a way as to assure that the combined sum will always be evenly divided between the two. This would provide a hedge against inflation as well as easy administration.

B. NORMAL RETIREMENT DATE

1. Faculty Members

The proposed normal retirement date of June 30 coinciding with or next following the 70th birthday seems appropriate for the faculty members of the Institute. It may be noted that the 1950 Committee on Academic Retirement of the American Association of University Professors and the Association of American Colleges suggests that age 65 is too early for a compulsory retirement age for professors.

2. Nonfaculty Employees

The proposed normal retirement date of the first of the month following the 65th birthday for nonfaculty employees seems desirable. It adheres to the retirement age when maximum primary federal old age benefits can begin and is generally the accepted normal retirement age in

industrial pension plans. Later or deferred retirement would be possible, with the consent of the Institute, subject to annual review.

C. EARLY RETIREMENT

A minimum age for early retirement need not be stated for either group if retirement benefits are provided under the proposed annuity contracts of TIAA and CREF. Under these contracts the full accumulation may be settled as retirement income at any time after premiums cease. If a participant becomes disabled, he may ask that annuity payments begin at once. Payments at an early retirement age are smaller due to the earlier pay-out and the loss of future premiums that otherwise would have been paid in.

D. FORM OF ANNUITY

The TIAA-CREF contracts provide that in the event of a participant's death prior to retirement the accumulated value of the contracts will be paid to the participant's beneficiary. At retirement the participant may elect various annuity settlement options, including one which could provide for his wife.

E. VESTING

Faculty members are fully vested each year with respect to the retirement income that has been purchased by the premiums paid. Nonfaculty employees are fully vested each year with respect to the retirement income that has been purchased by the premiums paid after they have

participated in the plan for five years. In the event of the termination of employment of a nonfaculty participant before the contracts have been in force five years, the annuity contracts are "repurchased" and cancelled with the accumulation paid to the Institute, provided the participant is not transferring to an institution having a TIAA plan. Of course, any participants who voluntarily contribute would receive their proportionate share of the accumulation.

Since the eligibility requirement for participation of nonfaculty employees is age 30 and two years of service, vesting could not be achieved until after seven years of service and the attainment of age 35. The Institute, therefore, would be vesting retirement income only in the nonfaculty employees whom it considers career personnel. The guarantee of fully vested retirement benefits is an inducement to the thoughtful employee. Of importance, also, is the fact that vested retirement benefits can ease the termination of employees should the Institute feel such action is advisable.

F. BENEFIT ADEQUACY

1. Faculty

Faculty members hired before age 55 will be assured of a reasonable retirement income through the minimum guarantee of \$10,000 of retirement income at age 70, including all TIAA-CREF benefits regardless of source and including primary federal old age benefits. Faculty members hired after age 55 will also be assured of the same minimum

pension of \$10,000, reduced, however, by one-fifteenth for each year they are over age 55 at the time of employment.

2. Nonfaculty Employees

The plan essentially is designed to provide a pension benefit of about 2 percent of average annual pay up to \$4,200, including primary federal old age benefits, for each year of service after the first two years and after age 30. In broad terms, primary federal old age benefits equal about 1 percent of the average annual pay to \$4,200, and the benefit provided under the plan equals 1 percent. An employee with ³⁵~~37~~ years of service at age 65 might expect a benefit on the basis of his average annual pay as follows:

Average Annual Pay	TIAA-CREF	Primary FOAB	Total	Percent of Average Annual Pay	
\$1,800	\$ 630	\$ 822 876	\$1,452 1,506	80.7%	83.1%
2,400	840	942 1,008	1,782 1,848	74.3	77.0
3,000	1,050	1,062 1,140	2,112 2,190	70.4	73.0
3,600	1,260	1,182 1,260	2,442 2,520	67.8	70.0
4,000	1,400	1,261 1,344	2,661 2,744	66.5	68.6

For career nonfaculty employees earning more than \$4,200 annually, the voluntary 5 percent contribution, matched by the Institute, should approximate 1 percent of average annual pay in excess of \$4,200

for each year of participation. This would depend on dividends as well as the employee's age when contributions are made.

Since one-half of the pension benefits would be purchased under TIAA contracts and the other half under CREF, it would be desirable to specify that guaranteed benefits accrue only under TIAA and that the CREF benefits may vary as provided under the CREF contracts.

The following tabulation shows the minimum monthly life annuity that would be purchased under TIAA by \$1 from entry age to age 65:

Age When Contributions Commence	Monthly Annuity Payable at Age 65	
	Males	Females
30	\$3.82	\$3.20
35	3.07	2.58
40	2.41	2.02
45	1.82	1.52
50	1.28	1.08
55	0.81	0.68
60	0.38	0.32

For example: If a male employee earns \$400 per month and chooses to contribute, his contribution would be 5 percent of \$50 or \$2.50 per month, and the Institute would contribute the same amount making a total of \$5. If the employee started to contribute at age 35, he would receive not less than \$15.35 (\$3.07 X5) per month for life.

In connection with the proposed plan for nonfaculty employees, it is suggested that the annual earnings breaking point of \$4,200 be expressed

as the maximum amount of annual earnings credited for OASI benefits,
in order to provide for automatic adjustment of the plan, without formal
amendment, to any subsequent change in the social security maximum
earnings base.

EXHIBIT IIIa

	Present Arrange- ments	Alternative Programs of Level Salaries for Life	
		<u>A</u>	<u>B</u>
<u>1. Amount Paid to Each Permanent Faculty Member</u>			
a. Prior to Age 70			
Gross Salary	\$22,500	\$22,500	\$21,375
Pension Contribution	1,125	-	-
Net Salary	<u>\$21,375</u>	<u>\$22,500</u>	<u>\$21,375</u>
b. After Age 70	TIAA-CREF Pension*	22,500	21,375
<u>2. Total Annual Cost to Institute</u>			
a. Gross Salary to Active Members	\$502,500	\$502,500	\$477,375
b. Contribution to CREF by Institute (1960-61)	35,821	-	-
c. Level annual contribution required from age 41 (Math and Physics) or 51 (History) to age 70	-	130,433	123,911
d. Additional annual contribution required for 20 years to fund accrued liability for current members	-	53,600	48,400
e. Total	\$538,321	\$686,533	\$649,686
<u>3. Total Annual Cost to Institute Expressed as a Percentage of Current Gross Salary to Active Members (\$502,500)</u>			
	107.1%	136.6%	129.3%

* Minimum \$10,000 for members appointed up to age 55

EXHIBIT IIIB
(All Values as of July 1, 1961)

Member	Age Nearest Birthday July 1, 1961	Single Contribution Required to Provide Salary Payments of \$22,500* per year From Age 70	Estimated Total Accumulation Held By TIAA-CREF	Value of Level Contribution of \$4,300* (Math) or \$8,600 (History) per year to age 70.
		(1)	(2)	(3)
Oppenheimer*	57	\$177,800	\$51,200	\$58,500
Morse	69	204,800	70,900	4,200
Panofsky	69	204,800	86,900	8,400
Kantorowicz	66	184,000	21,700	31,900
Alfoldi**	66	147,200	12,100	31,900
Meritt	62	159,500	80,500	59,100
Kennan	57	133,300	20,300	87,700
Cherniss	57	133,300	41,700	87,700
Meiss	57	133,300	29,300	87,700
Beurling	56	128,600	22,500	46,400
Godel	55	124,200	27,100	48,800
Weil	55	124,200	26,500	48,800
Thompson	55	124,200	39,700	97,700
Whitney	54	119,700	39,700	51,200
Stromgren	53	115,500	21,700	53,400
Montgomery	52	111,500	21,400	55,600
Selberg	44	83,600	20,500	70,200
Pais	43	80,700	9,000	71,700
Yang	39	69,900	20,400	77,300
Borel	38	67,400	9,100	78,500
Dyson	38	67,400	8,400	78,500
Lee	35	60,500	13,200	82,000
		2,755,400	693,800	1,317,200

* Salary is \$30,000; level contribution \$5,733.

** Salary reduced to \$18,000 at age 70 to reflect age at appointment;
level contribution is \$8,600

EXHIBIT IV

Fiscal Year ending June 30	Net yield on permanent investments in bonds acquired by the Institute during fiscal year	Net yield on permanent investments acquired by TIAA during corresponding period*		
		<u>Bonds Only</u>	<u>Mortgages Only</u>	<u>Total Investments</u>
1953	3.9%	4.0%	4.2%	4.1%
1954	5.1	3.8	4.3	4.1
1955	3.2	3.7	4.5	4.1
1956	3.4	4.0	4.6	4.4
1957	5.5	4.5	5.0	4.8
1958	3.1	4.9	5.4	5.1
1959	3.6	5.2	5.7	5.4
1960	5.0	5.6	6.0	5.7
1961	4.7	5.7	6.1	5.8

* Approximated from results furnished on a calendar year basis by TIAA.

EXHIBIT V

Rate of dividend earnings plus rate of increase
in market value during period on funds invested
at beginning of period.

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Institute's Common</u> <u>Stock Investments</u>	<u>College Retirement</u> <u>Equities Fund (CREF)</u>
1954	27.6%	39.1%
1955	39.4	40.4
1956	20.3	19.7
1957	13.1	5.8
1958	-2.3	-0.3
1959	26.9	35.7
1960	-1.1	6.9
7-1-56 - 6-30-60	196.2%	257.4%

Basis of calculation described in section IV B of Report.

