Insurance and Annuity Plans for College Staffs

By

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FOREWORD

The efficiency and morale of members of college faculties are dependent in a large measure on an assurance of economic security.

In order that they may render a high standard of service in teaching youth and in discovering knowledge for the benefit of society, protection for them and their families against the risks and anxieties of the future is essential. The generally low pay of college staffs makes it difficult for the individual teacher to provide this protection.

A recognized solution of the problem is the establishment by the colleges of retirement or disability systems by which insurance annuities or old-age pensions will be provided for faculty members. In the case of publicly controlled institutions, such systems are instituted principally through State legislatures while privately controlled institutions must depend on their own initiative. The establishment of insurance and annuity systems by colleges is a complex and intricate undertaking beset with difficulties. One of the chief obstacles is the general lack of available and reliable information regarding the subject.

The present publication is intended primarily to meet in part this deficiency. It is also intended to encourage or promote the movement for greater economic security for college faculty members. Its contents, though not in form, are embodied in a thesis which the author wrote in partial fulfillment of the requirements for a doctor's degree at George Washington University. The Office of Education through its division of higher education was responsible for the collection of a large part of the data contained in the publication. The data were gathered through questionnaires sent to the institutions. Ben W. Frazier, senior specialist in teacher training, participated in the preparation of the questionnaire and assisted in organizing the material. John H. McNeely, specialist in higher education, reviewed and criticized the manuscript before publication.

Bess Goodykoontz,
Assistant Commissioner.

INSURANCE AND ANNUITY PLANS FOR COLLEGE STAFFS

CHAPTER 1: INTRODUCTION

With few exceptions, trustees and administrators of institutions of higher education have long felt the need of protection against old age for their teachers and employees. When they attempt to institute an insurance or annuity plan of their own or to study the plans adopted by other institutions, however, they find the literature is conflicting and inadequate. After a discussion of the subject for some time and the appointment of a committee, the members of which rarely agree to a specific plan, the proposal is either dropped or some plan is adopted without adequate knowledge of its relative worth.

Therefore, it is believed that a survey of the various plans adopted by all the universities and colleges in the United States with a comparative study of their values, adequacy and effectiveness will be useful to those which have no system of their own or which may wish to alter or modify their present plan of protection.

The purposes of this study are: (1) To describe and compare the various insurance and annuity plans suitable for college staffs; (2) to determine the extent to which universities and colleges have availed themselves of these devices for the financial security and social betterment of their employees; and (3) to show the principal features of existing plans or systems that seem to be most feasible for institutional adoption and most attractive for employees' participation.

Plan of treatment.—The first part of the bulletin contains the historical development of pensions, annuities, and life insurance. It shows how individual annuity and death payments preceded the present complicated old-age pension systems and group life contracts, as well as how the early social philosophy respecting economic independence was modified by the industrial revolution and accompanying changes in modes of living. This is followed by a description and comparison of insurance and annuity plans now being used by universities and colleges for the protection of

their teachers and employees. An outline and discussion of the fundamental principles forming the basis of a comprehensive program of insurance and annuities for college staffs are then presented.

Sources of data.—Two methods of investigation have been employed in the preparation of this bulletin. First, a survey of the literature in the field of higher education bearing on teacher welfare; in the field of economics as applied to risk and risk bearing; and in the field of sociology insofar as college teachers' protection will influence their contribution to society through more effective teaching and research. Second, reports of activities, policies, and practices of institutions of higher education with respect to insurance and annuity plans obtained by means of questionnaires and letters.

Under the first method constituting secondary authorities, there were a great many opinions expressed by educators and writers in the field of economics, but of the most important publications the following were used: Reports and bulletins of the Carnegie Foundation for the Advancement of Teaching and the publications of the National Education Association. These reports and bulletins proved to be most valuable in supplementing the primary data. Additional books on the subject as well as articles in educational periodicals also provided much information.

The second method of securing first-hand information through questionnaires and letters directed to the colleges furnished most of the material included in the bulletin. This was supplemented by data collected through letters sent to insurance companies, church pension boards, and State teachers retirement boards.

CHAPTER II: HISTORY OF PENSIONS AND GROUP LIFE INSURANCE

An individual pension or annuity grant is an ancient institution. A scientific plan for providing retirement allowances for a group of aged employees is relatively modern. The less complicated arrangement of a single annuity would naturally appear first. Its rise is inextricably bound up with that of life insurance, as both are based upon a mortality table which records the expectation of years of life at different ages. The one is the complement of the other. In European countries the annuity forms have predominated, while in America life insurance is far more popular.

Origin and early history.—People under the earliest forms of civilization were often eager to establish some type of insurance protection. The Collegia societies of the Romans collected dues from members to provide funeral benefits. Later the Friendly societies were organized in England for the same purpose. During the feudal age, labor services and land rents were settled by annuity payments. However, most of these early schemes devised for the distribution of funds to persons in old age or at death failed for lack of basic data and adequate knowledge of the principles of insurance and old-age protection.

The publication of the Northampton Tables of Mortality in the latter part of the eighteenth century made possible the establishment of life insurance and annuities on a more scientific foundation. Premiums now could be fixed on a basis of age and due regard could be given to the health of the individual seeking insurance. The funds of insurance companies were invested and surpluses were distributed. Many changes were made from time to time as more elaborate mortality tables were constructed. Legislative enactments served to insure the public against bad practices on the part of the companies.

It was at the beginning of the nineteenth century that industrial and civil pensions were inaugurated as a system to afford large group protection. The industrial revolution, which began in Europe before extending to America, gave rise to this form of group pensions. Practically all the

European countries inaugurated such systems as a defense for the workingman against want in old age and against invalidism. Another purpose was to relieve the government of the financial burden of pauperism. Germany led this movement.

Pension systems for government employees were almost coincident with the rise of industrial pensions. The earliest civil pension system in existence is that for the city employees of Paris. The English civil service pension dates back to 1810. The pension for military officers as a class was defended upon the grounds of the dangers undergone by them. From the pensioning of soldiers it was an easy step to the pensioning of civil servants of the government.

Teachers' pensions in European countries also came into existence along with pensions for other civil servants, the teachers, whether in schools or universities, being civil employees of the government. Most of these civil pensions differed from the industrial pensions since they were free and required no payments by the beneficiaries. These free pension systems cost the government but a small sum at the beginning. With the increase in the number of pensioners, the ultimate load became too heavy to be borne by the government with the result that modification in the systems had to be made.

American development.—The United States has been relatively slow in providing for general social security. Life-insurance contracts in this country are barely a century old. Old-age annuity systems have developed only since 1900. The Nation has been spared the experimentation that characterized the establishment of the early European plans of protection. In many respects, the United States has been able to profit by the successful principles and practices developed in these countries, although in some instances the plans for pensions adopted in America have repeated the mistakes of the original European systems.

The Presbyterian Ministers Fund was the first American organization to offer life-insurance and annuity contracts. It was organized in 1759 as a mutual aid society for Presbyterians, but is now a legal reserve company. The Mutual Life Insurance Co. of New York in 1842 issued the first life-insurance policy of the type existing today in America. Since that time, hundreds of companies have been formed in this country and a great variety of policy forms have been

issued to attract the public to protect themselves and their families against the major hazards of life. However, group life insurance did not make its appearance until the beginning of the present century.

The first use of group life insurance is said to have been made when a policy was written on 700 coolies during their transportation from China to Panama, but this application of the plan had little to do with its future development. In July 1912 a large American company insured the lives of a group of the employees of a large mail-order concern of Chicago. This is considered the real beginning of wholesale insurance protection.

Other plans of group protection, such as pension and annuity systems, began before group insurance as it is known today. State-wide teacher-retirement systems were formed as early as 1896 while many local city systems were inaugurated before that date.[1] Between 1911 to 1920, the greatest growth is found. During this period no fewer than 18 State legislatures enacted laws providing State-wide teacher-retirement systems. At present, there are provisions for State-wide systems in 24 States including probably 68 percent of the teachers in American public schools.

The various Protestant denominations since the beginning of the century have set aside endowment funds for the retirement of ministers and church workers. Millions of dollars have been distributed to superannuated ministers in one form or another, but even today very few of the denominations can boast a complete system of retirement allowances adequate to meet the needs of their professional workers. It is interesting to know that the total funds accumulated for this purpose by the Protestant churches in America far exceeds $100,000,000.

For many years, Federal, State, and city governments have worked diligently on the problem of providing pensions for public employees. Mistakes made in the initial experiences have been gradually corrected. At present most of the public systems are being placed on a sound contractual and actuarial basis.

Unemployment insurance and old-age pensions have been in the forefront as public questions since the beginning of

[1] Palmer, Nida Pearl. Pension Systems for Public-School Teachers. U. S. Department of the Interior, Office of Education. Bulletin, 1927, No. 23. p. 3-5.

the economic depression. Every State legislature has devoted much time to the subject. Many States have definitely committed themselves to some plan that is expected to provide social security for their people when they are no longer able to earn their livelihood.

Pensions and insurance in American colleges.—College pensions probably date from the time of the early colonial colleges. Originally they consisted of paying an aged and retired president or professor an indefinite allowance out of the current income of the institution. The payments were not guaranteed and no pretense was made that an old-age pension system in the modern sense of the word had been established. The beginning of college pension systems according to the modern conception was in 1890 when Columbia University instituted a plan of allowances for retired faculty members. Seven years later in 1897, Yale University inaugurated a system, and Harvard University instituted a more elaborate pension plan in 1899.

The University of California first provided for retirement of its staff members through an order adopted by its board of regents in 1903 which was later modified to a slight extent in 1905. It provided retirement benefits at the age of 70 for members of the faculty holding professorial rank. The pensions consisted of an annual sum equal to two-thirds of the salary received by the professor during the year last preceding retirement. The order was repealed in 1909 and another plan adopted by which the retirement age was reduced to 65 years and the pension was based on two-thirds of the average salary for the 5 years preceding retirement.

The plan adopted at Harvard University in 1899 provided a retiring allowance for staff members with the rank of assistant professor or higher who had been employed by the institution for a period of 20 years and who had reached the age of 60. The governing board reserved the right to retire a staff member at the age of 65. The institution paid the entire amount of the allowance.

By the year 1906, pension plans had been established in eight universities and colleges in America. The list included the University of California, Columbia University, Cornell University, Harvard University, McGill University, Randolph-Macon Woman's College, Toronto University, and

Yale University. Apparently, the primary purpose of these institutions in establishing the systems was to reward their faculty members for long and faithful service upon reaching old age. Another reason was to enable them to relieve aged teachers from active duty when their mental faculties began to wane without discharging them.

These systems have undergone many changes since they were first put in operation. Under its original plan McGill University treated each application for an allowance as an individual case in granting pensions instead of adopting a general scheme applicable to all staff members. The system at Toronto University was little more than an arrangement for contributory savings. At Cornell University the pensions were provided by joint contributions. Columbia University provided for the retirement at half pay of professors over 65 years of age who had served for 15 years in the institution.[2]

Notwithstanding the fact that scientific principles for establishing pension systems had been developed in Europe, the American colleges did not take advantage of them in many instances. However, these early attempts of the colleges to improve the status of professors were very commendable. Out of these abortive efforts came the modern college pension and annuity systems as they exist today.

The first attempt of any magnitude to establish pensions for college teachers was in 1905 when Andrew Carnegie made the announcement that he was setting aside a gift of $10,000,000 as a foundation for the purpose of providing retirement pensions for teachers of universities, colleges, and technical schools in the United States, Canada, and Newfoundland. Institutions controlled by religious denominations or State and Provincial governments were excluded from the benefits of the foundation. In 1908, however, an additional $5,000,000 was provided by Mr. Carnegie in order to include faculty members of certain publicly controlled institutions.

The Carnegie proposal started a widespread movement for the creation of college pension systems. Upon a basis of the effect of the movement, universities and colleges may be classified as follows: (1) Those which were eligible and

[2] Carnegie Foundation for the Advancement of Teaching. Fifteenth Annual Report, 1920, p. 43.

were admitted to membership in the Carnegie plan from the beginning; (2) those which modified their charters or organizations in order to meet its terms and obtain membership; and (3) those which immediately sought ways and means of providing their own systems of retiring allowances.

Many of the institutions admitted to membership and placed on the accepted list of the Carnegie Foundation had teachers who were not eligible for old-age pensions under its rules. In some cases the institutions adopted special arrangements to provide pensions for these particular teachers. Among the institutions undertaking to provide their own systems were Brown University, Haverford College, University of Chicago, and University of Wooster. Brown University and Haverford College inaugurated a plan of accumulating reserve funds to pay the pensions. The University of Chicago started the segregation of a reserve fund which was to reach $2,000,000. The University of Wooster undertook to raise $200,000 through the Presbyterian churches of Ohio.[3]

At the time of Mr. Carnegie's original grant, it was expected that the benefits of this endowment would be available for teachers in a strictly limited number of institutions. It was his desire and expectation that the pension to teachers in these institutions should be modest, and that they should be furnished without expense to the teacher. The trustees proceeded to grant pensions under these conditions. Obviously, a great deal was left to the discretion of the trustees of the foundation as to institutions to be admitted upon the approved list, the individual members of the faculties to be pensioned, and the amount of each pension to be granted or allowed.