EXHIBIT VI

Tax Considerations

In 1954 the Internal Revenue Code granted special tax advantages to two groups of employee retirement plans:

- (1) those which meet the requirements of section 401 (a) of the 1954 Internal Revenue Code, hereinafter referred to as "qualified plans," and
- (2) those which do not meet such requirements, i.e., "non-qualified plans," but are maintained by organizations, such as the Institute, which are tax exempt under section 501 (c)(3) of the Code. It is probable that the Internal Revenue Service would consider the Institute's proposed "salary continuance" program as a nonqualified plan.

Naturally, when an employer is tax exempt the only relevant retirement tax advantages are those which will benefit its employees. Nonqualified plans of 501 (c)(3) organizations enjoy five of the six important tax advantages granted to qualified plans. These five advantages are listed below:

- (1) Interest earned on funds held under the retirement plan is exempt from tax until paid out in the form of plan benefits.
- (2) Employer contributions are excludable from the employees' current gross incomes until the employees receive such contributions as plan benefits.

- (3) The first \$5,000 of employer provided death benefits under the plan would generally be excludable from the beneficiary's gross income, if the death benefit is paid in a lump sum.
- (4) The employer provided portion of the death benefit paid under the plan would be excludable from the employee's estate for estate tax purposes, provided an employee's estate is not named beneficiary of the death benefit payable on his behalf.
- (5) Special gift tax treatment is available if an employee makes an irrevocable election of a joint and survivor option.

The first advantage listed applies equally to qualified and nonqualified plans of 501 (c)(3) organizations, but participants under the latter plans enjoy the remaining four advantages only to the extent that the employer contributions involved in the particular transaction were excludable from an employee's current gross income under the "20% exclusion allowance" described in section 403 (b) of the Code. This "exclusion allowance" permits an employee covered under the nonqualified plan of a 501 (c)(3) organization to exclude from his current gross income for any tax year the portion of such organization's contributions on his behalf during such year which does not exceed the difference between:

- (a) the product of 20% of such employee's earnings for the year times his years of service with the organization, minus
- (b) the total of any prior plan contributions by the organization on such employee's behalf which were excludable from his gross income.

The one advantage participants under a qualified plan enjoy which is not extended to nonqualified plans of 501 (c)(3) organizations is that lump sum termination, retirement and death benefits paid under qualified plans may be treated as long term capital gains provided that at the time such distributions are made they represent the total amounts payable on an employee's or deceased employee's behalf.

Naturally, it would be preferable to have the Institute's "salary continuance" plan for permanent faculty members considered as a qualified plan under the Code so that the "20% exclusion allowance" limitation would not apply and, where appropriate, members and their beneficiaries could treat lump sum plan distributions as long term capital gains for income tax purposes. However, since the Institute's plan would benefit only its faculty, and not the non-faculty employees, it may not qualify under section 401 (a) of the Code. In this event, the Institute should make certain that the Internal Revenue Service will consider the plan a nonqualified annuity plan of a 501 (c) (3) organization, as described in section 403(b) of the Code. To be so considered the "salary continuance" plan should be described in a written instrument which is communicated to faculty members and should provide for the purchase of annuities for faculty members.

Regardless of the type plan the Institute adopts for its permanent faculty members, we believe it should have its counsel look into the possible advantages to be gained by having the Institute make all

contributions required under the plan or plans for faculty and non-faculty employees. This increase in the Institute's contributions could be accomplished at no additional cost to the Institute if the employees agree to reductions in their earnings equal to the increase in the Institute's plan contributions on their behalf to cover contributions formerly made by them. For example, the Institute could agree to increase its contributions by 5% of each employee's earnings in return for such employee's agreement to have his earnings and any future increments in earnings reduced by 5%. We understand that the Internal Revenue Service will permit an additional employer contribution under this type of arrangement to be considered as employer contributions (rather than contributions which had been constructively received by the employees and consequently are includable in their current gross incomes) under nonqualified plans of 501 (c)(3) organizations, but are not sure whether a similar arrangement under a qualified plan would also be so treated. The effect of this arrangement is to use employer "pre-tax" dollars rather than employee "after tax" dollars to fund the portion of the cost of the retirement plan which is to be borne by employees.

As you realize, the Prudential, being a corporation, is not permitted to practice law. The foregoing discussion, therefore, should not be construed as legal advice or a professional interpretation of the applicable laws, which must be sought from the Institute's legal counsel. It should also be realized that our discussion is rather

general and is necessarily based on tax laws and interpretations to the present date, so that we may have overlooked some special tax considerations which might be relevant to the type of retirement plan which the Institute actually adopts for its faculty members.

* COMPARISON OF ANNUAL OUTLAYS REQUIRED TO PROVIDE MINIMUM PENSIONS USING TIAA AND PURE RESERVES FOR FACULTY, JULY 1, 1957

INSTITUTE FOR ADVANCED STUDY

Name	Age as of July, 1957 Yrs. Mos.	Date of Employ- ment	Present Annual Premium (Combined)	Annual Pension at Age 70, Including OASI ^a	Supplement to Provide Minimum Pension ^b	TIAA Annual Premium ^c to Pur- chase Supplement	Annual Payment to Trust to Pro- vide Supplement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Alfoldi, A.	61 10	7/55	\$ 1,800.00	\$ 3,195.36	..	..	..
Beurling, A.K.A.	52 4	7/54	1,800.00	5,803.80	\$ 4,196.20	\$ 2,019.48	\$ 1,276.37
Cherniss, H.F.	53 3	7/48	2,146.32	8,685.12	1,314.88	677.88	431.75
Dyson, F.J. ....	.. ..	7/53	1,800.00	13,884.12	..	..	..
Godel, K.F.	51 2	7/53	1,800.00	7,496.64	2,503.36	1,109.76	686.36
Kantorowicz, E.H. ^d	62 1	7/51	1,800.00	4,056.00	1,944.00 X	2,436.03	1,974.81
Kennan, G.F. ^e	53 4	1/56	1,800.00	5,154.72	4,845.28	2,513.16	1,603.01
Merritt, B.D. ....	.. ..	7/35	1,500.00	15,626.64	..	..	..
Montgomery, D.	47 9	7/51	1,800.00	9,909.12	90.88	32.28	19.26
Morse, M.H. ....	.. ..	7/35	1,500.00	11,264.52	..	..	..
Panofsky, E.	65 3	7/35	1,837.32	8,539.08	1,460.92	3,204.00	2,388.74
Selberg, A. ....	.. ..	7/51	1,800.00	11,376.00	..	..	..
Thompson, H.A.	50 9	7/47	1,500.00	9,361.68	638.32	275.04	168.12
Whitney, H.	50 3	7/52	1,800.00	10,964.76	..	..	..
Yang, C.N. ....	.. ..	7/55	1,800.00	13,064.16	..	..	..
Oppenheimer, R. ^f	53 3	8/47	2,500.00	9,848.28	2,151.72 X	1,101.84	704.69
Pais, A.	39 ..	7/51	1,800.00	9,481.20	518.80	114.24	60.97
Total (17 employees)	.. ..	..	\$30,783.64	..	\$19,664.36	\$13,483.71	\$9,314.08

^a OASI assumed to be \$1,302 per year.

^b TIAA benefits from all sources and OASI are recognized in determining the supplement to provide the minimum pension.

^c Paid monthly.

^d Minimum pension is \$6,000 per year.

^e Minimum pension may take account of a government pension of about \$8,000 which would eliminate any supplementation.

^f As of July 1, 1957, a death benefit of \$23,831.11 exists, which would provide \$94.37 per month for his widow; a single sum cost of \$106,824.69 would be needed to provide \$405.63 per month, or the balance of \$500 per month.
 As of July 1, 1973, a death benefit of \$86,571.34 would exist, which would provide \$461.30 per month to widow; a single sum cost of \$7,572.32 would be needed to provide \$38.70 per month or the balance of \$500 per month.