Many difficult problems presented themselves to the trustees. Probably the most important decision was with regard to the amount of the pensions to be paid. It was definitely decided that these pensions should bear a relationship to the salaries paid. Consequently the foundation planned to pay a pension equivalent to one-half of the average annual salary of the teacher for the preceding 5 years, plus $400. Under this arrangement the teacher on a very low salary would

[3] Carnegie Foundation for the Advancement of Teaching. Seventh Annual Report, 1912. pp. 24-25.

receive a much larger proportionate pension in relation to his salary than the teacher on a high salary.

The next step was the framing of the rules under which the pensions should be awarded. Three alternate plans were considered: (1) To use the income of the endowment to assist colleges in establishing pension funds; (2) to receive applications from individual teachers in all colleges and vote as many pensions as the income of the endowment would justify; (3) to admit a limited list of institutions to the privileges of the pension endowment.

After a thorough consideration of the plans, it was decided that the terms of the gift made it obligatory that the income of the endowment be used for the actual payment of pensions for individual teachers. The third plan, therefore, was adopted. The trustees also decided that in order for an institution to be placed on the selected list, it should have attained certain definite educational standards. In coming to this decision the trustees were influenced by the knowledge that this great gift had for its purpose not merely the paying of pensions, but also the dignification of the profession of college teaching through such pensions. For the achievement of this objective, it was realized that the foundation would have to be more than a mere pension-distributing agency.

The next problem for the trustees to settle concerned the conditions upon which pensions should be granted. This necessarily involved the question of how many colleges were to be admitted to share in the probable benefits of the endowment. The answer to this question could be found only by a thorough actuarial study of the teachers in all the colleges likely to be eligible.

The rules finally adopted were framed in consultation with various advisers, actuaries, administrators, teachers, and publicists. They recommended that the trustees make rules "to minister most directly to the actual needs of the teachers at this time, and to include such institutions as rough estimates which have been made seem to justify, in such wise as experience may show to be necessary, and in the interest of the great body of teachers." [4]

[4] Ibid., p. 81.

With this advice, the trustees went ahead to administer the foundation upon this general plan. The pension system developed in the first 10 years placed the income of the foundation at the service of the teachers in 73 colleges and universities on the associated list. The following benefits, based upon fixed rules, were provided to teachers of these institutions:

(1) An old-age pension payable at the age of 60 years or later and amounting to about 60 percent of the active pay of the teachers during the last 5 years of service, but only after 25 years of service as professor, 30 years of service as professor and instructor or as instructor alone.

(2) A disability pension granted in cases of total disability. This benefit amounts on the average to something like 40 percent of the active pay.

(3) A pension to the widows of teachers who have fulfilled either of these two conditions equivalent to one-half of the annual salary which the husband was either receiving or to which he was eligible.

The financial load resulting from pensions paid in these 73 associated institutions during the period from 1910–11 to 1914–15 is shown in table 1. The average amounts to approximately $1,700.

TABLE 1.—CARNEGIE PENSION LOAD FOR 73 ASSOCIATED COLLEGES FROM 1910–15

Year	Teachers pensioned	Widows pensioned	Total annual payment
1910–11	215	52	$388, 619. 33
1911–12	236	61	441, 984. 64
1912–13	244	67	478, 987. 14
1913–14	268	79	514, 489. 58
1914–15	289	95	554, 121. 69

In addition to the payment of pensions in the 73 associated institutions, a considerable number of pensions were voted to individual teachers in some 80 other colleges. The income on about $2,500,000 of the endowment of the foundation was employed in the payment of these pensions.

During the first 10 years of the operation of its free-pensions system, the foundation spared no effort in studying the effect of pensions of this type in this country and abroad. All literature available was examined with the view to

appraising the relative value of all forms of retirement allowances. As a result, the disadvantages of free pensions became more obvious. Then again, the discrimination in favor of certain of the more prominent colleges was certainly a source of embarrassment to the foundation. Both enrollments and salaries in the colleges increased rapidly necessitating the assumption of an added load as time went on. As a result of the foundation's experience and the information received from its studies, the following weaknesses of free pensions became evident: (1) Financially impossible to sustain on a scale sufficient to provide equivalent pay; (2) demoralizing to the beneficiaries; and (3) tended to depress the salary scale.

> The important question was: What ought to replace the free pensions? To answer this question, a more systematic study of the literature of the subject was undertaken, together with an examination of the experience of the older systems in European countries.
>
> Out of this study of pension systems made by the Foundation came the conclusion that a contractual form of old-age retirement, provided by the joint payments of the teacher and his college was the soundest solution of the teacher-pension problem, both for the teacher and the college. That solution found its practical realization in the Teachers Insurance and Annuity Association of America, established in 1918, and operated under the supervision of the department of insurance of New York, probably the strictest insurance scrutiny in our country.[5]

The function of this association as finally organized was to issue individual deferred-annuity contracts to college teachers to be purchased by the combined contributions of the teacher and the college. This is known as a contributory plan. The important features of the contract are:

1. The college will match dollars with the teacher by deducting 5 percent from salary payments and forwarding premiums monthly to the association.
2. The contract is between the association and the teacher; the college has no equity in it.
3. It provides for annuity payments beginning at a stated age in case premiums are duly paid in the meantime. This age may be changed.
4. In event of prior death, the accumulated premiums are paid to a named beneficiary or annuitant's estate in 120 monthly installments.

[5] Carnegie Foundation for the Advancement of Teaching. Twenty-eighth Annual Report, 1933. p. 20.

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5. The policy contains no loan provision nor a cash surrender clause.
6. If the teacher moves, he carries with him his policy and the rights accrued thereunder.

The association is also prepared to offer the popular forms of life insurance to college teachers. The premium rates are on a net basis with a small administrative expense. Dividends have been distributed every year since the association began business. In spite of the fact that the association does not employ solicitors, the number of policies issued annually has steadily grown. During the first 15 years of its existence it has placed 8,309 policies representing a total of $48,548,645 in life insurance.

At the same time the commercial life-insurance companies of America have increased their services to the public by offering new group life-insurance policies and annuity contracts. Group life insurance developed since 1910 and designed for industrial groups has played its part in furnishing protection also for professional groups. Reports from the leading companies offering group life insurance revealed the fact that up to July 1935, 31,093 employees in 136 universities and colleges were protected by policies totaling approximately $86,500,000.

Twenty-seven universities and colleges had also availed themselves of group health and accident insurance up to the same date, while 12 were using the facilities of life-insurance companies in administering old-age pension or annuity plans. Other institutions under special arrangements with insurance companies are collecting the premiums by salary deductions on policies of individuals in their employ. The deductions are made monthly and remitted to the company annually on the date when the premiums fall due. This is a convenient way for teachers to pay their premiums and tends to reduce lapsation.

Old-age pensions for college teachers group themselves under the following headings:

First.—The group annuities of commercial insurance companies. There are 12 institutions following this procedure.

Second.—The Carnegie free pensions instituted in 1905 for certain associated institutions. During 1936-37, 1,334

teachers and widows of teachers were receiving Carnegie free pensions and more than 2,275 other teachers have future expectation of pensions from the same source. Eighty-eight institutions participated.

Third.—The Teachers Insurance and Annuity Association, incorporated in 1918, designed for the use of colleges and teachers in a cooperative plan of contributing toward deferred annuities. There are 15,000 teachers in nearly 800 institutions of higher education now using this association as a depository of annual contributions to be used for the payment of retirement annuities. More than 100 of these institutions are assisting their teachers by matching dollars with them in the payment of the premiums on these deferred annuities.

Fourth.—State teachers retirement systems, city teachers retirement and general State retirement systems, which include the faculties of publicly controlled institutions, such as State universities, State teachers colleges, and other types of State institutions of higher education. The employees of 94 such institutions are receiving this type of protection.

Fifth.—Church pension plans which extend their benefits to ordained ministers serving on the staffs of colleges and frequently to all the employees of the institutions under their control. There are 56 of these colleges in which at least some of the faculty members participate in pensions administered by the various denominations.

Sixth.—Isolated plans administered by the institutions. Fifteen colleges have established funds either by setting aside a certain endowment or accumulating a reserve fund through a joint contributory plan to meet future-retirement expectations. In 25 colleges retirement allowances are being paid to aged employees out of current income based upon a fairly definite arrangement.

Nearly all of the institutions having no definite plan are showing a marked interest in the subject of insurance and annuities. In all probability a large number of them will adopt one of the above plans as soon as they are financially able.

Each of these pension plans is described in detail in the next chapter.

CHAPTER III: GROUP LIFE INSURANCE AND RETIREMENT SYSTEMS

A description of group life-insurance and retirement annuities involves an analysis of the various plans of commercial insurance companies, philanthropic foundations, State teachers retirement systems, church denominations or organizations, and other agencies. The plans of commercial life-insurance companies will be considered first.

Group life insurance.—Group life insurance has been defined as that form of life insurance covering a minimum of 50 employees with or without medical examination, written under a policy issued to the employer. The premium is paid by the employer or by the employer and the employee jointly. In general the policies are designed to include all employees or particular classes of employees as a group. Since 1912 when the first group policy was issued, industrial corporations have encouraged their employees to join with them in securing wholesale protection of this character. The widespread acceptance of group insurance is illustrated by the fact that approximately 40,000 corporations and associations in the United States have their employees insured for an amount exceeding $10,000,000,000.

Universities and colleges have kept pace with the industrial concerns in adopting group insurance. The first policy of this type at any higher educational institution was written on 288 lives at Princeton University in 1919. The next policy was written in 1922 and since that time there has been a steady increase each year in the amount of new group insurance issued to universities and colleges. Table 2 shows these increases at intervals of 4 years since 1922.

TABLE 2.—NUMBER OF LIVES INSURED AND AMOUNT OF GROUP LIFE INSURANCE IN FORCE ON COLLEGE EMPLOYEES FROM 1922 TO 1934

Year	Number of lives	Amount of insurance	Number of colleges
1922	438	$600,000	2
1926	5,334	13,924,000	23
1930	22,656	64,713,000	102
1934	30,667	85,632,679	131

During the depression one college was forced to drop its policy. There was also a general decline in the number of new institutions applying for group life insurance. A revival, however, has occurred beginning in January 1935. Since that date group life-insurance policies have been issued insuring 426 employees in 5 additional colleges to the amount of $781,750.

Group insurance is written under a master policy issued to a university or college covering all or some of its employees. The premium is paid either by the institution (noncontributory) or by the institution and the employees jointly (contributory or cooperative). It is a plan by which the economies of wholesale purchasing can be applied to insurance. The insurance company under the general plan gives protection in a blanket policy and offers more favorable premium rates than those available in individual policies. The chief sources of savings are in the overhead and administrative costs. The medical fee is eliminated. There is only a single premium and one receipt notice required. It is not necessary to pay commissions to solicitors and agents. No cash or loan value on the policies is guaranteed. Reliance is placed on the operation of the law of large numbers to secure a normal mortality experience.

The coverage of group insurance is broad. Such insurance is provided without limitations as to sex, color, physical condition, and occupational risk. No medical examination is necessary, provided the employee applies for the protection when becoming eligible. Each insured employee receives an individual certificate stating his rights under the master policy. The employee names his own beneficiary with the right to change to any other. If none is named, the proceeds go to his estate either directly or through the employer.

At least 50 employees must apply. When the employer is to pay the entire premium, all the employees or all of those in the eligible classes must be insured. In case the premium is to be paid jointly by employer and employees, not less than 75 percent of those eligible must be insured. There are several ways of determining the amount of insurance for the individual of the group: (1) The same amount of insurance for all employees, such as $1,000 given

immediately upon employment or after a waiting period of 6 months or 1 year, or (2) an amount equal to the annual salary of an employee or some amount based thereon. A typical plan would be as follows:

Annual salary:	Amount of insurance
Less than $1,000	$1, 000
$1,000 to $2,000	1, 500
$2,000 to $3,500	2, 500
$3,500 and more	3, 000

There are a number of variations of this plan for fixing the amount of each individual. One provides for a progressive increase in the amount of insurance based on length of employment. For example, beginning with an initial amount of $1,000 after 1 year of employment, $100 is added for each additional year of service thereafter until a maximum has been attained, such as $2,000 or $2,500. Another plan provides for a $500 increment at the end of each 5-year period until the maximum is reached. If the length-of-service plan is used, it should be based upon continuous service. The amount may be graded according to academic rank as illustrated in the following schedule: Administrative officers and professors, $5,000; assistant professors and instructors, $3,000; clerical workers, $1,500; laborers, $750. The amount may also be based upon a combination of these factors.

Generally, the insurance ranges from $500 for laborers to $10,000 for the highest paid officers or faculty members. The maximum amount of insurance possible on the lives of the employees in the highest class in any group is determined by (*a*) the total amount of insurance in the group when actually issued and (*b*) the amount of insurance on the lives of 50 employees insured for the highest amounts. Employees may only apply for the insurance according to the prearranged schedule adopted at the time of issuance.

Most insurance companies have adopted standard group life insurance rates for the various ages. These are usually guaranteed to remain unchanged for a period of 5 years. While the cost may fluctuate from year to year, the replacement of older employees by younger ones will tend to stabilize it. Adjustment in premiums may be requested from time to time by employees or the insurance company. The total

premium is determined by multiplying the premiums for each $1,000 at each age by the number of thousands of insurance for that age, the sum of the several amounts being the total premium. To obtain the average, the total premium is divided by the number of thousands of dollars of insurance in the group. Premiums may be paid annually, semiannually, quarterly, or monthly. If they are not paid on the annual basis, a small additional amount is charged to cover extra administrative cost and loss of interest on advanced payments of premiums.

In the event the contributory plan is adopted, no employee may pay more than 14 cents weekly, 60 cents monthly, or $7.20 yearly for each $1,000. This maximum is considered necessary, so that the youngest employee will find the rates attractive. Dividends earned by the companies may reduce the rates.

Each group life insurance certificate provides that the insurance on any employee leaving the employ of the concern or institution is continued for 31 days. During this period the employee has the right to convert his insurance into an individual policy at rates based on his age or class of risk without medical examination. If any employee becomes totally and permanently disabled either physically or mentally from any cause whatever and is less than 60 years of age, the company waives further premiums and pays the employee the amount of insurance in monthly installments. Since 1930, however, many of the companies have discontinued this disability provision on new policies.

The companies holding the policies return in dividends the savings brought about through reduced administrative expenses or favorable mortality experience. Their practices are to refund as promptly as possible any unused portion of the premium not required to defray administrative and other costs. While, of course, the general mortality experience of their entire group business must be taken into consideration in returning dividends, all possible weight is given to any savings under the particular group.

On small groups the amount of one or two death claims may exceed the amount of the premiums paid for 1 or more years. On the other hand, there may be years in which no claims will occur. On account of this wide variance, divi-

dend apportionments on small groups must be conservative in the earlier years that the policy is in force. For large groups, such as 200 employees and upward, with a minimum premium varying according to the size of the group, a definite plan of dividend disbursements is possible.

In groups of at least 500 lives (or less than 500 if the premium is sufficiently large) a complete experience premium plan for crediting dividends is possible. At the end of the first year a dividend as large as possible is apportioned. If the claim experience has been favorable, the premium for the second year will be reduced accordingly. A further dividend will be declared at the end of the second year if there are savings that can be returned. The same practices as in the second year are followed in subsequent years.

Wholesale insurance.—Wholesale insurance has many elements in common with group life insurance and is designed for employees in groups of fewer than 50, but more than 10. A medical examination is sometimes required for aged members or when the insurance applied for exceeds $2,500. The amount of insurance must be based upon some plan which will preclude individual selection. The premiums are determined by the ages of the employees to be insured and by the amounts of insurance issued. The cost is slightly greater than in the case of group life insurance. At least 75 percent of the eligible employees must subscribe to the plan. Conversion and transfer privileges are granted under this plan of protection.

Blanket coverage insurance.—Blanket coverage insurance is much like group insurance except that the persons insured are not required to have a common employer or common employment. It is designed principally for insuring large or small groups which are unable legally to buy group insurance. In the case of college faculties, it would apply when a small portion of the members associate themselves together for the purpose of securing coverage under certain advantages not allowed to the individual. A medical examination is required when the amount of insurance is more than $3,000 or when the applicant is more than 50 years of age. There must be at least 20 persons applying for the insurance and the volume must not be less than $50,000. Other fea-

tures and provisions of ordinary group insurance apply to this form of protection.

Group health and accident insurance.—A group health and accident policy is a protection against temporary or permanent loss of earning capacity through disease or accident. In general, the accident coverage provides for payment of a certain amount to the beneficiary in case of death. In the event of injury the benefits are fixed in accordance with a schedule of rates for different bodily injuries. The health coverage provides for a weekly amount to be paid in case of total disability due to sickness with a reduction by one-half in case of partial disability. The insurance may be written on groups of 25 or more employees. If the institution pays the premium, all employees of a certain classification must be included. In case the employees are to contribute in the payment of the premiums, at least 75 percent must enroll.

Group health and accident insurance may be written alone, or in combination with group life, wholesale, and other types of special insurance. Separate contracts are made for each of the different types. A master policy is issued to the employer and a certificate is given to each insured employee. The amounts of insurance are based upon some plan which will preclude individual selection. Amounts may be uniform based upon the earning capacity of the employee or the particular position held by him in the organization.

The rates are based upon the following factors: Maximum number of weeks of indemnity paid, waiting period before benefits start, hazard of the occupation, percentage of female employees, average age of the employees, amount of weekly indemnity, amount of the principal sum in the event of accidental death, additional hospital benefits for those confined at an institution, identification and registration features for those sick or injured while away from home, and waiver of premium payment while disabled.

Group death and dismemberment insurance.—Any institution with at least 10 employees may apply for this type of insurance under a separate contract provided that either group life, wholesale, or group health and accident insurance is also carried. No medical examination is required and there is no limitation as to age, sex, or occupation. The

premium may be paid entirely by the employer, or entirely by the employee, or by the employer and employee jointly.

The principal sum of the policy is paid in the event of accidental loss of life or two members, such as feet, hands, or eyes. One-half is paid for the loss of a single member. The insurance is paid only when the dismemberment occurs within a period of 90 days after the date of the accident. There are no conversion privileges in these policies.

Group annuities and pensions.—Many of the life-insurance companies issuing group life insurance also offer group annuity contracts providing retirement allowances for aged employees. While some companies furnish general information on this type of insurance, most of them prefer that they be supplied with the salaries and other data concerning the employees of a given group and be allowed to submit specific proposals. One company, however, has prepared an educational pension plan specially designed to meet the peculiar needs of educational institutions.

Under the terms of this proposed plan, the retirement age for both males and females is 65 years. There is no fixed amount of pension. This is determined by the joint contributions of the employee and employer varying according to the amount of the contributions and to the age of the employee at the time of joining the plan. The most common contribution of the employee is 5 percent of his salary. The contribution, however, may be lower or even higher, if desired. The employer usually matches the employee's contributions, although he may contribute a higher or lower percentage, if desired. A requirement of the plan is that the employer participate and contribute to its cost.

The plan provides a refund of all contributions both of the employee and employer in case of death or withdrawal of the employee. In addition, accumulated interest at the rate of 3 percent is generally paid. In the event of the death of an employee, his beneficiary usually receives the employer's share of the refund as well as that of the employee. In the event an employee withdraws from the service of the employer under satisfactory circumstances, he may be given the employer's share of contributions provided he elects to accept a paid-up deferred annuity. The policy generally provides ordinary life annuities, which guarantees an income

during the life of the employee. The employee, however, is allowed the option of selecting a different form prior to retirement.

Another typical retirement pension plan has been outlined by a second company. In the case of this plan the retirement payments are determined in advance. The amount is fixed at 1 percent of the salary of the employee for each year of service prior to the installation of the plan and 1½ percent of the salary for each year of service after the installation of the plan. Contributions of about 5 percent of pay roll are required. The age of retirement is 65 years.

The plan provides an option by which the pension of the employee is continued after his death to his widow who receives one-half of the original pension. Another feature of the plan is that the employee at the termination of his services prior to retirement age may receive a refund of his entire contribution in cash or he may elect to take a paid-up policy. This paid-up policy calls for a pension at the age of 65. He may also continue making contributions direct to the insurance company until retirement.

The death benefit consists of the return to the annuitant's estate of the entire contributions less the pension payments already received. The employee contributes 3 percent of his salary. The employer contributes between 2 to 4 percent of the pay roll dependent on the age, sex, salary, and length of service of the employees.

Attention is called especially to the fact that this pension plan does not provide for any refund to the employer at the death of an employee, although the employee, himself, receives his refund. The reason is that the contributions of the employer were reduced at the outset, this reduction serving as an offset to the refund. The employer's actual outlay is, therefore, about 20 to 30 percent less than would otherwise be the case if a refund was allowed at the death of the employee.

In case the services of an employee should terminate prior to pension age while he is in good health, the employer's share of the contribution together with 4 percent compound interest is applied as a credit against the premiums due on the pension policy. The credit is made in the form of annual reductions in the premiums on each anniversary of the policy.

If desired, an employee leaving after a specified period of service and not taking his refund of contributions in cash may be given full credit for the employer's share of the contributions on his behalf. In such case, no refund would be made to the employer. The employee is given a paid-up policy consisting of the full amount of pension credited to him covering all years of service since he joined the plan. The employee's pension payments would commence at the regular pension age.

Every college in inaugurating a pension plan will desire to give the employee credit for past years of service at the institution. If the plan provides for a pension of 1½ percent of salary for each year of service, then the employee is credited with 1½ percent of the total salaries previously received. This is known as the accrued liability. Frequently, information is not available to make this computation. In that case the credit is calculated upon a basis of the salary paid the employee at the time the pension plan is adopted. For example, instead of allowing 1½ percent of the total salaries received during these past years, the pension is credited with 1 percent of the present salary multiplied by the number of years of prior service.

The cost of the accrued liability must be met in addition to the current annual cost. For a single premium or its equivalent the insurance company will assume the accrued liabilities. The employer must furnish to the company a schedule of credits for past years of service at the time the plan is inaugurated. If the employer wants to repay the accrued liability in installments over a period of 20 years, the amount required to be paid each month is about six-tenths of 1 percent of the lump-sum settlement.

It is difficult to estimate the exact amount of accrued liabilities. For an institution just being opened it is practically nothing. For an old-established institution it may be a large amount. A rough estimate of the monthly payment to cover the accrued liability for an established institution will be about 2 percent of the annual pay roll for 20 years.

Twelve institutions reported they were using group old-age pension and annuity plans of life-insurance companies. On the average all teachers in these institutions are included in this type of coverage. The usual age of retirement is

65 years of age, and is compulsory at 68 or 70. The amount of the annuity paid upon retirement is based upon the age of the annuitant at the time of taking out the policy and his salary during the premium-paying period. Accrued liabilities are paid by the institutions either from endowment funds or current income. In some instances the colleges contribute toward the payment of premiums on endowment and annuity policies already in force.

The general practice in these institutions is for the college to match the employee's contribution, which is usually 5 percent of his salary. In some instances the college pays the entire premium. Upon withdrawal from service 9 out of 12 colleges allow the employee to take the policy with accrued benefits with him. Two colleges refund his contributions with interest. The amount received at retirement is an annuity equal to what the accumulated contributions will purchase. Only one college permits a cash settlement. Participation is not compulsory in 7 out of the 12 colleges. Three reported participation as compulsory and one requires all new faculty members to participate. Most of the colleges request the employee not to borrow or surrender his equity before retirement and some institutions include a stipulation to this effect in the contract.

The institutions using annuity plans of life-insurance companies are: Bryn Mawr College, Drexel Institute, Elmhurst College, Jefferson Medical College, Loyola University (Illinois), Mission House College, Princeton University, Russell Sage College, Skidmore College, University of Maine, Vassar College, and Williamette College.

Salary investment insurance.—Salary investment insurance is sometimes called salary allotment, salary savings, or pay roll deduction insurance. This is one of the latest developments in the field of insurance and is very similar to group life insurance. The contract is made with the company through the employer. The employer deducts the premiums from the pay of the employee with his consent and sends it to the company. The contract is with the individual. All the employees of one institution may be insured under this plan. There must be a minimum of five individuals taking out policies. The total amount of life insurance must be at least $15,000. In the case of several members of the same

family being insured the premiums are deducted from the pay of the head of the family.

A complete medical examination is required for all females applying for more than $1,000 of insurance and all males applying for more than $2,500. If the group is unusually large, the companies may dispense with the medical examinations. All standard forms of insurance are usually available. If an employee leaves the services of the institution he has the privilege of converting his policy to other types. Under salary investment insurance an appreciable saving is realized by the company due to reduced overhead costs. Experience with this plan shows that there is a lower percentage of lapsation as a result of the premiums being deducted directly from the employee's pay.

Total and permanent disability benefits.—This form of insurance was at one time written by the companies and formed a part of their regular policies. It provided originally an income to the insured and a waiver of premium during a period of disability without any reduction in the principal sum at the time of death. Later, some companies, particularly in the case of group life contracts, modified the plan and provided for the deduction of disability payments from the death claim. Since 1930 there has been a concerted effort on the part of most companies to change practices with respect to disability benefits in the following ways: By writing a less liberal disability clause, by increasing the rates for this feature, by reducing the benefits, and by discontinuing disability benefits altogether but allowing the waiver of the payment of the premium.

Beginning in this same year health and accident policies have been extended to cover total and permanent disability. Various interpretations are given to the term "total disability." A liberal definition is, "such injuries or diseases as shall prevent the insured from performing the duties of his occupation, and are incontestable as to the time of occurrence." Loss of sight and dismemberment of two or more limbs are often considered total and permanent disability.

The amount of indemnity is ordinarily 12 percent of the face of the policy per year, payable monthly. In some instances, the insured may elect to receive the full amount in cash or a monthly income until the principal and interest are

consumed. If the insured dies before receiving all of such installments, the residue is paid to his beneficiary.

Package-plan insurance.—This plan of insurance includes any combination of the various types of group insurance. Under package-plan insurance the employee can provide for protection against the major hazards of life including death, loss of limb or sight, sickness, accident, and old age in a single policy through payroll deductions.

CARNEGIE FOUNDATION FUND AND FREE PENSIONS

The early history of retirement allowances paid through the Carnegie Foundation was given in the previous chapter. It now remains to present the changes made in the original plan of distributing these allowances and to show the influence exerted by the foundation upon present-day college pension systems.