X IAS commitment to 6,000
 12,000

COMPARISON OF ANNUAL OUTLAYS REQUIRED TO PROVIDE MINIMUM PENSIONS USING TIAA AND PURE RESERVES FOR FACULTY, JULY 1, 1957

INSTITUTE FOR ADVANCED STUDY

Name	Age as of July, 1957 Yrs. Mos.	Date of Employ- ment	Present Annual Premium	Annual Pension at Age 70 Including OASI, ^a Recognizing		Supplement to Provide Minimum Pension Recognizing		TIAA Annual Premium ^b to Purchase Benefits in—		Annual Payment to Trust to Provide Benefits in—	
				Only TIAA Benefits Accrued at the Institute	TIAA Benefits From All Sources	Only TIAA Benefits Accrued at the Institute	TIAA Benefits From All Sources	Only TIAA Benefits Accrued at the Institute	TIAA Benefits From All Sources	Only TIAA Benefits Accrued at the Institute	TIAA Benefits From All Sources
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Alfoldi, A.	61 10	7/55	\$ 1,800.00	\$ 3,195.36	\$ 3,195.36	\$ 6,804.64	\$ 6,804.64	\$ 8,238.24	\$ 8,238.24	\$ 6,617.60	\$ 6,617.60
Beurling, A.K.A.	52 4	7/54	1,800.00	5,803.80	5,803.80	4,196.20	4,196.20	2,019.48	2,019.48	1,276.37	1,276.37
Chernies, H.F.	53 3	7/48	2,146.32	8,685.12	8,685.12	1,314.88	1,314.88	677.88	677.88	431.75	431.75
Dyson, F.J. ....	.. ..	7/53	1,800.00	13,518.60	13,884.12	..	..	..	..	..	..
Godel, K.F.	51 2	7/53	1,800.00	6,330.60	7,496.64	3,669.40	2,503.36	1,626.60	1,109.76	993.67	686.36
Kantorowicz, E.H.	62 1	7/51	1,800.00	4,056.00	4,056.00	5,944.00	5,944.00	7,448.76	7,448.76	6,038.20	6,038.20
Kennan, G.F.	53 4	1/56	1,800.00	5,154.72	5,154.72	4,845.28	4,845.28	2,513.16	2,513.16	1,603.01	1,603.01
Merritt, B.D. ....	.. ..	7/35	1,500.00	13,510.08	15,626.64	..	..	..	..	..	..
Montgomery, D.	47 9	7/51	1,800.00	8,182.92	9,909.12	1,817.08	90.88	644.88	32.28	390.66	19.26
Morse, M.H. ....	.. ..	7/35	1,500.00	10,321.92	11,264.52	..	..	..	..	..	..
Panofsky, E.	65 3	7/35	1,837.32	8,539.08	8,539.08	1,460.92	1,460.92	3,204.00	3,204.00	2,388.74	2,388.74
Selberg, A. ....	.. ..	7/51	1,800.00	11,058.36	11,376.00	..	..	..	..	..	..
Thompson, H.A.	50 9	7/47	1,500.00	8,217.60	9,361.68	1,782.40	638.32	767.76	275.04	482.67	168.12
Whitney, H.	50 3	7/52	1,800.00	7,823.40	10,964.76	2,176.60	..	906.60	..	531.44	..
Yang, C.N. ....	.. ..	7/55	1,800.00	12,102.72	13,064.16	..	..	..	..	..	..
Oppenheimer, R. ^c	53 3	8/47	2,500.00	9,848.26	9,848.28	2,151.72	2,151.72	1,101.84	1,101.84	704.69	704.69
Pais, A.	39 ..	7/51	1,800.00	9,481.20	9,481.20	518.80	518.80	114.24	114.24	60.97	60.97
Total (17 employees)	.. ..	..	\$30,783.64	..	..	\$36,681.92	\$30,469.00	\$29,263.44	\$26,734.68	\$21,519.77	\$19,950.07

^a OASI assumed to be \$1,302 per year.

^b Paid monthly.

^c As of July 1, 1957, a death benefit of \$23,831.11 exists, which would provide \$94.37 per month for his widow; a single sum cost of \$106,824.69 would be needed to provide \$405.63 per month, or the balance of \$500 per month.
As of July 1, 1973, a death benefit of \$86,571.34 would exist, which would provide \$461.30 per month to widow; a single sum cost of \$7,572.32 would be needed to provide \$38.70 per month or the balance of \$500 per month.

ESTIMATED COSTS OF PROPOSED PENSION PROGRAM, JULY 1, 1957

INSTITUTE OF ADVANCED STUDY

Item	TIAA		Trusteed	
	(IAS Only)	(All Sources)	(IAS Only)	(All Sources)
Faculty				
TIAA	\$15,392	\$15,392	\$15,392	\$15,392
TIAA—additional	29,263	26,735	21,519	19,995
Total	\$44,655	\$42,127	\$36,911	\$35,387
Nonfaculty—noncontributory	19,891	19,891	^{13,672} 15,062	^{13,672} 15,062
Total	\$64,546	\$62,018	^{50,583} \$51,973	^{49,059} \$50,449
Nonfaculty—excess	1,390	1,390	1,390	1,390
Total	\$65,936	\$63,408	^{51,973} \$53,363	^{50,449} \$51,839
Pension roll	23,294	23,294	23,294	23,294
Grand Total	\$89,230	\$86,702	\$76,657	\$75,133
			75267	73732

superceded now 3/30/57

SUMMARY OF PROVISIONS OF PROPOSED PENSION PROGRAM
FOR FACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Compulsory for faculty members.

3. Normal Retirement Date

July 30
~~First of the month~~ following 70th birthday.

4. Contributions

Faculty: 5 percent of salary to retirement.

Institute: Matches member's contribution and is allocated to CREF.

5. Benefits

Normal: TIAA-CREF annuities provided with joint contributions.

Minimum: \$10,000 per year, including benefits under TIAA-CREF provided at the Institute and primary FOAB, reduced one-tenth for each year over 60 at entry into plan.

6. Vesting

Fully vested as purchased.

7. Options

As available under TIAA-CREF contract.

FOR NONFACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Employees aged 30 or over after two or more years of service.

3. Normal Retirement Date

First of the month following 65th birthday.

4. Contributions

Employees: May elect to contribute 5 percent of annual earnings in excess of \$4,200 (minimum \$1 per month).

Institute: Entire cost of pensions on first \$4,200 of employee's annual earnings and matches employee's contribution on earnings in excess of \$4,200 per year. The contributions are allocated 50 percent to CREF.

5. Benefits

Past Service: 1 percent of first \$4,200 of annual earnings on July 1, 1957, for each year of service to July 1, 1957, excluding service before age 30 and first two years of service,

Future Service: 1 percent of first \$4,200 of annual earnings for each year of participation plus TIAA-CREF annuities purchased on earnings in excess of \$4,200 per year.

6. Vesting

Fully vested after five years of participation in the plan. Annuities may be repurchased if in force for less than five years, or have a purchase value of less than \$2,000.

7. Options

As available under TIAA-CREF contracts.

TABLE 1
 PRESENT PENSION ROLL
 INSTITUTE FOR ADVANCED STUDY

Name	Age as of July, 1957		Benefit (Yearly)	Single Premium ^a Needed July 1, 1957, to Purchase Column 3 (Single Life Annuity)
	Years	Months		
(1)	(2)		(3)	(4)
1. Bailey, Esther .	74	6	\$ 600.00	\$ 6,994.80
2. Flexner, Abraham	90	7	12,000.00	68,880.00
3. Harris, John ...	75	3	1,000.00	8,978.72
4. Lowe, E. A.	77	8	1,618.48	13,107.64
5. Swann, Nancy L.	76	4	874.92	9,537.22
6. Veblin, Oswald .	77	0	6,200.36	51,680.34
7. Williams, Joseph	69	11	1,000.00	11,071.31
Total .....	..	..	\$23,293.76	\$170,250.03

^a

Single premium to purchase immediate annuity, no return at death, first payment July 1, 1957.

Mr. Linder, As per our phone conversation to-day
Hawthorne

KWASHA, LIPTON & CLARK

Consulting Actuaries

H. CHARLES KWASHA, A.S.A.
MAURICE F. LIPTON, A.S.A.
DONALD G. CLARK, F.S.A.
JOHN A. CONNORS

FIFTY BROADWAY
NEW YORK 4, N. Y.
WHITEHALL 4-0950

May 16, 1957

Mr. Harold F. Linder
40 Wall Street
New York 4, New York

Dear Mr. Linder:

Re: Report on Pensions
Institute for Advanced Study

I have reviewed the papers which you sent me with yours of May 1, 1957, including the report prepared by Industrial Relations Counselors Service, Inc., all relating to the matter of a pension plan for faculty and non-faculty members of the Institute for Advanced Study. The following are my recommendations which I have purposely kept to a minimum and made as brief as possible. Inasmuch as I do not have the detailed information as to salaries, some of my comments may not be applicable.

Item 1. As between the plan for faculty members and that for non-faculty members, the Institute will contribute for future service much more for the latter in relation to their pay. For example, as stated in the report on page 16 at the bottom, a voluntary contribution of 5% of pay, matched by the Institute, should approximate a benefit of 1% of average annual pay. Since the latter is exactly the benefit which is being credited for future service to non-faculty members on the part of their pay under \$4,200 per annum, we can only assume that the cost thereof to the Institute is a full 10% of the annual pay up to \$4,200.

Yes.

Mr. Harold F. Linder

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May 16, 1957

The report is clear that on the part of pay over \$4,200 per annum, the Institute contributes 5% of pay -- with the member contributing another 5%.

Compare this with the faculty plan wherein the member contributes 5% on all of his pay, both on the part under, as well as on the part over, \$4,200 per annum, and the Institute likewise makes a contribution of 5%. Thus, on the first \$4,200 of a member's pay in each year, the Institute contributes 10% (approximately) for non-faculty members and only 5% for faculty members.

It is true that faculty members are guaranteed a minimum benefit of \$10,000 per year (inclusive of Federal Social Security benefits), but such minimum when related to the member's salary is probably no different proportionately than the amount which will be provided for non-faculty members under the suggested plan (which includes an allowance for a past service benefit) and Federal Social Security benefits.

One solution would simply be to have the non-faculty members contribute 5% of pay on all of their earnings. Considering the fact that the Institute, as I understand it, pays the member's contribution for Federal Social Security benefits, thus saving the member 2-1/2% of the first \$4,200 of annual pay, his effective contributions would be only 2-1/2% on that part of pay, as compared to employees in industry who are called upon to make their own Social Security contributions.

Mr. Harold F. Linder

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May 16, 1957

While it is true that most hourly rated employees in industry are not required to contribute to pension plans, many plans for salaried employees do require contributions which range from 2 to 3% of the first \$4,200 of pay.

It might be well to bear in mind, also, that the non-contributory plans for hourly paid employees in industry do not contain the favorable death benefit features that are a part of the suggested program.

Item 2. As to the \$10,000 minimum pension for faculty members, I presume that this figure does not represent too high a percentage of the compensation of the faculty members. Since the figure represents a minimum, I would expect that at best it would be no higher than 40% of compensation. Or, expressed another way, I assume that all of the faculty members are in receipt of compensation in excess of \$25,000 per annum. If this is not the case, perhaps it would be possible to establish the minimum as a percentage of the member's compensation, averaged during the entire period that he is with the Institute, or during a limited period prior to his retirement.

I go along with the desirability of permitting faculty members to become members after the attainment of age 55 -- but with the 1/15th reduction referred to in the plan. The latter will have the effect of controlling the high cost of the minimum in the case of members taken on at the older ages.

Mr. Harold F. Linder

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May 16, 1957

Item 3. The benefit formula for the non-faculty plan is on the liberal side for the part of pay under \$4,200 per annum, especially if no employee contributions are being required and if death benefits are being provided. I would expect to see a benefit more like 3/4 of 1% if a plan is non-contributory -- and even in that case, there would be no provision for the liberal death benefit of the suggested plan. Also, bear in mind that the employee in industry would be making his required contribution under the Social Security Act of 2-1/2% of the first \$4,200 of annual pay.

Item 4. I notice that the plan for non-faculty members counts benefits for future service on the part of pay over \$4,200 per annum, whereas, for past service, benefits are limited to the first \$4,200 of pay. This is rather unusual, although probably not too important in the case at hand, if the amounts in excess of \$4,200 are small. *Yes*

Item 5. It is not too clear from the plan just what would happen under the faculty plan if part of the benefits were provided by CREF. Does it mean that a member could receive more than a \$10,000 pension? Or, if his contributions and the matching contributions of the Institute are not sufficient to provide the \$10,000 minimum, even where such matching contributions are invested in part in CREF, will the supplemental benefits be sufficient merely to bring the individual up to the \$10,000 objective, or will the objective itself have been increased

*Had to integrate present
future plan
Many in T.I.A.A.
Now. Rose over 4200
in T.I.A.A.*

*Purchase
Enough to
bring up to
10,000 at
time of
retirement.*

*Using range
CREF will result
in less cost
to Institute
to answer
the minimum
at time of
retirement.*

Mr. Harold F. Linder

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May 16, 1957

because contributions for the supplemental benefit have been invested in part in CREF? If the former is the case, then the member does not gain through the investment in CREF and, insofar as the Institute is concerned, it is merely gambling that there will be inflation and that the cost for the supplemental benefit will be correspondingly reduced.

ditto
Rates used
Combination of
T.I.A.A. and
CREF
Prudent
choice

Item 6. As to the method of funding, because of the small number of individuals that are involved and because of the type of individuals (i. e., those who will likely have T.I.A.A. and CREF contracts when they join the Institute), we quite agree that the trust fund method of financing should not be considered. On the other hand, it does not necessarily follow that all of the benefits need be funded by T.I.A.A. and CREF contracts. Some consideration could well be given to a group annuity contract with an insurance company to provide benefits for the non-faculty member plan and to provide the supplemental benefit under the faculty plan. If this were done it would be possible to provide pension benefits without corresponding death benefits; in that event, the cost for the plan would be reduced by the mortality discount even though the plan were still on an insured basis. It would then be possible for you to devise a plan for the non-faculty members which would be more comparable to those being installed for industry in general -- i.e., with no death benefit. Also, it would permit you to eliminate the death benefit feature on the supplemental benefit for faculty members. The elimination of the death benefit feature should in both these instances result in substantial savings under the plan.

Correct

May 16, 1957

In conclusion, we would recommend that the costs be explored of a plan for non-faculty members which would be financed on a group annuity basis providing for the same eligibility and retirement provisions as have been suggested in the IRC's report but where a benefit percentage of $3/4$ of 1% would be substituted for the 1% that had been suggested by IRC, with no contributions being required from employees and with no death benefits being provided. (We presume that all members, either faculty or non-faculty, are covered under separate group insurance arrangements.)

As to the plan for faculty members, we go along with that suggested by IRC with the exception that the supplemental benefits should be handled by means of the same group annuity contract which covers the non-faculty members; this would mean that no death benefits would be provided in conjunction with the supplemental benefit.

It is difficult to tell from the IRC report, just which rate basis of T.I.A.A. was used in arriving at the quoted costs. If the guaranteed rates were the ones which were used, then I would guess that the use of the group annuity contract to provide the suggested benefits for the non-faculty members would have the effect of reducing the cost for that plan by approximately \$10,000 to \$12,000. I would guess that the cost for the plan for faculty members, if group annuities were used to provide the supplemental benefits, would be reduced by approximately \$5,000 to \$6,000.

*Combination
Rate used,
3 1/2 %
assumption*

In making this estimate we used the group annuity rates of the Bankers Life Insurance Company of Des Moines, Iowa.

If I can be of any further assistance to you in this matter, please do not hesitate to call on me.

HCK:mh

P.S.: The group annuity cost for the present pension roll is approximately \$135,000.

Sincerely yours,
KWASHA, LIPTON & CLARK

H. Charles Kwasha

REPORT ON PENSIONS
INSTITUTE FOR ADVANCED STUDY

INDUSTRIAL RELATIONS COUNSELORS SERVICE, INC.

NEW YORK, N. Y.



REPORT ON PENSIONS
INSTITUTE FOR ADVANCED STUDY

Prepared by
Industrial Relations Counselors Service, Inc.
New York, N. Y.

March 29, 1957

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INTRODUCTION AND SUMMARY

In accordance with the request of the Special Pension Committee of the Institute for Advanced Study, this report presents an outline of a recommended retirement program for both the faculty members and nonfaculty employees of the Institute.

In summary, we recommend a basic noncontributory pension plan for nonfaculty employees covering annual pay up to \$4,200 combined with a voluntary contributory plan on earnings in excess of \$4,200. For faculty members, the proposed plan provides for them to continue to contribute 5 percent of salary, matched by the Institute, and in addition it assures them a minimum annual retirement income of \$10,000 at age 70, including all benefits purchased through TIAA-CREF and primary federal old age benefits.

In comparison with the present program, the annual cost of the recommended program is as follows:

<u>Present Plan</u>	<u>Proposed Plan</u>	<u>Increase in Cost</u>
\$43,372	\$73,451	\$30,079

Section I of the report describes the present pension arrangements. Section II deals with pension financing. The proposed pension program is outlined and discussed in Sections III and IV, and Section V presents the estimated annual outlay involved.

I. PRESENT ARRANGEMENTS FOR PROVIDING PENSIONS

The Institute for Advanced Study (IAS) pays the entire cost of federal social security for both the faculty and nonfaculty staff. In 1934 the Institute established a pension plan funded with Teachers Insurance and Annuity Association of America (TIAA) to provide pensions for the faculty and the nonfaculty staff. Participants earning over \$7,500 per year now contribute 5 percent of salary, and those earning less contribute 8 percent of salary. IAS matches employee contributions.

Faculty members normally are required to contribute to TIAA, although two members now are not participating—one having a special pension arrangement and the other none. Four other faculty members participate in TIAA under special contribution arrangements. The nonfaculty staff may participate in TIAA although no systematic effort is made to attain a high percentage of participation. Only 10 nonfaculty employees out of 59 participate, or 12 out of 61 if the two permanent staff members (a mathematician and an engineer) are counted in this grouping.

In conjunction with participation in TIAA, participation may be elected in the College Retirement Equities Fund, called CREF, which permits a portion of annuity premiums, such as one-half or one-third, to be invested in common stocks to provide a unit annuity, the value of which changes each year with the current value of the underlying assets. Ten out

of 28 participants have elected that a portion of their premiums be paid to CREF; nine elected one-half; and one elected one-third. The distribution electing CREF is seven of the 16 faculty participants; one of the two employees on the permanent staff; and two of the 10 nonacademic participants; or 10 of the 28 participants.

We understand that employees may retire at age 65 and that retirement at age 68 is compulsory. Faculty members remaining in service after age 65 continue to contribute and the Institute continues to match the contributions until retirement occurs.

There are now seven employees on the Institute's pension roll and the yearly pension payments now amount to \$23,293.76.

Obviously, the present pension arrangements are deficient for nonfaculty employees since the large majority do not have any pension coverage. The Institute wishes, therefore, to revise the current program so as to gain more widespread participation from this group. It also seems desirable to strengthen the plan covering the faculty by the inclusion of a minimum retirement income guarantee to eliminate anxiety on their part about retirement problems during their careers with the Institute.

II. PENSION FINANCING

In devising a sound retirement plan the financial provisions are of major importance. Careful judgment should be given to determining the best accounting method and to deciding whether contributions will be paid to an insurance company or a trust fund under self-administered annuity financing or whether some combination of these methods will be used.

A. ACCOUNTING FOR PENSION COST

A formal program for providing adequate retirement benefits for employees of the Institute involves many pension cost accounting considerations which are not encountered in plans of industrial companies. Among the most important of these are the nonprofit tax status of the Institute and the educational nature of its work and source of finances. Full recognition has been given to these factors in determining a suitable method of accounting for pension costs. The basic fact, however, is that financial provision should be made in advance of retirements in order to control pension costs which otherwise might eventually become prohibitive.

There are two general methods of accounting for the cost of pensions financed by the employer: (1) the current payment method, under which pensions are financed as they fall due, and (2) the deferred annuity accounting method, under which financial provision is made during each

year an employee is in service for the pension credited to him for service in that year.

It is obvious that the method of charging pension payments into operating expense as they become due makes no provision for meeting a cost incurred in the past and that continuation of pensions is contingent upon the future financial condition of the Institute.

The second method, providing for the accumulation of funds over the entire period of an employee's service, is in line with usual cost accounting practices followed by commercial companies, which currently charge against each unit of operation all the items of its cost. Deferred annuity financing entails a lighter financial burden, since the interest earned during the period before pensions are paid reduces the cost of the plan. It gives definite assurance of pension payments, which conduces a sense of security on the part of employees. It takes account of the cost as pension credits accumulate, making it possible at all times to determine whether the plan is feasible from a financial standpoint.

If the cost of currently accruing pension credits is met as earned, and if pensions for past service are paid when due, the system ultimately will become fully financed, with consequent advantage to both the Institute and its employees, in that benefits will be assured. To assure payment of adequate pensions for life, however, it is necessary that benefits either be purchased from an insurance company or be backed by a trusted fund set aside for the specific purpose of providing pensions.