The total number of college teachers having expectations of pensions in 1915 from the Carnegie Foundation including professors, assistant professors, and instructors amounted to 6,626. Of this total, 1,840 were instructors. The foundation had set aside a definite sum partly arising from its annual income and partly from the liquidation of its large reserves to provide retirement allowances for this number of teachers. An additional sum of $1,000,000, known as Reserve Fund No. 2, was to be used to assist other institutions in establishing a contractual plan of annuities for their teachers.

In that year the foundation decided the basis upon which the free pensions for these teachers were to be fixed. After estimating the life expectancy of the 6,626 teachers and making allowances for the proportion which might withdraw from service, the foundation reached the decision to pay a proportionate amount of the salaries received by the teachers prior to retirement. However, the reservation was made that the payments were not to be obligatory and were not to exceed the resources set aside for that purpose by the foundation.

Since 1915 the foundation has gradually raised the normal retirement age. At the same time the salaries of teachers in the universities and colleges have been steadily rising. Withdrawals from the fund consequently became greater, threatening its early exhaustion. In order to meet this threat-

ened emergency as well as to provide for other developments, the trustees of the foundation were again compelled to revise their earlier plans.[1]

In an announcement made in 1929 notice was given by the foundation on the universities and colleges as well as the teachers anticipating allowances that new plans would be adopted to supplement the Carnegie expected pensions. The importance of this was especially stressed for younger teachers who would be able to obtain greater protection on account of having a longer period in which to accumulate an annuity fund. Simultaneously the foundation adopted a new scale of maximum allowances and set aside another fund of $5,400,000. The scale provided an additional annuity of $500 for the teachers upon reaching 65 years of age after 1931. Payments were to begin at the age of 70 and were to be made in monthly installments. In other words the teacher reaching 65 years of age in 1936 received $1,000 annually, plus the additional $500, or a total of $1,500. The widow of a deceased teacher received a pension equal to half of her husband's allowance.

In June 1929, a total of 505 teachers and 377 widows of teachers were receiving retirement allowances or pensions from the foundation. Also 3,355 teachers in 83 institutions in the United States and Canada were eligible under the regulations to receive later such allowances for themselves and their widows as the resources of the foundation would justify. To meet these demands during the next 35 years, the foundation will provide some $45,000,000. The additional fund set aside by the foundation will increase this total to more than $50,000,000. At the end of this period it is anticipated that the load of retirement allowances will have been so reduced that the annual income of the endowment will be sufficient to pay them.

During the year ending June 1933, 1,064 teachers or widows of teachers received $1,688,084. Since 1905, when the system was instituted, to June 1933, $25,370,122.82 had been paid college teachers in America and Canada under Carnegie Foundation grants.[2]

[1] Carnegie Foundation for the Advancement of Teaching. Twenty-fourth Annual Report, 1929. P. 21.

[2] Ibid., p. 22.

The result of the recommendations of the foundation that supplementary annuity contracts be made by teachers in order to increase their Carnegie retirement allowances is summarized in the following quotation from one of its annual reports:

> Accordingly, communications were sent to 88 institutions associated with the foundation requesting information as to what plans, if any, formal or informal, were in operation or in contemplation for supplementing the allowances of the foundation. Replies came from 87 institutions. Radcliffe College, from which no answer had been received, employs teachers already serving upon the staff of another associated institution, namely, Harvard University.
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> Of the 88 institutions, 19 have no plan, formal or informal, for supplementing the retiring allowances of the foundation, make no individual grants to this end, and do not avail themselves of the provisions of part-time teaching by recipients of retiring allowances. Of the remaining 69 institutions, 20 have no formal plan although individual cases are considered on their merits and institutional grants made accordingly, while 49 universities and colleges have definite plans for supplementing the retiring allowances of the foundation. These 49 institutions may be divided into three groups: The first group consists of 20 colleges having contributory plans but no guarantee concerning a minimum retiring allowance. The second group of 17 institutions have in operation retirement plans which may be used to supplement the allowances of the foundation. The third group of 17 institutions supplement the retiring allowances of the foundation without contributions on the part of the teacher. In this group, 5 universities require no contributions from the teachers although such contributions are optional.[8]

TEACHERS INSURANCE AND ANNUITY ASSOCIATION

The Teachers Insurance and Annuity Association was incorporated in 1918 under the laws of the State of New York, with a capital stock of $500,000 and a surplus of the same amount. This $1,000,000 was furnished by the Carnegie Corporation at the suggestion of the Carnegie Foundation for the Advancement of Teaching. While the association is a stock company, its charter of incorporation provides that no profits from the business shall be paid to the stockholders. The stock is held by the Carnegie Corporation.

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[8] Carnegie Foundation for the Advancement of Teaching. Twenty-eighth Annual Report, 1933. p. 10.

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The association was organized for the specific purpose of providing a practical application of the principles that college pension systems should rest upon joint contributions of employee and employer; that for the assurance of an annuity there must be accumulated during the productive period a reserve adequate to support the annuity provided; that the arrangement with the teacher should be a contractual one upon an actuarial basis; and that such annuities should be supplemented by life insurance.

The association represents the concrete embodiment of these principles and provides a special and comprehensive service to the great body of university and college teachers of North America. The association is subject to the same detailed supervision and searching triennial examinations as are the other life-insurance companies domiciled in the State of New York. No soliciting agents are employed by the association, thus eliminating heavy agency expenses from its costs of operation. It deals directly, usually by correspondence, with those who are eligible to its contracts.

The facilities of the association are open to the general body of teachers in the universities and colleges of the United States, Canada, and Newfoundland. All premiums are on a net basis with a small administration expense, which is waived providing the policyholder does not enter a commercial occupation. In the following table are presented data showing the development of the association:

TABLE 3.—FINANCIAL STATEMENT SHOWING THE GROWTH OF THE TEACHERS INSURANCE AND ANNUITY ASSOCIATION

Financial statement	1924	1929	1934
Number of life-insurance policies	2,718	5,791	8,309
Amount of insurance	$14,378,943	$32,788,197	$48,548,645
Number of annuity policies	2,822	8,132	12,310
Life annuities	$4,295,764	$12,913,397	$18,346,298
Total different policyholders	4,197	10,635	14,798
Institutions represented	470	777	841
Insurance reserve	$549,335	$2,298,478	$5,620,538
Annuity reserve	$2,939,653	$13,395,232	$36,306,488
Disability reserve	$6,450	$24,666	$49,698
Other funds	$164,648	$614,501	$916,708
Capital	$500,000	$500,000	$500,000
Surplus and contingency reserve	$860,680	$2,159,141	$3,280,272
Total funds	$5,020,766	$18,992,018	$46,673,704

While the association is prepared to issue all types of life-insurance policies, the deferred annuity is the contract of special interest at this time. In consideration of certain premiums paid to the association during the years of employment, a college teacher will receive monthly income payments for life, beginning usually at the age of 65. Until annuity payments begin, the premiums paid accumulate at compound interest.

No cash value is allowed, as this would defeat the very purpose for which the policy is devised. If premium payments are discontinued, the amount already paid with interest is refunded to the teacher at a future date. In the event of death before the annuity begins, the entire equity including dividends is paid in 120 equal monthly installments at the rate of $9.83 per $1,000 of accumulation to the widow or to the estate of the policyholder.

At retirement, the teacher is paid an annuity during his lifetime. In case the annuitant dies, the remaining premium accumulation to his credit is paid to his widow in installments until the accumulation has been exhausted. Another option provides an annuity payable to the annuitant during his lifetime and continued after his death upon a 50-percent basis to his widow for the remainder of her lifetime.

Within certain liberal limits the annuitant may pay more than regular premiums annually or make lump-sum payments if he desires with corresponding increase in the benefits. Should the annuitant abandon teaching and enter a commercial occupation, he is then required to pay gross premiums for his annuity. The gross premiums are one-tenth higher than the original premiums. This increase is not applicable if the teacher enters the employ of any governmental agency, public library, or nonprofit organization. Neither does it apply if he retires altogether from gainful work.

Single premium life annuities, providing a life income to a teacher upon the payment of a large lump sum rather than periodical premiums are also offered by the association. The premiums are in units of $1,000. The following popular life-insurance policies are offered by the association: Whole life, limited-payment life, endowment, modified life (low premiums for first 5 years), decreasing life (death benefit

being reduced each year), and term insurance (pure protection with no cash value). These policies contain liberal clauses covering loan values after 1 year, paid-up values, and extended term insurance. Waiver of premium payments in the event of disability is offered. The association permits the usual optional modes of settlement allowed by commercial life-insurance policies.

STATE TEACHERS' RETIREMENT SYSTEMS

State systems providing retirement annuities and pensions for public-school teachers vary in different States. They may, however, be grouped into two general classes: (1) Those having the flat benefit plan, and (2) those having the combined annuity and pension plan. States making up the former group include Arizona, California, Illinois, Montana, Nevada, and Washington. The second group includes all other States with retirement systems. The principal feature of the latter plan is that the annuities are paid through the conbined deposits of the teachers and pensions provided by contributions of the State. The systems in Arizona and Rhode Island are financed wholly by the State. In most of the other States varying proportions of the annuities and pensions are paid by the State.

Of special interest here are the States which have extended their retirement systems for public-school teachers to include faculty members of State institutions of higher education. This investigation shows that the systems in 16 States include the faculty members of State teachers colleges. All told, there are 72 State teachers colleges involving 4,008 faculty members to which State teachers retirement systems are applicable. The States with the number of teachers colleges in each are: Arizona, 2; California, 7; Connecticut, 3; District of Columbia, 1; Indiana, 2; Maine, 1; Maryland, 3; Massachusetts, 9; Michigan, 4; Minnesota, 6; New Jersey, 3; New Mexico, 2; North Dakota, 5; Pennsylvania, 13; Rhode Island, 1; and Wisconsin, 10. In the State of New York the State teachers colleges are members of the general retirement system for State employees. Under the laws of California faculty members of the State teachers colleges may participate in either the State employees retirement system or the State teachers retirement system.

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State universities and colleges of other types have likewise been included in the systems of a number of States. Among these States are Connecticut, Massachusetts, New Mexico, North Dakota, Ohio, Rhode Island, Wisconsin, and the Territory of Hawaii. In New York City the employees of the city colleges participate in the municipal retirement system for the city school teachers. There are 20 publicly controlled universities and colleges of several types which have been included in these State or city systems. In describing the retirement systems in the individual States applicable to publicly controlled institutions of higher education, each will be treated separately.

Ohio.—Teachers in any school, college, or institution supported by public funds in Ohio are eligible to participate in the State teachers retirement system. This includes the faculty members of the rank of instructor and above at the State's several institutions of higher education.

All other employees of the institutions holding permanent jobs have been incorporated in the State employees' retirement system under an additional plan recently adopted by the State. Contributions to the retirement fund of this latter system have been made only since January 1935. Many details are yet to be worked out by legislative action.

The Ohio State retirement system for teachers was established in 1920. A teacher may retire at 60 years of age or after 36 years of service. Retirement is compulsory at 70 years of age providing the board employing the teacher consents. The teachers are entitled to retire on account of disability, but they must have had at least 10 years' service.

Teachers who receive $2,000 or less annually are required to contribute 4 percent of their salary. The teacher at retirement receives an annuity consisting of the accumulated contributions and a pension of equal amount paid by the State plus an amount equal to 1½ percent of the average fixed salary of the teacher multiplied by years of service. Provision was made at the time of adoption of the system for the State to take care of accrued liabilities by State appropriations. In case of death of the teacher the beneficiary may receive a life income or have the option of several modified plans. At the time of the adoption of the Ohio system, membership was not compulsory for the teachers

already employed but new teachers were compelled to join. A teacher is not permitted to borrow on the fund accumulated from his contributions.

A contributor who ceases to be a teacher for any cause other than death or retirement is entitled upon demand to the accumulated contributions standing to the credit of his individual account in the teachers retirement savings fund. The demand must be made within 10 years after the teacher leaves the service. State institutions in Ohio participating in the State's retirement system are Bowling Green State University, Kent State University, Miami University, Ohio State University, Ohio University, and University of Akron.

New York.—The teachers' retirement system of New York City includes three institutions, namely, Brooklyn College, College of the City of New York, and Hunter College.

This system was established in 1917. A teacher may retire at the age of 65 or after 35 years of service, 20 years of which must be city service. Disability retirement is allowed only after 10 years of service.

The teacher contributes 6 percent of his salary, or he may elect to contribute an amount that will provide half-pay at retirement. The city of New York matches this amount and pays a pension at retirement. On resignation, all contributions plus 4 percent interest are refunded to the member. After 6 months' service, a death benefit of one-half of the average salary of the teacher is paid. After 10 years, 5 percent of the salary is added for each year of service until the twentieth year.

Membership for all teachers is compulsory. The retirement annuity is ordinarily one-half the average salary for the 5 years preceding retirement. The exact amount of the annuity varies, however, dependent upon the accumulated contributions and the particular option elected by the teacher at retirement. Among the several options is one by which the widow or beneficiary of the teacher will receive an income after his death.

The New York State College of Forestry at Syracuse University and the New York State College of Agriculture at Cornell University are members of the State retirement system for State employees. Under this system the teacher has the option of retiring at 60 years of age. The system

provides for compulsory retirement at 70 years of age. Disability retirement is permitted only after 15 years of service. The annuities at retirement consist of approximately one-seventieth of the average salary for the previous 5 years multiplied by the number of years of service. Disability benefits amount to about 25 percent of the average salary for the preceding 5 years before retirement.