B. INSURANCE AND TRUSTEED FINANCING

Pensions may either be underwritten by an insurance company, or the required reserves may be invested under competent direction. It is advisable that the deferred annuities provided be purchased from an insurance company, to avoid the difficulties that may arise in case of adverse experience under a fund, for which the Institute might be held at least partially responsible.

An annuity contract provides for the transfer to an insurance company of all of the liabilities for future pension payments, once the required premiums have been paid. This consideration is important in organizations having a relatively small employee group, since mortality experience and interest earnings on reserve funds might diverge widely from expected rates. The Institute may be considered as being in that position, since less than 60 employees would qualify to join the plan on the proposed basis of age 30 and a two years' service period for eligibility.

While it would be possible to establish reserves for pensions that would be somewhat lower than the premium required by an insurance company, there is no assurance that such a procedure would be less costly in the long run, because of the risk of possible additional expense as a result of unfavorable experience with interest earnings and future employee and pensioner longevity, as well as the legal, actuarial and other administrative costs involved. In considering the cost of insured

underwriting, account should be taken of the possibility of dividend payments and the fact that the administrative expense to an insurance company doing a large annuity business is likely to be much lower per employee than it would be to a single employer.

C. TIAA-CREF PENSIONS RECOMMENDED

The experience of the Institute with financing its pensions since 1934 through TIAA and the use of TIAA by over 760 institutions both seem to indicate the wisdom of using TIAA. CREF is used also in more than 680 institutions.

We recommend the Institute fund its pensions through TIAA-CREF, with 50 percent of the premiums going to CREF. This arrangement has the following advantages:

1. It would give members assurance of a third party guarantee which would not depend on the finances or make-up of the Board of Trustees at the time of the participant's retirement,
2. It would give members assurance of proportionate retirement benefits in case of early retirement for health or other reasons,
3. It would give members assurance that wives or other dependents would be provided for in case of death prior to retirement,
4. It would give members the opportunity to select settlement options at the time of retirement, thus giving added protection for wives and dependents,

5. It would enable both the members and the Institute to participate in CREF, thus providing a hedge against inflation,

6. It would allow members to continue to provide for their retirement in the event they leave the Institute,

7. It would fix the liability of the Institute for retirement benefits and keep it out of the insurance business.

The recommended program is designed, therefore, to conform with the underwriting procedures specified by TIAA-CREF.

III. SUMMARY OF PROVISIONS OF PROPOSED PENSION PROGRAM

A. FOR FACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Compulsory for faculty members.

3. Normal Retirement Date

June 30 coinciding with or next following the 70th birthday.

4. Contributions

Faculty: 5 percent of salary to retirement.

Institute: Matches member's contribution and is allocated to CREF.

5. Benefits

Normal: TIAA-CREF annuities provided with joint contributions.

Minimum: \$10,000 per year, including all benefits under TIAA-CREF and primary federal old age benefits, reduced one-fifteenth for each year over age 55 at entry into plan.

6. Vesting

Fully vested as purchased.

7. Options

As available under TIAA-CREF contracts.

B. FOR NONFACULTY

1. Effective Date

July 1, 1957.

2. Eligibility

Employees aged 30 or over after two or more years of service.

3. Normal Retirement Date

First of the month following 65th birthday.

4. Contributions

Employees: May elect to contribute 5 percent of annual earnings in excess of \$4,200 (minimum \$1 per month).

Institute: Entire cost of pensions on first \$4,200 of employee's annual earnings and matches employee's contribution on earnings in excess of \$4,200 per year. The contributions are allocated 50 percent to CREF.

5. Benefits

Past Service: 1 percent of first \$4,200 of annual earnings on July 1, 1957, for each year of service to July 1, 1957, excluding service before age 30 and first two years of service.

Future Service: 1 percent of first \$4,200 of annual earnings for each year of participation plus TIAA-CREF annuities purchased on earnings in excess of \$4,200 per year.

6. Vesting

Fully vested after five years of participation in the plan.

Annuities may be repurchased if in force for less than five years, or have a repurchase value of less than \$2,000.

7. Options

As available under TIAA-CREF contracts.

IV. COMMENTS ON THE PROPOSED PENSION PROGRAM

A. PARTICIPATION IN COST

1. Faculty Members

The proposed pension plan for faculty members provides for continued faculty participation in the cost. This is customary in the large majority of university retirement plans. The cost of any supplement to provide the specified minimum retirement benefit would be paid for annually entirely by the Institute through TIAA-CREF.

2. Nonfaculty Employees

The proposed pension plan for nonfaculty employees does not provide for employee participation in the cost of the basic benefits computed on the first \$4,200 of annual pay. It also may be noted that \$4,200 is the maximum annual pay for purposes of OASI. On that portion of annual pay in excess of \$4,200 the employee may elect to contribute 5 percent and the Institute then would match his contributions.

The proposed basic noncontributory pension plan for non-faculty employees assures automatic pension coverage of all permanent employees. This eliminates the problem the Institute otherwise would have had to face for employees reaching retirement age who would not have participated in a contributory plan because they felt they could not afford to contribute. In addition, most plans demanded by unions are

noncontributory and the trend in industry is to noncontributory pensions, especially on the first \$4,200 of annual pay. It may also be noted that Princeton University has a noncontributory retirement plan for its non-faculty employees.

We recommend that the contributions of faculty members and other participants always be allocated to TIAA and that the Institute's contributions be allocated to CREF in such a way as to assure that the combined sum will always be evenly divided between the two. This would provide a hedge against inflation as well as easy administration.

B. NORMAL RETIREMENT DATE

1. Faculty Members

The proposed normal retirement date of June 30 coinciding with or next following the 70th birthday seems appropriate for the faculty members of the Institute. It may be noted that the 1950 Committee on Academic Retirement of the American Association of University Professors and the Association of American Colleges suggests that age 65 is too early for a compulsory retirement age for professors.

2. Nonfaculty Employees

The proposed normal retirement date of the first of the month following the 65th birthday for nonfaculty employees seems desirable. It adheres to the retirement age when maximum primary federal old age benefits can begin and is generally the accepted normal retirement age in

industrial pension plans. Later or deferred retirement would be possible, with the consent of the Institute, subject to annual review.

C. EARLY RETIREMENT

A minimum age for early retirement need not be stated for either group if retirement benefits are provided under the proposed annuity contracts of TIAA and CREF. Under these contracts the full accumulation may be settled as retirement income at any time after premiums cease. If a participant becomes disabled, he may ask that annuity payments begin at once. Payments at an early retirement age are smaller due to the earlier pay-out and the loss of future premiums that otherwise would have been paid in.

D. FORM OF ANNUITY

The TIAA-CREF contracts provide that in the event of a participant's death prior to retirement the accumulated value of the contracts will be paid to the participant's beneficiary. At retirement the participant may elect various annuity settlement options, including one which could provide for his wife.

E. VESTING

Faculty members are fully vested each year with respect to the retirement income that has been purchased by the premiums paid. Nonfaculty employees are fully vested each year with respect to the retirement income that has been purchased by the premiums paid after they have

participated in the plan for five years. In the event of the termination of employment of a nonfaculty participant before the contracts have been in force five years, the annuity contracts are "repurchased" and cancelled with the accumulation paid to the Institute, provided the participant is not transferring to an institution having a TIAA plan. Of course, any participants who voluntarily contribute would receive their proportionate share of the accumulation.

Since the eligibility requirement for participation of nonfaculty employees is age 30 and two years of service, vesting could not be achieved until after seven years of service and the attainment of age 35. The Institute, therefore, would be vesting retirement income only in the nonfaculty employees whom it considers career personnel. The guarantee of fully vested retirement benefits is an inducement to the thoughtful employee. Of importance, also, is the fact that vested retirement benefits can ease the termination of employees should the Institute feel such action is advisable.

F. BENEFIT ADEQUACY

1. Faculty

Faculty members hired before age 55 will be assured of a reasonable retirement income through the minimum guarantee of \$10,000 of retirement income at age 70, including all TIAA-CREF benefits regardless of source and including primary federal old age benefits. Faculty members hired after age 55 will also be assured of the same minimum

pension of \$10,000, reduced, however, by one-fifteenth for each year they are over age 55 at the time of employment.

2. Nonfaculty Employees

The plan essentially is designed to provide a pension benefit of about 2 percent of average annual pay up to \$4,200, including primary federal old age benefits, for each year of service after the first two years and after age 30. In broad terms, primary federal old age benefits equal about 1 percent of the average annual pay to \$4,200, and the benefit provided under the plan equals 1 percent. An employee with 37 years of service at age 65 might expect a benefit on the basis of his average annual pay as follows:

<u>Average Annual Pay</u>	<u>TIAA- CREF</u>	<u>Primary FOAB</u>	<u>Total</u>	<u>Percent of Average Annual Pay</u>
\$1,800	\$ 630	\$ 822	\$1,452	80.7%
2,400	840	942	1,782	74.3
3,000	1,050	1,062	2,112	70.4
3,600	1,260	1,182	2,442	67.8
4,000	1,400	1,261	2,661	66.5

For career nonfaculty employees earning more than \$4,200 annually, the voluntary 5 percent contribution, matched by the Institute, should approximate 1 percent of average annual pay in excess of \$4,200

for each year of participation. This would depend on dividends as well as the employee's age when contributions are made.

Since one-half of the pension benefits would be purchased under TIAA contracts and the other half under CREF, it would be desirable to specify that guaranteed benefits accrue only under TIAA and that the CREF benefits may vary as provided under the CREF contracts.