The amount of the death benefit depends upon age and years of service under several options. Contributions of the teachers are based on age and annual salary. The State contributes a like amount. Upon withdrawing from the service the teacher is entitled to a refund of his contributions with interest.

Rhode Island.—Rhode Island State College staff members participate in the State's teacher retirement system. Retirement is based on length of service and begins after 35 years of service. A condition is that 25 years of the service shall have been within the State of Rhode Island and that the last 15 years preceding retirement shall have been in the actual employment of the State. In order to receive disability benefits the teachers must have had 20 years of service. The teacher is not required to make contributions. A pension equal to one-half of the average annual salary for the previous 5 years is paid with a maximum of $700 per annum and a minimum of $500.

Hawaii.—The University of Hawaii is included in the employees' retirement system of the Territory of Hawaii. The system was established in 1926. Memberships for the staff members of the university have been compulsory since 1928. Both the employees and the Territorial Government contribute toward the fund to pay the retirement annuities. Retirement is voluntary at the age of 60 years and compulsory at 70 years. Ten years of service is necessary in case of retirement due to disability. A teacher leaving the service may withdraw his contributions with compound interest.

On retirement the teacher is entitled to an allowance consisting of approximately one-seventieth of the average annual salary received by him during the last 10 years of service multiplied by the number of years of service as a member of the system. The teacher's contribution makes up about

one-half of the retirement fund while the government pays the other half. When the system was inaugurated the Territorial government provided funds to cover the accrued liabilities of teachers in service prior to its initiation. Settlement at retirement or death may be made according to several options.

New Mexico.—The teachers retirement law of the State of New Mexico was passed in 1933. It provided for the retirement of teachers who have reached the age of 65 years and who have taught in the State for 25 years from and after January 1, 1934. Retirement for disability is permitted only after 10 years of service. All teachers in the public schools, State institutions of higher education, and other special schools supported by taxation are eligible for an old-age pension under the system. Faculty members of the University of New Mexico and the New Mexico College of Agriculture are included in the retirement system.

The fund to pay the pensions is made up in part of contributions from the teachers on the basis of 50 cents monthly on a salary of less than $100, $1 monthly on a salary of $100, and $2 monthly on a salary of more than $200. In addition, the State contributes 5 percent of the proceeds of an inheritance tax levied by the New Mexico government. Further accretions to the fund include interest on its investment, gifts, and any special appropriations the State legislature may make. The retirement annuity consists of $400 annually. In case of retirement on account of disability the annuitant must have had at least 25 years of service.

North Dakota.—In North Dakota the law specifies that any teacher in the public schools or State institutions may contribute to the State teachers retirement fund and receive a retirement allowance after 25 years of service. The original maximum retirement annuity was $750, but this has been reduced to $510 due to the fact that the income failed to support the plan. A teacher is permitted to retire for disability after 15 years of service. Contributions of the teachers consist of 1 percent of their annual salary with a maximum contribution of $20 for the first 10 years and 2 percent of their annual salary with a maximum of $40 for the balance of the years prior to retirement. The contributions are designed to provide an annuity amounting to two-hundredths

of the average annual salary for 5 years preceding retirement multiplied by the total years of service.

Because of the limited income provided at retirement in the North Dakota system, the teachers are permitted to continue in the service to an advanced age. As yet the State legislature has not appropriated money for the support of the retirement fund. Faculty members of the University of North Dakota and the North Dakota Agricultural College contribute to the fund. Membership is optional and not compulsory.

Wisconsin.—In addition to public-school teachers the Wisconsin State teachers' retirement system applies to faculty members of the University of Wisconsin and the State teachers colleges. The system provides for the retirement of teachers at any time after 50 years of age and 25 years of service. Retirement with annuities on account of disability is permitted provided the teacher has served 5 years and made contributions to the retirement fund during this period.

Under the Wisconsin system each teacher is required to contribute 5 percent of his salary. The State contributes an amount equal to 50 percent of the contribution of the teacher, plus 5 percent for each year of teaching experience and minus 1 percent for each $100 in excess of $1,200 salary. A surtax levied on incomes in excess of $3,000 furnishes the public funds contributed by the State.

The annuity paid after retirement consists of the accumulations of the contributions of the teacher and the State. Several options provide for extension of benefits after death to the teacher's widow or beneficiary. The disability annuity of a teacher retired after 5 years of service prior to the age of 50 years amounts to $25 monthly.

Massachusetts.—Massachusetts State College is a member of the State Retirement Association of Massachusetts. All employees of the institution, both educational and noneducational, are eligible after 1 year's service. Retirement is permissible after 35 years of service or at age of 69 with 15 years of service. It is compulsory at the age of 70. The teacher retiring from disability must have had at least 15 years of service and the minimum annuity paid to him is $300 annually.

Funds were appropriated by the State to cover the accrued liabilities existing at the founding of the system. The teacher's annual contribution is 5 percent of his salary which is matched by a State contribution. Upon leaving the institution, the employee may withdraw his total accumulated contributions with interest at the prevailing rate.

The amount of the retirement annuity is based upon the amount of money contributed by the individual teacher plus the amount set aside for him by the State. In no case are the annual annuities less than $200 nor more than one-half the average annual salary of the teacher for the 10 years prior to retirement. If the accumulated contributions of any teacher are in excess of the amount required to provide an annuity equal to one-fourth of the average annual salary for the 10 years prior to retirement, the excess amount is remitted in a lump sum to him with the first monthly payment.

Connecticut.—The State law of Connecticut permits the State board of finance and control to retire State employees, including those of Connecticut State College, upon the completion of 20 years or more of service, or upon reaching the age of 70 years. The retired employee receives an allowance equal to one-half of his average salary for the 5 years next preceding such retirement. An employee who has been in the service of the State for 40 years or more may be retired with an annuity equal to three-fourths of the salary which he was receiving at the time of his retirement. The retirement plan in Connecticut is purely permissive. The college has no legal power to force the retirement of a staff member on part salary.

CHURCH PENSION PLANS

In this country there are 534 universities and colleges offering 4-year curricula leading to degrees which are under the control of the various denominations. In this study questionnaires were sent to 427 of these institutions and reports were received from 243. The list to which the questionnaire was sent excluded institutions with faculties of fewer than 25 members. More than 50 of the institutions indicated in their replies that at least 1 or more of their faculty members were participating in retirement allowances

from some church pension fund. Since the information sought was on pension systems operated by the colleges themselves it is believed that some of the other institutions also had a few faculty members eligible for church pensions but failed to mention the fact.

No accurate statement, therefore, can be made as to the exact number of denominational college teachers receiving benefits from church pension funds. When it is considered, however, that there are 534 institutions controlled by denominations and that these same denominations have accumulated pension funds amounting to more than $100,000,000, it is safe to assume the number is large.

Church pension plans are designed primarily to care for ordained ministers in their old age after long years of faithful service. Retirement grants and pensions are made to them from general church funds or funds specially set up for this purpose. The benefits are commonly extended to ordained ministers whether engaged in preaching or teaching in denominational colleges and schools. This practice is particularly true in the case of the Catholic Church. Priests and teachers are members of religious orders of the church which provide homes and sustenance for superannuated members. However, such arrangements may not be regarded as old-age pensions in the strict sense of the term.

The plans of old-age pensions of the various denominations as applicable to their universities and colleges may be divided into two kinds. Under one plan the denominational fund is used to pay pensions to ministers serving as administrators or faculty members of the institutions but other faculty members and employees receive no pensions. In some instances, a layman who has rendered exceptional service at a college may be granted a pension by a special vote of the board administering the fund. The second plan consists of allowing all faculty members to participate in the denominational pension fund provided the member and the college make joint contributions.

The first insurance and annuity contract of this type in America was written by an association known as the Presbyterian Ministers' Fund. The organization of this association for the purpose of offering insurance and annuities at minimum cost to Presbyterian ministers marked the beginning

of an effort to provide protection for ministers against premature death and the hazards of old age. With the exception of the annuities provided by this association and pensions offered to individual ministers from current funds or endowments of the church denominations, no systematic effort to provide benefits for aged ministers developed until the beginning of the present century.

In order to obtain information on the present situation with respect to this question, special letters of inquiry were sent to the heads of pension funds operated by denominations where returns in the questionnaires of denominational universities and colleges indicated that such benefits were given by the denomination controlling the institution. It was found that the faculty members of 56 institutions, including 6 participating in the Y. M. C. A. retirement fund, are receiving some aid from the church pension funds. The plans of the different denominations will be discussed separately.

American Missionary Association.—The American Missionary Association organized by the Congregational Board of New York City has offered universities and colleges under their control an opportunity to cooperate in accumulating a fund for retirement allowances for their employees. Five colored institutions are eligible for participation, the list including LeMoyne College, Tennessee; Talladega College, Alabama; Tillotson College, Texas; Tougaloo College, Mississippi; and Straight College, recently named Dillard University, Louisiana.

The plan was originally organized in 1929, but its actual operation did not begin until 1931. All teachers and employees of the institutions are eligible to join the plan, which is entirely optional with them. Contributions of 3 percent of their salary to the "Retirement fund for lay workers" of the association are made by the teacher and employee. The amounts of these contributions are matched by the institution. These contributions are credited to the individual member and are increased by interest accretions. Each college is encouraged to provide for the accrued liabilities of the older teachers by payments distributed over a period of 10 or 15 years. If this arrangement is not followed, the college may take care of such liabilities by making the necessary payments out of current income.

Accumulations of the joint contributions of the employee and college are used at the retirement of the employee to pay him a life income. An optional plan, however, permits him to select a joint and survivorship annuity under which his widow or other beneficiary receives a life annuity after his death. The minimum age of retirement is 62 years with 10 years of service. Retirement is compulsory at the age of 68 years.

In the event of withdrawal from service, the employee may allow the joint contributions to remain at interest without further payments until retirement. In case of a demand for cash settlement, he receives only that part which he has contributed with the accumulated interest. In the event of death prior to retirement, the amount to his credit is applied toward providing annuity benefits for the wife, husband, minor children, or other beneficiary. The administrative expenses of the plan are defrayed by the association.

American Baptist Home Mission Society.—In reply to an inquiry, the American Baptist Home Mission Society, which conducts several colleges for Negroes, reported regarding its old-age pension system as follows:

> The employees of this society who are employed in educational institutions are eligible and I would say that the following schools are now participating in insurance and retirement plans provided by our society: Benedict College, South Carolina; Bishop College, Texas; Morehouse College, Georgia; and Virginia Union University, Virginia. The amounts paid are determined by length of service and total salary of the beneficiary.

Seventh Day Adventists' pensions.—Faculty members and employees of colleges under the control and support of the Seventh Day Adventists participate in benefits provided by its "Sustentation fund." In order to be eligible, an individual must have worked continuously for 15 years. The amount of the benefit is in proportion to the length of service of the employee.

The colleges are required to pay into the fund 2½ percent of their pay rolls covering all employees. The general conference of the church pays 3 percent of its mission receipts which are derived from a "Forty-cents-a-week fund" collected from church members. These payments are compulsory. The annuity paid to married workers on retire-

ment is $20.70 a month plus 90 cents a month for each year of service up to 35 years. The highest annuity is $61.25 a month for 40 or more years of service. Surviving widows or widowers receive one-half the rate paid the regular annuitant during their lifetime, and two-thirds the rate if there are dependent children. In the event of disability the college must pay the employee his regular salary for 6 months before he receives any sustentation benefits.

The colleges participating are Atlantic Union College, Massachusetts; Emmanuel Missionary College, Michigan; Pacific Union College, California; Union College, Nebraska; Walla Walla College, Washington; and Washington Missionary College, District of Columbia.

Disciples of Christ.—Faculty members of colleges controlled by the Church of Disciples of Christ are entitled to participate in the pension fund maintained by this denomination. In order to do so, a faculty member must contribute 5 percent of his monthly salary to the fund. At the same time the college must pay a similar amount.

The church's plan provides for both death and retirement benefits. Based upon an annual salary of $2,000, the benefits include $1,000 at death payable in cash and $300 annual pension to the widow with an additional $100 for each minor child. In the event of total and permanent disability the employee receives $600 annually, and at death the widow is paid half this amount plus $100 annually for each dependent child. The retirement pension paid at the age of 65 years or over consists of one-seventieth of the annual salary times the years of service. For employees having 30 years of service the pension amounts to $900 annually. One-half of this amount is paid annually to the widow in case of the death of the annuitant.

This plan has been in operation since January 1931. At that time most of the staff members and employees of the colleges elected to contribute and join the plan, but since the depression many have dropped out. At a few institutions including Phillips University in Oklahoma and Chapman College in California a portion of the faculties participate. In some other institutions only those teaching religious subjects have membership in the plan. There are some colleges in which a few faculty members pay 5 percent of their

salary into the fund, but the college does not contribute its share of 5½ percent. In such instances the benefits are proportionately reduced. The administrators of the fund are hopeful that in the near future, financial conditions at the colleges will be so improved that all employees will participate and be entitled to the full benefits of the plan.

Twelve colleges are eligible for participation in the Disciples of Christ fund. The list includes: Atlantic Christian College, North Carolina; Bethany College, West Virginia; Butler University, Indiana; Chapman College, California; Culver-Stockton College, Missouri; Drake University, Iowa; Eureka College, Illinois; Hiram College, Ohio; Lynchburg College, Virginia; Phillips University, Oklahoma; Texas Christian University, Texas; and Transylvania College, Kentucky.

Presbyterian Church in the United States.—Many of the colleges under the control of the Presbyterian Church in the United States cooperate with its board of pensions in providing pensions for their presidents and faculty members. The system operated by the church is known as the Service pension plan. The benefits are based upon length of service and the amount contributed by the beneficiaries.

An amount equal to 10 percent of the teacher's salary is the usual contribution, a part of which may be paid by the college or church. In collecting the information from the various colleges, it was impossible to ascertain in most instances the exact proportion of the 10 percent paid by the teacher and the college. The following is the list of institutions participating in the plan: Albany College, Oregon; Auburn Theological Seminary, New York; Biblical Seminary of New York; Bloomfield College and Theological Seminary, New Jersey; College of Emporia, Kansas; College of Idaho; Lindenwood College for Women, Missouri; Lafayette College, Pennsylvania; Monmouth College, Illinois; Maryville College, Tennessee; Park College, Missouri; Presbyterian Theological Seminary, Illinois; Princeton Theological Seminary, New Jersey; University of Dubuque, Iowa; and Western Theological Seminary, Pennsylvania.

The Princeton Theological Seminary reported that only ordained ministers serving on its staff receive the benefits of the plan. Ten percent of their salaries are contributed to

the fund of which the seminary pays three-fourths and the individual one-fourth. If the minister leaves the service he may withdraw his contribution plus interest at the current rate. The age of retirement is 70 years. The pension received by the retired minister is 50 percent of his average salary for the last 5 years of service. In the event of permanent disability, he receives 40 percent of his average salary for the last 5 years. The pension system was inaugurated in 1927. For the ministers of advanced years to whom pensions were to be paid, the institution made arrangements to take care of the accrued liabilities out of its current income. Membership is not compulsory and only those contributing to the plan receive the benefits.

Norwegian Lutheran Church of America.—Some of the faculty members of the four colleges under the control of the Norwegian Lutheran Church are members of its general pension plan. Its principal feature is an endowment pension. The plan is administered by a board and a permanent fund of $635,000 has been accumulated. At the present time 340 pensioners are receiving an income of $10 monthly.

A contributory reserve plan has been adopted, but the congregations of the church have not contributed the amount necessary to cover accrued liabilities. The colleges under the jurisdiction of the church include: Concordia College, Minnesota; St. Olaf College, Minnesota; Luther College, Iowa; and Augustana College, South Dakota.

Protestant Episcopal Church.—The Protestant Episcopal Church extends the benefits of its church pension fund only to the ordained clergymen, their wives and minor children. Administrators and teachers with ministerial status holding positions in the seminaries and colleges under the control of the church, however, participate in the same way as ministers in the field. The General Theological Seminary of New York reports that the institution pays the necessary contributions so that its faculty members may receive the pensions. Ministers were not required to join the pension system when it was first inaugurated, but membership is obligatory now for new ministers of the church.

Under the present regulations of the pension fund the age of retirement is 68 years. Upon retiring the clergyman receives an annuity equal to 1¼ percent of his annual salary

since ordination multiplied by the number of years during which he paid the pension assessments after March 1, 1917. Adjustments in service credit are allowed ministers entering the service of the church prior to 1917. For total and permanent disability the benefit is 40 percent of the minister's average annual salary for the 5 years preceding such disability, but in no case is the amount less than $600 annually.

The plan provides for the protection of the widow at the minister's death. An annuity is paid her amounting to one-half of the pension to which her husband would have been entitled, his service credit being calculated from the time of marriage with a minimum of $300 annually. In addition, the widow receives $100 for each child below the age of 7; $200 while each child is between the ages of 7 and 14 years, and $300 between the ages of 14 years and majority. The total pension of the widow, however, must not exceed the annuity to which the deceased would have been entitled.

The trustees of the fund are financiers of national reputation. It is constantly being checked to assure its actuarial soundness and is under the scrutiny of the New York State Insurance Department.

Methodist Episcopal Church.—Wiley College a Negro college in Texas under the control of the Methodist Episcopal Church, reported that certain faculty members were receiving retirement annuities from the board of education of this church. Upon inquiry it was found that this board had accumulated a reserve fund of slightly over $100,000, the income from which is available to pay old-age benefits to needy executives and to teachers who have given long service to the colleges and schools conducted by the church. This cannot be called a pension plan in the true sense of the word. It is rather a retirement allowance voted annually by the board in consideration of the services rendered by the applicant and based on his needs.

Young Men's Christian Association.—In 1913, the Y. M. C. A. made an attempt to establish an old-age retirement system at its annual convention. The task was undertaken to collect the necessary data to determine the amount of funds needed to place the proposed system on a sound actuarial basis. Before the work was completed the World

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War broke out and the project was postponed. In 1920 the plan was again revived and definitely adopted by the association to go into effect as soon as the necessary funds were obtained. It was 2 years before the system finally became effective. The system comprises both a retirement plan to provide old-age annuities and an assessment insurance plan, the latter being known as the Employed Officers Alliance. Y. M. C. A. secretaries, executive officers, full-time directors, and teachers of colleges or schools operated by the association are eligible for the benefits of the system. On June 30, 1930, there were 1,158 local associations and 2,917 individuals participating.

The plan provides for joint contributions by the beneficiaries and the local associations. Membership, however, is not compulsory. The age of retirement is 60 years, but members have the right to continue work beyond this age. The secretary, college teacher, or other employee of the association upon retirement receives an annuity which is the actuarial equivalent of his accumulated contributions plus an amount consisting of three-fourths of 1 percent of his average annual salary over the 10 previous years for each year of service up to 60 years of age rendered subsequent to the establishment of the fund. If his employment antedated the time the system was inaugurated, an amount consisting of 1½ percent of his final year's salary for each year of prior service is paid to him. The employee and the local association contribute an equal amount to the retirement fund. In case of permanent disability, the employee receives an annuity sufficient to provide a total retirement allowance of 1 percent of his salary during his last year of service multiplied by the total number of years of service. The minimum benefit is 20 percent of the last year's salary except when the employee is over 46 years of age at the time of entering the service.

Upon death prior to retirement the beneficiary on demand is paid the accumulated contributions standing to the credit of the deceased in the fund plus interest compounded annually at current rates. In the event that the employee withdraws from the service at any time he is entitled to receive a similar refund. Several options are offered the members at the time of retirement. He may elect a life annuity ceasing altogether

at his death or he may accept reduced payments covering two lives so that his widow is given protection after his death. Some other actuarial equivalents are also available provided that they are approved by the association's retirement fund board. Under the second plan conducted by the association, the group life insurance benefit provided through the Employed Officers Alliance amounts to $5,000, which is paid in case at death. The premiums of the life insurance are paid in full by the member.

Six institutions of collegiate standing operated by the Y.M.C.A. are eligible for participation in the system. These include: Central Y. M. C. A. College, Illinois; Fenn College, Ohio; George Williams College, Illinois; International Y. M. C. A. College, Massachusetts; Northwestern University, Massachusetts; and Youngstown College, Ohio.

Increased payments are being provided by the associations to take care of the accrued liabilities which are being liquidated over a period of years. Periodical adjustments are also being made by actuaries to provide for new entrants and disability payments prior to retirement. Total assets of the association's system at the end of 1934 were $15,256,805.

PLANS ADMINISTERED BY INSTITUTIONS

Pension and annuity systems administered by universities and colleges consist of two general types, funded pension plans, and nonfunded pension plans. Each will be presented separately.

Funded pension plans.—Funded pension plans consist of those under which the institution accumulates certain sums of money in the form of a retirement fund to meet future expectations. The retirement fund may be completely segregated from the institutional endowment and invested separately or it may form a portion of the regular institutional endowment. The amounts included in the fund and set aside in some cases are based upon actuarial calculations. In most of the institutions, however, the retirement fund represents an accumulation of surpluses from current income special endowment funds, appropriations, gifts, and retirement contributions from the salaries of the teachers without any reference to actuarial needs when the younger members of the faculties reach the age of retirement.

The 15 institutions having funded pension plans are Amherst College, Cornell University (in part), DePauw University, Hampton Institute, Hartford Seminary, Harvard University, Massachusetts Institute of Technology, Simmons College, Union Theological Seminary, University of California, University of Southern California, Wellesley College, Wells College, Wheaton College, and Yale University.

According to the information received, 11 out of these 15 institutions have joint contributory plans. In eight of them the institutions match the amount contributed by the teacher which consists of 5 percent of his annual salary. Two of these institutions divide their contributions into two parts, 3 percent being set aside for retirement pensions and 2 percent for life insurance. The Union Theological Seminary contributes 7½ percent while the teacher pays 5 percent of his salary. Cornell University and Hartford Seminary have joint contributory plans, but did not furnish information on the salary percentages paid by the beneficiaries or the institution. Four colleges have noncontributory funded plans paying the retirement benefits out of an accumulated fund which is supplemented out of current income.

The annuity or pension paid the faculty member at retirement in the institutions is usually about one-half of the annual salary received during their last year of service with certain limitations. When the member reaches the age of retirement it is customary in most of the institutions either to pay the benefits out of the accumulated fund, or the amount credited to the particular faculty member is used to purchase an immediate annuity from a life-insurance company. At 10 of the institutions the retirement age was 65 years and at 4, 60 years. Eleven of the institutions allow the teachers to continue work after the minimum retirement age, but retirement becomes compulsory at the age of 66 years in three cases, 68 years in one, and 70 years in one.

In the event of death or withdrawal of the member prior to retirement, various practices have been adopted by the institutions. Of the four colleges having noncontributory plans the member receives nothing at death or withdrawal in three and an indefinite amount in one. In the 11 institutions with contributory plans 5 refund the teacher's contributions with interest and 6 refund the joint contributions provided

the teacher has served for a certain period of time, such as 5 years.

All employees are eligible to participate in the retirement system at two institutions. In 10 only faculty members holding the rank of assistant professor or above may participate while in 1 the system applies only to administrative officers and full professors.

In response to the question, "Is a special fund provided for retirement contributions?", nine answered "Yes" and six "No", indicating that in a considerable proportion of the colleges no provision had been made to segregate the retirement fund from regular operating funds of the institution.

Non-funded-pension plans.—Non-funded-pension plans, while providing for the distribution of pensions to aged employees, make no provision for accumulating a definite retirement fund for this purpose. Such plans are generally regarded as the least satisfactory since frequently through unforeseen financial difficulties promised pensions and retirement annuities cannot be paid. The result is that employees who have placed their dependence on anticipated pensions in their old age suffer serious disappointments.

Civil governments and industrial concerns as well as universities and colleges have long made the mistake of adopting old-age pension plans for their employees without making any arrangements for raising the necessary funds in advance. While it is true that a few of the heavily endowed universities are financially able to pay retirement pensions and meet their steadily increasing drain, difficulties are often encountered that handicap the operation of the plan. One of the most important shortcomings of such plans is that no definite contract exists between the faculty members and the institution. Neither is any explicit age of retirement ordinarily fixed. The teacher, therefore, is dependent wholly upon the judgment of the governing board or board of trustees as to the time when he is too old for active service. In the same way, the board decides the amount of pension that he is to receive on a basis of what it regards as his needs. This situation is a source of constant embarrassment before and after retirement to both the college and the teacher. In some instances, the pension is based on a resolution passed by the board of trustees without any conception of the load

assumed in paying the pension year after year until the death of the retired faculty member.

In their replies to the questionnaires 25 institutions classified themselves as having non-funded-pension plans. Many of the practices of these institutions are similar to those of colleges having no definite pension plans described in a later section of this chapter. The following list comprises the institutions having non-funded-pension plans: Austin College, Butler University, Centre College, Dennison University, General Theological Seminary, Gettysburg College, Heidelburg College, Kalamazoo College, Lafayette College, Mary Baldwin College, Milton College, Moravian College, Mount Union College, Nebraska Wesleyan University, New York Homeopathic Medical College, Ohio Wesleyan University, Otterbein College, Princeton University, University of Florida, University of Illinois, University of Kentucky, University of Minnesota, University of Nevada, Waynesburg College, and Western Maryland College.

The plans of these institutions vary considerably with respect to the amount of the old-age pensions granted to the retired faculty members. Two reported that at retirement the faculty member is paid half salary for the remainder of his life as an old-age pension. Four consider each case on its merits in fixing the benefit. Two continue to pay the same salary but reduce the work assigned to the teacher. The pension is fixed at 20 percent of the salary received by the teacher in his last year of service plus 1 percent for each year's service up to 50 percent of the salary in two institutions; 33 percent of the last year's salary in one institution; $480 annually in one institution; $1,200 in one institution; and between $2,000 and $2,600, annually, depending upon the rank held by the teacher in one institution. An indefinite amount was reported as being paid in two institutions.

In the event of sickness of the faculty member, further differences in the policies of the 21 institutions reporting are found. Five institutions stated that full salary is paid until recovery; four consider each case on its merits; two pay full salary for a period ranging from 1 to 6 months; one pays full salary for a year; two continue full salary provided a substitute teacher is paid by the incapacitated faculty member; and five pay an indefinite amount for a limited time.