The following tabulation shows the minimum monthly life annuity that would be purchased under TIAA by \$1 from entry age to age 65:

Age When Contributions Commence	Monthly Annuity Payable at Age 65	
	Males	Females
30	\$3.82	\$3.20
35	3.07	2.58
40	2.41	2.02
45	1.82	1.52
50	1.28	1.08
55	0.81	0.68
60	0.38	0.32

For example: If a male employee earns \$400 per month and chooses to contribute, his contribution would be 5 percent of \$50 or \$2.50 per month, and the Institute would contribute the same amount making a total of \$5. If the employee started to contribute at age 35, he would receive not less than \$15.35 (\$3.07 X5) per month for life.

In connection with the proposed plan for nonfaculty employees, it is suggested that the annual earnings breaking point of \$4,200 be expressed

as the maximum amount of annual earnings credited for OASI benefits, in order to provide for automatic adjustment of the plan, without formal amendment, to any subsequent change in the social security maximum earnings base.

V. ESTIMATED COSTS UNDER PROPOSED PENSION PROGRAM

The cost to the Institute of the proposed pension program cannot be precisely forecast since there can be no certainty with respect to a number of future variable factors involved. These variables include any deaths among participants before retirement on a pension, new hirings, future earnings of the participants and the length of time each present pensioner will live.

The cost estimates for the proposed program have been made using the level premium rates currently quoted by TIAA-CREF, the financing method recommended. For purposes of comparison cost estimates are given using trustee financing and including a discount for turnover and mortality.

Table 1 shows the pension outlays for faculty members. The cost of matching the members' contributions is \$15,392 per year, the supplement to provide the minimum annual pension would cost \$13,484, using TIAA-CREF as recommended, and \$9,314 using trustee financing. The total costs, including the present pension roll are \$52,170 and \$48,000, respectively, under the two financing methods.

The pension outlays for the proposed pensions for nonfaculty employees are shown in Table 2. The basic plan would cost \$19,891 annually, and assuming that all eligible employees contribute 5 percent of their

TABLE 1

ANNUAL OUTLAY OF PROVIDING PENSIONS FOR FACULTY MEMBERS, AS OF JULY 1, 1957
 INSTITUTE FOR ADVANCED STUDY

Item	Annual Outlay Using—	
	TIAA-CREF (As Recommended)	Trusteed-TIAA Financing
Matching members' contributions	\$15,392	\$15,392
Supplement to provide minimum pension ^a	13,484	9,314
Total	\$28,876	\$24,706
Present pension roll	\$23,294	\$23,294
Total	\$52,170	\$48,000

^a
 An annual pension supplement totaling \$19,664.36 would be distributed among ten faculty members, and includes supplementation to \$6,000 per year for one member and to \$12,000 per year for another member, and excludes any supplementation for a third member, by special arrangement.

TABLE 2

ESTIMATED ANNUAL OUTLAY OF PROVIDING PENSIONS FOR NONFACULTY EMPLOYEES^a
 AS OF JULY 1, 1957

INSTITUTE FOR ADVANCED STUDY

Item	Annual Outlay		
	Male	Female	Both Sexes
TIAA Cost (As Recommended) ^b			
Past service ^c	\$1,395	\$ 5,762	\$ 7,157
Future service	4,342	8,392	12,734
Total	\$5,737	\$14,154	\$19,891
Annual contribution of 5 percent of salaries in excess of \$4,200	\$1,045	\$ 345	\$ 1,390
Total	\$6,782	\$14,499	\$21,281
Trusted Costs Discounted for Turnover and Mortality ^b			
Past service ^c	\$1,047	\$ 4,452	\$ 5,499
Future service	2,844	5,329	8,173
Total	\$3,891	\$ 9,781	\$13,672
Annual contribution of 5 percent of salaries in excess of \$4,200	\$1,045	\$ 345	\$ 1,390
Total	\$4,936	\$10,126	\$15,062

a

Cost to provide a pension of 1 percent of first \$4,200 of annual earnings for each year of service and to match employee contributions on earnings in excess of \$4,200 per year.

b

Excludes an annual "out-of-pocket" cost of \$572 for employees aged 65 and over.

c

Past service is based on current salary and is credited to July 1, 1957, but only after attainment of age 30 and completion of two years of service.

earnings in excess of \$4,200 per year, there would be an additional cost to the Institute of \$1,390, making a total outlay of \$21,281. The comparable trustee costs of \$15,062 are also shown in Table 2. These do not include any payments to employees now aged 65 or over, since the recommended retirement age for nonfaculty members is age 65. There would be an annual cost of \$572, if these employees were to be retired on July 1, 1957.

Table 3 presents a summary of outlays under the entire proposed program as well as the present program. It should be noted that the recommended program would involve an additional annual outlay of \$30,079.

The present pension roll is shown in Table 4. If immediate annuities were to be purchased through TIAA for the seven individuals on the pension roll, it would require a single premium of \$170,250.03 as of July 1, 1957. It is recommended that these pensions continue to be paid currently as at present and are not funded through TIAA since the Institute will not be assuming any further unfunded pension liability.

TABLE 3

COMPARISON OF ESTIMATED ANNUAL OUTLAY OF PRESENT AND
 PROPOSED PENSION PROGRAM, JULY 1, 1957

INSTITUTE FOR ADVANCED STUDY

Group	Annual Outlay Under—		
	Present Program	Proposed Program Using—	
		TIAA Financing (As Recommended)	Trusteed-TIAA Financing (Not Recommended)
Faculty			
TIAA	\$15,392	\$15,392	\$15,392
TIAA—supplemental ^a ..	..	13,484	9,314
Total	\$15,392	\$28,876	\$24,706
Nonfaculty			
Noncontributory ....	..	\$19,891	\$13,672
Contributory	\$ 4,686	1,390	1,390
Total	\$ 4,686	\$21,281	\$15,062
Total	\$20,078	\$50,157	\$39,768
Pension roll	\$23,294	\$23,294	\$23,294
Grand total ..	\$43,372	\$73,451	\$63,062
Increase over present program			
Amount .....	..	\$30,079	\$19,690
Percent .....	..	69.4	45.4

^a

An annual pension supplement totaling \$19,664.36 would be distributed among ten faculty members, and includes supplementation to \$6,000 per year for one member and to \$12,000 per year for another member, and excludes any supplementation for a third member, by special arrangement.

TABLE 4
 PRESENT PENSION ROLL, AS OF JULY 1, 1957
 INSTITUTE FOR ADVANCED STUDY

Name	Age		Annual Pension	Single Premium ^a Needed July 1, 1957, to Purchase Pension
	Years	Months		
Bailey, Esther	74	6	\$ 600.00	\$ 6,994.80
Flexner, Abraham	90	7	12,000.00	68,880.00
Harris, John	75	3	1,000.00	8,978.72
Lowe, E. A.	77	8	1,618.48	13,107.64
Swann, Nancy L.	76	4	874.92	9,537.22
Veblin, Oswald	77	0	6,200.36	51,680.34
Williams, Joseph	69	11	1,000.00	11,071.31
Total .....	..	..	\$23,293.76	\$170,250.03

^a
 Single premium to purchase immediate single life annuity, no return at death, first payment July 1, 1957.

T.I.A.A. PARTICIPATION

STAFF

	<u>Employees</u>	<u>T.I.A.A.</u>
Business Office	7	2
Library	4	2
Secretarial	11	3
Academic Assistants	8	1
Cafeteria	7	1
Grounds and Buildings	<u>16</u>	<u>1</u>
TOTAL	53	10

2865

Alfred ✓	6/22/55	3 paras
Bearling ✓	1/22/54	marked passage
Chemis ✓	12/16/49	whole letter minimum \$6000.
"Lysen	12/8/52	passage same as Borel etc with addition
Goodell	12/8/52	same as Borel etc
Kanton	12/29/50	same as Borel etc
Kennan	12/28/55	same as Borel etc
Neritt ✓	4/25/35	marked passage
Montg.	12/19/51	same as Borel etc
Nore ✓	12/16/43	whole letter, 12/20/45 marked passage
Pais	1/19/51	same as Borel
Putsky ✓	12/17/56	1/4 para; 1/2/57 part of 1st sentence
Reeling	1/19/51	almost same as Borel etc
Stanton ✓	12/16/49	same as Chemis
Wilkey	5/23/51	same as Borel etc
Woodward ✓	11/9/51	para; 11/30/55 2 paras; 12/21/55 para
Yang	2/3/55	same as Borel etc
Borel	4/26/56	same as Borel etc
Leis	1/23/57	almost same as Strom & Weil
Wain	2/19/57	same as Weil
Weil	4/5/57 1/2 para	- same to Stengren

(Professors Beurling, Borel, Gödel, Kantorowicz, Kennan, Montgomery, Pais, Whitney, Yang)

"...and the Institute is also prepared to contribute a sum equal to five per cent of your annual salary each year toward the purchase of a retirement annuity, provided you will make a like contribution."

(Prof. Selberg)

"In order to make provision for your retirement, the Institute would be glad to contribute 5% of this sum (\$625.00) toward the purchase of a retirement policy provided that you will make an equal or greater contribution."

(Prof. Dyson)

"The provisions of your and our contributions to T.I.A.A. will be correspondingly increased." --28 October 1955

"We are prepared to make a contribution of five per cent of this sum toward the purchase of a retirement annuity provided you will make a like contribution. The Institute permits its Faculty to elect the new TIAA plan of devoting up to fifty per cent of the retirement funds to the purchase of equities."

(Professor Woodward)

9 November 1951

"The Institute will pay you an annual salary of \$13,000.00 during the five fiscal years starting July 1, 1951 and ending June 30, 1956. The Institute agrees to pay to you, or to your estate, the sum of \$5,000 for each year that you have been with us, to be paid at such time or times as you may desire after July 1, 1956. The Institute can make no commitment as to interest on these monies; but will undertake to give to you such interest as it in fact has collected. It is our understanding that these arrangements meet your desires."

(Woodward to RO)

November 30, 1955

"Mr. Levy's suggestions are: (1) that I should not prolong the present arrangement, but ask the Institute to pay me my full salary of \$18,000 for the two years from July 1, 1956 to June 30, 1958, and further (2) that, in order to 'spread' the existing accumulation (which by July 1, 1956, would be \$25,000 (plus possible interest), I should ask you whether you would allow the arrangement to be cancelled as from June 30 of this year--in other words, my salary from July 1, 1955 would be at the rate of \$18,000. If it were possible to pay me before December 31 of this year the additional \$2,500 (less tax withheld) which on this basis would accrue to me between July 1, and December 31, it would fall under this year's income tax. (It would, of course, be rather more to my advantage if the 'accumulation plan' could be cancelled as from January 1 of this year, and I were to receive \$5,000, but I assume that this would upset the Institute accounts for 1954-1955.)

"If I were paid at the rate of \$18,000 a year from July 1, 1955, the accumulation would be reduced by \$5,000, and would thus be on my retirement \$20,000 (plus possible interest), i.e. for the period July 1951-July 1955. Mr. Levy thinks that it would be undesirable to fix now anything final ~~that~~ about the date and method of payment of this accumulated sum, but that we might agree (a) that in the event of my death, it should go to my estate, (b) that it should be paid within--or not later than--twelve months of the date of my retirement. The point about this optional twelve months is that it might enable me to receive part of it in the latter half of 1958, and part on January 1, 1959--this would be to my advantage since my salary from the Institute ends on July 1, 1958."

(RO to Woodward)

21 December 1955

"The proposals in your letter of November 30, 1955 about your financial arrangements with the Institute have been approved by the Treasurer, and we will put them into effect at once."

(Professor Panofsky)

(From memo to Trustees from RO, 17 December 1956)

"....He said that if he could look forward to a pension of \$10,000 a year he would certainly stay at the Institute. I undertook to lay this matter before the Trustees, and to let Professor Panofsky know the outcome when they had reached a decision."

(Prof. Panofsky to RO, 2 January 1957)

"A day or so after your departure Mr. Leidesdorf very kindly called me up to tell me that, even though the Executive Committee would not meet until later, he could assure me of the fact that I could count on that raise of my pension which you had proposed in your memorandum....."

(Professor Morse)

(Frank Aydelotte to Prof. Morse, 16 December 1943)

"It gives me pleasure to inform you that the Executive Committee at its meeting on December 14th recommended that \$125 per year be added to the \$625 which the Institute at present pays to the T.I.A.A. on your behalf, provided you are willing to make an equal increase in the sum deducted from your salary for this purpose.

"I am informed by the T.I.A.A. that these payments, if begun on January 1, 1944, would entitle you to an annuity of \$4250.52, commencing July 1, 1957, with one-half benefit to Mrs. Morse should she survive you. I enclose a copy of Mr. Mattock's letter on this subject. If you will notify Miss Miller Saturday morning of this week as to whether this arrangement is satisfactory to you, the proper payments can be made as of January 1st."

(Frank Aydelotte to Prof. Morse, 20 January 1945)

"...This action will make no change in your annuity payments and those of the Institute which are actually 5% in each case of \$15,000."

(Professor Meritt)

(Abraham Flexner to Prof. Meritt, 25 April 1935)

"...It is understood that you will contribute 5% of your salary to the Teachers Insurance and Annuity Association of America, the Institute contributing an equal sum monthly, that these combined contributions will continue until your retirement and then become a basis of your retirement allowance,..."

(Professor Alföldi)

22 June 1955

"1. The Institute will pay you an annual salary of \$14,000 during each fiscal year commencing July 1, 1955 and continuing up to the point of your retirement. You will make available the sum of \$900 a year for the purchase of a T.I.A.A. policy, and the Institute will make a like contribution.

"2. The Institute will further pay to you or to your estate or lawful designee, following your retirement, the sum of \$4,000 multiplied by the number of years elapsing between July 1, 1955 and the time of your retirement, such sum to be payable at the rate of \$4,000 during each calendar year following such retirement.

"3. The Institute will add to the amounts payable after your retirement interest upon the \$4,000 deferred for each year prior to retirement, taken as from the end of each fiscal year to the date of payment and at the prevailing rate on its general funds for the intervening period; while this is not likely to deviate markedly from 3%, no commitment to that effect can be made."

December 16, 1949

"It was moved and carried that, operative as of July 1, 1950, the minimum total pension of present full Institute professors should be \$6000; that the obligation of the Institute is to provide the difference between this amount and the pension provided through insurance; that the additional payments should be covered in the ordinary budget.

"Thus, under the terms of this resolution, the funds available to you from the TIAA policy which you now hold will be supplemented by the Institute to bring the total to \$6000. a year. The Trustees of the Institute understand that in some cases a professor may desire to make provision for the support of his wife in the event of his death. In general, the Institute will allow each professor to exercise this option with regard to its contribution to his retirement allowance, and in general accordance with the terms of options as established by the TIAA."

This letter went to: Professor Cherniss
Professor Thompson (same date)

(Professors Strömbergren and Weil)

"At present, also, we follow the usual practice of contributing five per cent of your salary per annum to the purchase of a T I.A.A. policy, provided you are willing to contribute an equal amount. These matters having to do with retirement and pension are now under study by the Trustees; such changes as they may make will surely not be unfavorable for members of the Faculty."

(Professor Meiss)

"At present, also, we follow the usual practice of contributing five per cent of your salary per annum to the purchase of a T.I.A.A. policy, provided you are willing to contribute an equal amount. These matters having to do with retirement and pension are now under study by the Trustees; but any change that they make will not be unfavorable for members of the Faculty."

AN ANALYSIS OF FUTURE
 PENSION BENEFITS UNDER T.I.A.A.
 I.A.S. FACULTY - JANUARY, 1957

	<u>Salary</u>	<u>Contribution</u>	<u>Percent</u>	<u>Annuity at age 68</u>	<u>Age at the time of Appointment</u>
Alfoldi, A.	\$ 900.00	\$ 900.00	10	\$ 1,253.88	60
Beurling, A.K.A.	900.00	900.00	10	3,213.24	49
Cherniss, H.F. ¹	1,073.16	1,073.16	12	5,299.20	44
Dyson, F.J.	900.00	900.00	10	8,612.28	29
Godel, K.F.	900.00	900.00	10	4,451.64	47
Kantorowicz, E.H.	900.00	900.00	10	1,917.00	56
Kennan, G. F.	900.00	900.00	10	2,738.52	52
Meritt, B.D.	750.00	750.00	8.3	11,790.72	36
Montgomery, D.	900.00	900.00	10	6,708.36	42
Morse, M.H. ²	750.00	750.00	8.3	8,124.96	42
Pais, A.	(Not participating)				33
Panofsky, E. ³	918.66	918.66	10	5,946.84	42
Selberg, A.	900.00	900.00	10	7,031.04	34
Thompson, H.A. ²	750.00	750.00	8.3	6,543.84	41
Whitney, H.	900.00	900.00	10	7,598.88	45
Woodward, L.	(Special arrangement)				61
Yang, C.N.	900.00	900.00	10	8,102.28	33

¹ - Special arrangement - Contributions set at \$2,146.32 to guarantee minimum pension of \$4,000.00 at age 65.

² - 10 per cent of former salary (\$15,000)

³ - Special arrangement - Contribution set at \$1,837.33 to guarantee minimum pension of \$4,500 at age 65.

PENSION SCHEDULE 1956-57

	<u>Former Position</u>	<u>T.I.A.A.</u>	<u>I.A.S.</u>	<u>Total</u>
* Aydelotte, Frank	Director	\$6,235.32	\$5,764.68	\$12,000.00
Bailey, Ester S.	Sec'y to the Director		600.00	600.00
Flexner, Abraham	Director		12,000.00	12,000.00
Harris, John	Driver		1,000.00	1,000.00
**Lowe, E. A.	Professor	2,318.52	1,618.48	4,000.00
Swann, Nancy L.	Librarian	325.08	874.92	1,200.00
Veblen, Oswald	Professor	1,799.64	6,200.36	8,000.00
Williams, Joseph	Janitor		1,000.00	1,000.00

* Deceased

** Also receives annual grant of \$10,000 for research

INDUSTRIAL RELATIONS COUNSELORS, INC.

An Independent Nonprofit
Research Organization,
Established in 1926
"To Advance the Knowledge
and Practice of Human
Relationships in Industry,
Commerce, Education and
Government"

Rockefeller Center, New York, N. Y.

December 1, 1956

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HISTORY AND ORGANIZATION OF INDUSTRIAL RELATIONS COUNSELORS, INC.

The idea of an independent nonprofit organization devoted exclusively to study and research in the field of human relations in industry originated with John D. Rockefeller, Jr.

His personal interest in the problems of labor-management relations had been stimulated by acute industrial strife in the Colorado Fuel and Iron Company in 1913 and the industrial strife following World War I. As a result, Mr. Rockefeller, in 1922, brought together a small staff of industrial relations specialists, under the general direction of Raymond B. Fosdick, to carry on research and special studies in the field of industrial relations.

This staff was brought together originally to help in keeping Mr. Rockefeller fully informed on the industrial relations programs in the companies in which he held considerable financial interest. The activities and services of this little group were gradually extended to other companies than those in which Mr. Rockefeller was interested and it gained a reputation for solid research in the then almost untouched area of industrial relations. This development convinced Mr. Rockefeller of the value of this kind of research to industry and the nation generally and consequently of the need for a completely independent organization to function exclusively in this field.