Twenty institutions reported upon the policy followed by them in the event of death of the faculty member. Of this number, five pay nothing to the teacher's estate; five pay the full salary of the deceased teacher for 3 months; two pay 25 percent of the salary during the lifetime of the widow; one continues the salary to the estate for the remainder of the college year; one pays the salary for a full year to the widow or estate; one pays from 5 to 50 percent of the annual salary in cash depending upon the length of service; one shares the premium on a $1,000 insurance policy; and one pays the full salary for a month. One institution reports that no cases of this character had occurred.

In reply to the question: "Are benefits guaranteed by contract?" all reporting institutions answered "No", except one, the University of Illinois. The benefits at this institution are considered as part of the employee's regular salary and constitute, therefore, an employment contract. However, the board of trustees of the institution reserves the right to alter, modify, or annul the contract relating to liabilities of the university. At 24 of the 25 institutions there is no pretense that the pensions are on a contractual basis.

In response to the question: "Who determines the amount paid in the event of sickness, death, and old age?", 17 out of the 25 institutions reported that the board of trustees makes the decision or follows resolutions adopted by the board at former meetings. At four additional institutions the board of trustees confirms the recommendations of the president of the college. At two others the president determines the amount, while at one the dean decides the question. In the case of one institution it is predetermined by contract.

The factors determining the amount of pension paid include years of service at institution, age, faculty rank, amount of salary, and personal wealth of the faculty member. At four institutions the amount paid is dependent on years of service and age. At three others, years of service alone is the deciding factor. The remainder of the institutions, with one exception, reported that the amount was dependent on all these various factors with years of service as the most important.

As the word "nonfunded" indicates, all these institutions pay the benefits out of current income. Many indicated that the policy was a strain upon their resources due largely

to reduced income during the period of the recent depression. Asked if they were of the opinion that some form of annuities administered by an outside agency would be a better means of solving this problem, five answered "yes", five answered "no", four were undecided, and one explained that the outside plans were too expensive. The others did not reply to the question.

Mutual benefit plans.—A mutual benefit association is an organization of employees having a common employer, the members of which contribute small amounts of money regularly to a common pool to be used in paying definite stipulated benefits to any member as a protection against certain risks. In addition, the association may also consist of an organization on a Nation-wide scale such as a lodge or brotherhood. The benefits are paid in the event of death, old age, sickness, or accident varying according to the type of the association.

The plans of the association, whether local or Nation-wide, are based upon the principle of insurance through the averaging of risks. They are usually conducted at low cost and are productive of an intimate, cooperative spirit among the members. If properly organized and administered, such plans may perhaps be adapted more satisfactorily to local conditions and needs than can those of commercial life-insurance companies. This is particularly true where sickness and accident benefits are paid. On the other hand, the membership is frequently too small to permit a proper distribution of the risks and the association, therefore, may be subject to grave danger of insolvency in case of local epidemics or other unforseen catastrophes.

Mutual benefit associations have had their largest development among groups of employees in commercial and industrial concerns. Several hundred such associations are now in operation in the United States. The industrial relations section of Princeton University recently made a study of 100 well-developed plans of mutual benefit associations. A summary of the results and findings of this study follows:

Membership in the association is usually optional if the group is large, and should be compulsory, if the group is small. It is necessary that poor risks be balanced by good risks to assure success of the plan. This requires that a

substantial majority of the workers be included. Otherwise the outgo in payment of benefits will be unduly high since the older employees and those in poor health are the first to join the association. Most of the plans fix a maximum age limit above which membership will not be accepted. In some cases this age limit is high and in others low. Other means of selecting members to protect the association is by examination. Temporary employees are not eligible for membership. The amount of the dues is most often small. Membership terminates when the employee quits his position or job.

Dues in mutual benefit associations are fixed either on the basis of a flat rate for all members or a sliding scale according to the salaries or wages of the members. The most frequent method used to collect dues is by deduction from the employee's salary check or pay envelope. Special assessments are sometimes necessary when an unusually large number of cases develop requiring the payment of benefits. At other times the payment of dues is temporarily suspended when no benefits are to be paid. Employers often match the dues of the employees paying the same amount or a fraction thereof into the association's treasury. Additional income is derived from one or more miscellaneous sources, such as dances, bazaars, athletic events, and other specially arranged social activities.

The amount of the benefit depends primarily on the group's experience as to the extent of the claims which must be met in relation to the income from dues. A flat rate for dues calls for the same benefit to each member. A period of delay of 1 or more weeks before the payment of the benefit commences is specified by most associations in case of sickness. Accident benefits usually begin at once. Ordinarily the benefits for illness are paid for 13 weeks after which they cease. The beneficiary once having been paid benefits is not entitled to any payments for the next 12 months. Death benefits in general consist of an amount covering the cost of a modest burial. The association is administered by a committee of the employees and a representative of the employer.

There are three plans of operating mutual benefit associations. One consists of the reserve plan under which suffi-

ciently high dues are charged so that a reserve fund may be accumulated to pay the benefits. The second is the assessment plan which provides for pro-rata assessments against members of the required amount necessary to pay the current benefits. The third is a combination of the two plans. The reserve plan providing for the charging of the necessary dues to create a fund to meet all contingencies is the easiest to administer. It also has the advantage of eliminating dissatisfaction among the members. The assessment plan while apparently relieving members from paying dues except when cases develop requiring the payment of benefits is more likely to cause fluctuating membership and delay in meeting obligations. A combination of the two methods is perhaps the best. High dues discourage wide membership. Lower dues and infrequent assessments in times of unusual drain have been found more advantageous in most associations.

The University of Southern California is the only institution of higher education in the United States which has established a mutual benefit association. Prior to 1935 the university carried an insurance policy with a commercial life-insurance company providing health and accident protection to its faculty members. At the end of 1935 the policy was about to be discontinued. On this account the president appointed a committee to study and make recommendations on a substitute plan to replace the policy. After spending some time studying the problem, the committee in December 1934 made its report in which was presented a 4-point plan for adoption by the institution.

The report proposed that the trustees and faculty organize a mutual benefit association to be known as the University Benefit Association. The purposes of the association were to provide: (1) Protection to faculty members against disability due to accident or illness interfering with regular income; (2) adequate and expert medical service for the faculty members and their dependent families; (3) old-age annuities after retirement from active duty; and (4) additional protection for dependents in the form of life insurance at low costs.

As a result of the recommendations contained in the report of the committee, the trustees and faculty members of the

University of Southern California organized the association. At its initiation the association undertook only to furnish protection against disability due to sickness and accident as a substitute for the expiring insurance policy. Plans for providing a system of retirement annuities, medical service, and group life insurance are to be formulated and put into effect by the association at some future time. An outline of the provisions of the association's constitution and bylaws as finally adopted follows:

Name: The University Mutual Benefit Association.

Membership: All employees of the university at least on a half-time basis.

Object: 1. To foster and develop projects or plans which may be of mutual benefit to members of the association. 2. To administer any type of protection upon a mutual benefit plan or to make contracts with any commercial carriers which may provide any part of, or all of such protection. 3. To engage in any undertaking which may be considered to be of advantage in advancing the interest of the University of Southern California.

Control: Five directors appointed by the president, who shall have the privilege of consulting with the insurance committee of the university which shall act in an advisory capacity on all major problems affecting the association. They shall employ such persons as are necessary to conduct the affairs of the association and shall have power to supervise and invest all funds belonging to the association and to order the payment of funds to just claimants. The board of directors shall render an annual statement to the members of the association showing the true financial status of the association.

Bylaws: Accident and sickness disability.

SECTION I. Protection will be provided in case of accident or sickness disability to the amount of one-half salary. Premiums may be increased or the benefits reduced by action of the board.

SEC. II. Benefits shall consist of monthly indemnity for disability resulting from bodily injury effected solely through accidental means, and for disability resulting from sickness.

SECS. III and IV. The monthly indemnity shall in no case exceed $320 per month. A month's salary shall be considered to be one-twelfth of the annual salary.

SEC. V. A premium equal in amount to three-quarters of 1 percent shall be deducted from the member's monthly salary. This amount may be increased not to exceed 1½ percent of the member's monthly salary. During disability the premium shall be deducted from the amount payable as monthly indemnity.

SEC. VI. Disability payments shall begin at the end of the first month and continue as long as the member shall be totally and continuously disabled and prevented from engaging in any and

every occupation or employment for compensation, gain, or profit. In the event it shall continue beyond the sixty-first birthday, he shall receive one-half the regular monthly indemnity.

SEC. VII. Members shall not be entitled to benefits for disability resulting directly or indirectly, in whole or in part from (1) venereal diseases, (2) pregnancy, (3) self-inflicted injuries, (4) immoderate use of stimulants or narcotics, (5) injuries sustained while intoxicated, or (6) fighting, unless in self-defense against unprovoked assault.

SEC. VIII. A liberal interpretation has been given to the aerial-passenger clause.

SEC. IX. All university employees, on half time or more, under age 61, who have passed the required medical examination, are eligible to participate unless they give evidence of adequate protection otherwise. During the first year of employment a member is entitled to 6 months indemnity, and the period of indemnity is increased until at the end of the fifth year of employment, it will continue indefinitely.

SEC. X. Protection is continued during sabbatical or other official leaves.

SEC. XI. When a member withdraws from the university, benefits shall automatically terminate at the end of the current school year, but without prejudice to any pre-existing claims or continued indemnity.

SEC. XII. Benefits shall be terminated upon the member reaching his sixty-sixth birthday without prejudice to any claim existing on account of disability commencing prior to date of such termination.

SEC. XIII. The board of directors shall determine actual cases of disability upon recommendation of the association physician. Appeal may be taken to an arbitration committee.

SEC. XIV. No indemnity shall be payable for any period of disability during which the disabled member is not under the care of the legally qualified physician, other than the insured.

SEC. XV. Applicant is reimbursed for the medical examination within 30 days after the commencement of disability.

SEC. XVI. Written notice of injury or sickness must be given within 30 days after the commencement of the disability.

SEC. XVII. Affirmative proof of loss must be furnished at any time upon demand.

SEC. XVIII. Any indemnity received from workmen's compensation law shall reduce the indemnity received under this policy.

SECS. XIX and XX. Indemnity payments are limited to funds in the treasury and no claim may be brought against any member of the association including officers and directors.

SEC. XXI. The board of directors may make alterations in the plan subject to the ratification by a two-thirds vote of the members.

Articles II, III, and IV, covering medical service, retirement annuity, and group life insurance, are to be formulated in the near future.[4]

[4] The University of Southern California, committee on insurance plans, 1934.

Hospital-service association.—Western Reserve University, Cleveland, Ohio, has recently arranged with the Cleveland Hospital Service Association for insurance of all employees, who elect to take it, against hospitalization costs. The university deducts the premium from pay checks but does not pay any portion of the costs.

This mutual-benefit hospitalization association was organized by the hospitals of Cleveland, the details of the plan having been devised by them. It is a nonprofit corporation. When an individual becomes a subscriber to the association, he is provided 21 days of hospital care in any 1 year at any of the member hospitals. The care consists of meals and bed, general nursing service, routine laboratory service, X-ray-department service, use of operating room, and anæsthesia without extra cost, and medicines and dressings. Benefits are not given in maternity cases.

In order to join the association and participate in the benefits the individual must be one of a group of employees of the same employer, and in good health at the time of applying. If the individual leaves the employer he may continue to pay his subscription for the remainder of the year after which he is no longer eligible. There is no physical examination nor age limit for subscribers.

The association has the endorsement of all the city's welfare and charity organizations. Its board of trustees consists of 24 representative citizens of Cleveland who are giving their active support to the plan. The annual subscription fee is $7.20 for ward service and $9 for semiprivate-room service. The fee is payable either semiannually, quarterly, or monthly.

INSTITUTIONS WITHOUT DEFINITE PLANS

In the present study, 642 universities and colleges reported either by filling in the questionnaire or by some other method. Of the 786 questionnaires sent out, 335 were returned filled insofar as the questions applied to the institutions. Ninety-four letters were received in lieu of questionnaires in cases where no plans existed. Therefore, reports from institutions totaled 429. Two hundred and sixty-six reported that they had no definite plans.

This section of the study is devoted to the practices of those universities and colleges with respect to benefits granted in the event of retirement, death or illness of their employees, although no definite plan had been established. The first part of the questionnaire was designed to record these practices. Here are the questions together with the number of institutions classified according to their answers.

Question 1.—Has any study been made by your institution of insurance and annuity plans? Yes, 146; no, 69; total, 215. The fact that 68 percent of the institutions answered "Yes" to this question makes it obvious that there is a widespread interest in the subject.

Question 2.—Who initiated the movement that led to this study? Faculty, 42; president, 75; trustees, 26; treasurer, 4; business manager, 2; comptroller, 1; education board, 1; salesman, 1; total, 152. It is interesting to note that in almost 50 percent of the institutions, the presidents were instrumental in initiating the movement. In an additional 16 percent the board of trustees was responsible. Thus in approximately two out of three of the institutions the administrative authorities have recognized the desirability of providing protection for the employees.

Question 3.—Have all proposals for a definite plan been abandoned? Yes, 20; no, 68; total, 88. Postponed? yes, 92; no, 13; total, 105. State briefly the reason for your decision. The answers to this question are presented in tabular form as follows:

TABLE 4.—INSTITUTIONAL REASONS FOR NOT HAVING A PLAN OF INSURANCE AND ANNUITIES

Reason	Number of institutions	Percentage
Financial difficulties	55	50.0
Have plans for prompt action	28	25.4
Not interested at present	12	10.9
Faculty has adequate personal protection	4	8.1
Seeking aid or plan through State legislature	9	3.6
Discontinued a plan	1	1.0
Too small for group plan	1	1.0
Total	110	100.0

Question 4.—Do you have plans for overcoming this difficulty? Yes, 30; no, 73; total, 103.