Accordingly, in 1926, Industrial Relations Counselors, Inc., was organized as an independent nonprofit membership corporation under the laws of the State of New York, for the purpose, according to its charter, of advancing "the knowledge and practice of human relationships in industry, commerce, education, and government."

To emphasize its nonprofit character, the organization was conducted under a Board of Trustees of leading executives and educators, serving without remuneration.

At the time of its formation, Industrial Relations Counselors, Inc., was the only organization in the country specializing in industrial relations research and the collection of information regarding labor-management relations.

When Industrial Relations Counselors, Inc., came into being as a separate unit in 1926, the director, A. H. Young, and the staff, transferred from Curtis, Fosdick and Belknap, had already laid a sound foundation for future activities. To assure continuation of the scientific research point of view which had already made the organization's work notable, the Board of Trustees adopted the policy that field studies and research work done for individual companies and other organizations should be done on a nonprofit basis and Mr. Rockefeller undertook to help support the program until the income from research service and contributions from individuals and companies would provide an adequate budget. It was further decided that studies primarily of interest to management should be distributed to companies contributing financially to the work of the organization and that those of wider interest in addition to being supplied to contributor companies should be placed on sale for general distribution.

RESEARCH ACTIVITIES

The ambitious research program launched by IRC in 1926 dealt with the problems of unemployment, unemployment insurance legislation, and the development of industrial pension systems.

The depression of 1921-1922 had directed attention to the need for providing a system of insurance for workers, against periods of unemployment. Believing that action in this field should not be taken without adequate information on existing experience in this area, the organization undertook a series of studies of unemployment benefits in this country and of unemployment insurance and public employment services abroad.

When the first of eight studies of the subject was published, the United States was entering another depression and unemployment was mounting. The federal government used the IRC research staff in drafting the unemployment insurance section of the Social Security Act. Bryce M. Stewart, IRC Research Director for many years, was put in charge of the research activities, by the Committee on Economic Security. IRC also helped to prepare unemployment insurance legislation for a number of state governments and for the Canadian government.

Anticipating the rising importance of industrial and governmental pension systems, the organization undertook research in this vital field. Its two-volume study of industrial pensions, published in 1933, was recognized as the most comprehensive and authoritative work on that subject. The IRC staff member who directed the research participated in planning the old age and survivors insurance provisions of the Social Security Act and the establishment of a separate pension system for railroad employees.

CHANGES IN THE RESEARCH PROGRAM

As the project on social security neared completion, and as more companies gave support to the research work through regular annual contributions, emphasis in research shifted to problems of policy and administration in industrial relations. This change in emphasis was reflected in the organization's publication program.

In the 1930's, the organization began to issue a continuing series of research monographs on long-range industrial relations problems. Some years earlier, it had also started another series of shorter research studies on important current developments—issued as "Industrial Relations Memos." Altogether, IRC has issued more than 150 research publications.

The list of titles of some IRC research studies could serve as a dramatic summary of the developments, trends and problems in industrial relations over the years:

Profit Sharing for Wage Earners, Maintenance of Union Membership; Economic Factors Affecting Industrial Relations in the War Period; Wage Setting Based on Job Analysis and Evaluation; Fact Finding in Industrial Disputes; Unionization of Professional Engineers and Chemists; Reconversion in Industrial Relations; National Collective Bargaining Policy; Re-employment of Veterans; Seniority Status of Demoted Foremen; Portal-to-Portal Pay; Wage Differentials Between Factory and Office Employees; Impact of Taxes on Industrial Pensions; Company Medical Programs; Impact of Mobilization on Industrial Relations; The Guaranteed Annual Wage; Steadier Jobs: A Handbook for Management on Stabilizing Employment; Pension Planning: Experience and Trends.

These are a few of the subjects covered in IRC's books, monographs and Industrial Relations Memos. These publications are distributed widely—to the financial supporters of the organization, to industry in general, and to libraries, universities, and government officials.

Over the years came a constantly growing recognition of the substantial contributions IRC has made to research literature in the industrial relations and related fields. Numerous companies have utilized its findings and principles in their industrial relations programs. Governmental bodies have drawn on the services of the IRC research staff as a result of some studies which the organization had published on subjects of national interest.

EDUCATIONAL ACTIVITIES

When Industrial Relations Counselors was founded, formal education or training in industrial relations was practically nonexistent. To fulfill its charter obligation "to advance the knowledge and practice of human relationships in industry, commerce, education and government," IRC became active in the field of formal education in industrial relations for future business leaders.

Through the leadership of its former chairman, the late Clarence J. Hicks, IRC was largely instrumental in establishing industrial relations sections in the University of Michigan, the Massachusetts Institute of Technology, Queen's University in Canada, Stanford University and the California Institute of Technology. Mr. Hicks had also helped in the founding of the first university industrial relations section, at Princeton University.

In 1945, IRC raised a special fund of \$120,000 to found continuing fellowships in the industrial relations sections of each of those six universities. They are named the Clarence J. Hicks Memorial Fellowship, in honor of one of the nation's esteemed industrial relations pioneers.

In 1943, IRC inaugurated a series of annual two-week training courses, designed to teach the fundamentals of planning and implementing sound programs in employer-employee relations and to analyze current and emerging future problems and developments in this fast-moving field.

Since 1949, the training course program has been expanded to afford four courses each year—in Williamsburg, Virginia, each November; in California in the spring; in Panama City, R.P., each September; and in Canada each February. Some 1,800 representatives of over 300 leading organizations have attended the training courses. Many of the recipients of the Clarence J. Hicks Memorial Fellowships have been brought to the courses as part of their training.

THE LIBRARY AND INFORMATION SERVICE

Industrial Relations Counselors maintains one of the largest and most comprehensive libraries of industrial relations literature in the country. An exceptionally complete file of source material is available, including books, research studies of universities and other organizations, governmental reports, company research and policy documents, an extensively diversified group of periodicals, and up-to-date collections

of employee publications, company personnel forms, labor contracts and trade union publications. As these materials flow into the library they are quickly catalogued for immediate use.

Besides its constant use by IRC staff research personnel, the library has become well known as a reservoir of information on industrial relations subjects for employers, universities, government agencies, trade unions, graduate students and writers. Free information service is rendered by the trained librarians, as well as by other members of the research staff. Frequently, companies and other organizations send members of their own staffs to use the library. Library materials are lent to representatives of contributor companies on request.

IRC'S RESEARCH FACILITIES

The key to IRC's long-established reputation for competence and objectivity in basic and applied research in the industrial relations field has been the continuing high professional and academic standing of its research staff. Four members of its present research staff hold doctoral degrees in the social sciences from leading universities. They have had extensive experience not only in basic research in human relations, but in business and industrial concerns, trade associations, universities and government. Assisting them are the library staff, specialized editors and other researchers.

The research activities of IRC have been facilitated over the years by its close and continuing relationships with an ever-growing number of companies representing a cross section of industry and commerce, both here and abroad, and with governmental, professional, educational and other groups interested in this field of research. These continuing relationships over the years, and the maintenance of its comprehensive industrial relations library, have made possible the accumulation and analysis of extensive data and source materials to supplement the organization's field research.

To supplement its own staff, IRC has drawn on recognized authorities outside the organization to handle research projects in particular subject areas. Among those who have contributed to IRC's research work are Sumner H. Slichter of Harvard University, Richard A. Lester of Princeton University, Robert D. Gray of the California Institute of Technology, and C. Canby Balderston, Dean of the Wharton School of Finance and Commerce, University of Pennsylvania.

FINANCIAL SUPPORT

For many years after the organization was incorporated, Mr. Rockefeller provided the major part of the budget. He terminated his support only when he felt the organization had become securely established. Since then it has been supported by funds from contributor companies and grants from foundations for specific projects. Additional income has been derived from research or special studies conducted on a nonprofit basis for individual companies, government agencies, educational institutions, and others, and from the proceeds of the sale of its publications.

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LIST OF PUBLICATIONS

Books and Monographs

- W. J. Couper and Roger Vaughan, Pension Planning: Experience and Trends, 1954, Monograph 16, 245 pp., \$5.
- Industrial Relations Counselors, Inc., Steadier Jobs: A Handbook for Management on Stabilizing Employment, 1954, 123 pp., \$2.25.
- B. M. Stewart and W. J. Couper, Profit Sharing for Wage Earners and Executives, 1951, Monograph 15 (paper), 124 pp., \$2.
- R. B. Robbins, Impact of Taxes on Industrial Pension Plans, 1949, Monograph 14 (paper), 82 pp., \$2.
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- H. R. Northrup, Unionization of Professional Engineers and Chemists, 1946, Monograph 12 (out of print).
- B. M. Stewart and W. J. Couper, Fact Finding in Industrial Disputes, 1946, Monograph 11 (paper), 61 pp., \$1.50.
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- T. S. Chegwidan and G. Myrddin-Evans, The Employment Exchange Service of Great Britain, 1934, 310 pp., \$3.50.
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- M. W. Latimer, Trade Union Pension Systems, 1932, 205 pp., \$1.50.
- C. A. Kiehel, Unemployment Insurance in Belgium, 1932, 509 pp., \$3.50.

T. G. Spates and G. S. Rabinovitch, Unemployment Insurance in Switzerland, 1931, 276 pp., \$3.

M. B. Gilson, Unemployment Insurance in Great Britain, 1931, 560 pp., \$5.

B. M. Stewart and Associates, Unemployment Benefits in the United States, 1930, 727 pp., \$7.50.

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