It is evident that most of the universities and colleges are hopeful of adopting a plan at some future time. Only 22 percent have abandoned all proposals for a definite plan, and 88 percent have merely postponed action because of temporary contingencies. The reason for the abandonment or postponement in the case of 50 percent of the institutions was financial difficulties. While an economic depression emphasizes most forcibly the need of social security for employees, it makes at the same time the immediate adoption of a plan a difficult undertaking because of the reduced income of both employer and employees. About 30 percent of the institutions reported that they have plans for overcoming the difficulty confronted by them and have prospects for adopting a plan soon.

Question 5.—If you were to adopt a plan, what benefits other than financial would you hope might accrue to the advantage of the institution and the personnel? Reduced faculty turn-over was reported as the more important benefit by 50 institutions and improved professional attitude of staff members by 80. Other advantages stressed by the various institutions were: Security for old age, graceful retirement, improved morale and increased loyalty, institutional self-respect, and freedom from worry.

Question 6.—In the event of an employee's illness, what has been your practice? Out of the 157 institutions reporting, 47 pay full salary until recovery or death; 13 pay full salary for a period of 1 to 2 years; 49 pay full salary for a period of 1 to 9 months; 4 pay half salary for periods of 6 months up to the time of recovery; 26 have no definite practice but consider each case on its merits; 8 continue the payment of full salary provided the teacher pays a substitute; and 10 pay nothing.

Question 7.—In the event of the employee's death, what has been the practice with reference to paying benefits to dependents? Of the 150 institutions reporting, 95 pay nothing, 17 consider each case on its merits, 7 pay half salary to the widow as long as she lives, and 31 pay full salary to the widow for periods from 1 to 6 months.

Question 8.—In the event of the employee's retirement, what has been your practice with reference to paying benefits? Out of 141 institutions reporting, 73 pay nothing, 29 consider each case on its merits, 25 continue to pay half of the em-

ployee's salary for the remainder of his life, 11 pay from 25 to 40 percent of his salary for life, and 3 pay his full salary for several months.

Question 9.—Are these benefits guaranteed by a written contract between the college and the employees? Of 105 institutions replying, all answered "no."

Question 10.—Who determines the amount paid to the staff members in the above cases? Out of 113 institutions reporting, the trustees determine the amount in 48 instances, the president in 22, the president and trustees jointly in 35, and in 8 others, administrative officers, such as the treasurer, dean, and the like, or the donor of the fund.

Question 11.—What factors determine the amounts paid to an employee in the event of illness, death, or retirement? In most instances the institutions indicated more than one factor. The particular factors stressed were years of service in 66 institutions, attained age in 44, faculty rank in 28, amount of salary in 39, uniform benefits to all employees in 8, and personal wealth or income of the individual employee in 51. The total number of factors checked by all the institutions replying was 216.

Question 12.—What funds are used to meet these benefit payments? In 104 institutions the benefits were paid out of current income and in 1 out of an endowment fund.

Question 13.—Do you think that some form of group insurance or annuity, administered by an outside agency would be a better means of solving this problem? Out of 102 institutions, 53 reported "Yes", 7 "No", 35 undecided, 4 too expensive, 2 unfamiliar with other forms, and 1 not interested.

In summarizing the information obtained by the questionnaires from the institutions without definite insurance and pension plans, it may be said that the president and trustees have in general discretionary powers in determining the employees who shall receive benefits. In most cases the amounts of the benefits paid are dependent on the merits of the individual case.

Although guaranteeing nothing in the event of illness, there seems to be an established practice among the institutions of keeping the employee on the pay roll for a reasonable length of time at full salary. Benefits to the widows and

dependents of employees at death are not so liberal. A considerable number of institutions, however, pay the widow 1 month's full salary when her husband dies. When an employee has outgrown his usefulness and his discharge is necessary due to old age, one-half of the institutions reported that they pay nothing in the form of retirement benefits to him. Approximately 18 percent indicated that they pay the retired employee half of his annual salary for the remainder of his life.

From the information collected, it is evident that in most of the institutions protection against death, sickness, and old age has been regarded as the personal responsibility of each employee rather than the concern of the institutional authorities. Fortunately, a change of sentiment is occurring as it is found that most of the institutions without definite plans are making a determined effort to solve the problem by seeking the services of organizations, such as the Teachers Insurance and Annuity Association and other agencies specializing in this field. Publicly controlled institutions are exerting their influence to secure State pension legislation.

INSTITUTIONS HAVING INSURANCE AND ANNUITY PLANS

Institutions of all types have insurance and annuity plans. A considerable difference exists in the number of institutions of particular types which have established plans. In order to show this difference, the institutions have been classified on a basis of type as follows: Publicly controlled universities and colleges (including professional schools but excluding teachers colleges); privately controlled universities and colleges; denominational universities and colleges; teachers colleges; and Negro colleges. Information concerning the several types is presented separately.

Publicly controlled universities and colleges.—There are 152 publicly controlled universities and colleges in the United States and its outlying parts. Of this number 49, or 32.2 percent, have some plan of meeting the retirement problem. Twenty are included under State retirement systems for public-school teachers or other State employees; 16 are using the deferred plan of annuities offered by the Teachers Insurance and Annuity Association; 5 have a plan of paying

allowances out of their current income; 4 have faculty members receiving Carnegie pensions; 2 administer their own funds for retirement purposes; and 2 have life-insurance companies administering retirement payments. Thirty-seven publicly controlled colleges and universities have group life insurance and 6 have group health and accident policies for their employees.

Privately controlled universities and colleges.—Of the total of 369 privately controlled universities and colleges 105, or 28.4 percent, have retirement plans. Seventy-eight provide for annuities through the Teachers Insurance and Annuity Association; 11 administer their own funded plans; 7 have faculty members receiving pensions from the Carnegie Foundation; 7 have annuity plans administered by life insurance companies; and 2 are paying retiring allowances from current income. Fifty-four privately controlled institutions have their employees protected by group life insurance and 11 by group health and accident insurance.

Denominational universities and colleges.—There are 534 universities and colleges under the control of the various denominations. In many of these institutions faculty members who are ordained ministers participate in retirement systems operated for the ministers by the particular denomination, although the institutions have no system of their own. Fifty-six institutions receive church funds which are used to provide retirement benefits; 18 are administering their own non-funded-pension plans; 14 participate in the plan offered by the Teachers Insurance and Annuity Association; 3 have plans administered by life insurance companies; 3 administer their own funded pension plans; and 2 have faculty members receiving benefits from the Carnegie Foundation. Forty-five denominational universities and colleges have their employees protected by group life insurance and six by group health and accident insurance.

Teachers colleges.—Of the 158 teachers colleges, 74 of the 148 publicly controlled institutions are included in State teachers retirement systems and 1, Colorado State Teachers College, has established retirement annuities through the Teachers Insurance and Annuity Association. The George Peabody College for Teachers, a privately controlled institution at Nashville, Tenn., also provides annuities through

the same association. Six teachers colleges have group life insurance and four have group health and accident insurance.

Negro institutions.—Many of the Negro institutions have small faculties which are frequently not large enough to meet the requirements of group contracts. Therefore, the responsibility for providing retirement and insurance is left to the individual members. In the larger Negro colleges it was found that Hampton Institute, Howard University, and Fisk University have adopted the plan offered by Teachers Insurance and Annuity Association. Ten other Negro institutions are included in pension plans of denominations, 9 have group life contracts; and 1 has group health and accident insurance.

Summary.—Information on the institutions having insurance and annuity plans are summarized in the following three tables. Table 5 gives the number of institutions segregated according to the several retirement plans used. In some instances the employees of one college are participating in more than one retirement system. There are eight colleges where this situation exists.

TABLE 5.—INSTITUTIONS USING THE VARIOUS PLANS FOR RETIREMENT

Retirement plans	Number of institutions	Percentage
Teachers Insurance and Annuity Association	106	33.1
State or city retirement systems	94	29.2
Church pension plans	56	17.4
Nonfunded plans of paying out of current income	25	7.8
Annuity plans administered by commercial companies	12	4.0
Funded plan administered by the institutions	15	4.7
Carnegie pensions only	13	3.8
Grand total	321	100.0
Duplicates	8	
Total	313	

In table 6 are shown the number of institutions of different types using each of the several retirement plans. Duplication occurs because the same college may be classified as both Negro and privately controlled, thereby causing its name to appear twice.

TABLE 6.—NUMBER OF INSTITUTIONS CLASSIFIED BY TYPE HAVING DIFFERENT RETIREMENT PLANS

Type of institution	Number of Institutions Having—						
	Teachers insurance and annuity association plan	State or city teachers retirement plan	Church pension plans	Non-funded plan	Funded plan	Group annuity plan	Carnegie Foundation plan
1	2	3	4	5	6	7	8
Publicly controlled	16	20		5	2	2	4
Privately controlled	78			2	11	7	7
Denominational	14		56	18	3	3	2
Teachers colleges	2	74					
Negro	4		10				
Grand total	114	94	66	25	16	12	13
Duplicates	8		10		1		
Total	106	94	56	25	15	12	13

Table 7 shows the number of institutions according to type having group life and health and accident insurance. Duplication of institutions appear also in this table.

TABLE 7.—NUMBER OF INSTITUTIONS CLASSIFIED BY TYPE HAVING GROUP-INSURANCE PLANS

Type of institution	Institutions Having—			
	Group life		Health and accident	
	Number	Percent	Number	Percent
1	2	3	4	5
Privately controlled	54	35.8	11	39.3
Denominational	45	29.8	6	21.4
Publicly controlled	37	24.4	6	21.4
Negro	9	6.0	1	3.6
Teachers colleges	6	4.0	4	14.3
Grand total	151	100.0	28	100.0
Duplicates	15		1	
Total	136		27	

CHAPTER IV: FUNDAMENTAL PRINCIPLES OF A COMPREHENSIVE PROGRAM OF INSURANCE AND ANNUITIES FOR COLLEGE STAFFS

In establishing an insurance and pension system there are certain underlying principles that should be given consideration by a university or college. On the basis of the preceding analysis of the policies and practices of institutions conducting plans of various types and the review of the literature dealing with the many phases of the subject an attempt will be made in this final chapter to set forth these principles.

I. *Coverage should include protection against the effects of three major hazards of economic life—premature death, old age, and sickness and accident.*—No system of protection is complete without providing for all three of these major hazards. The elimination of one will reduce the effectiveness of the others. Each form of protection is so dependent on the other that it is difficult to state which is the more important or which should be postponed in the event an institution sees fit to adopt only a partial system. Some authorities suggest that all three forms be adopted on a reduced scale rather than exclude any one of them. The main reason behind this proposal is that death may cut short the period during which superannuated benefits are being accumulated. The widow and children of the employee are thus stranded without adequate income at a most critical time of their lives. There is also the possibility that disability may take away the earning power of the employee during the period when he is making his contributions for retirement pensions.

The data collected in the study indicate that many institutions have concentrated in providing protection against old age to the exclusion of premature death and of sickness and accident. More than 300 institutions have made at least some effort to pay benefits to staff members retired on account of old age. Of all the institutions, 136 have at the same time arranged for group life insurance and 27 for group health and accident insurance. The failure of the institutions to adopt group health and accident insurance is commonly due to the fact that they have adopted the practice

of continuing the employee's salary for a reasonable period during his incapacity.

Seventy-two colleges have a combination of retirement benefits and group life insurance, 13 of group life insurance and of group sickness and accident insurance, 20 of retirement benefits and of group sickness and accident insurance. There are 11 institutions which have complete systems including retirement benefits, group life insurance and group sickness and accident insurance. Only a minor proportion of the institutions, therefore, have followed the principle of providing protection against all three of the major hazards of economic life.

II. *Membership should include all the employees of an institution both professional and nonprofessional.*—An institution has not fulfilled its responsibility of providing a comprehensive plan of protection so long as any group of the employees is excluded from the program. The janitor in most instances has more dependents than the professor and the chief engineer has as much right to security in old age as the president. There is a tendency among the institutions to exclude nonprofessional employees. It is found, however, that such employees are included to a greater extent in the group life-insurance plan and in the group health and accident plan adopted by institutions than in old-age retirement plans. Of the total institutions reporting as having old-age retirement plans nonprofessional employees are excluded in 82 percent of them. On the other hand, 80 percent of the institutions having group life-insurance plans include the nonprofessional employees, such as clerks, and 68 percent nonprofessional employees, such as laborers. In these same institutions, all professional employees are invariably included in the group life-insurance plan. It is the general practice to extend the accident and health benefits to include all employees, both professional and nonprofessional. In their reports 28 colleges expressed a desire to extend the protection to groups of their employees not included under their present plans.

III. *Membership should be compulsory for new members entering the service after the adoption of a plan; optional for those already in the service with the understanding that the institution assumes no responsibility for those eligible who do*

not avail themselves of the benefits offered.—The reason for compulsory membership is obvious. To have a portion of the group protected and a portion unprotected defeats the primary purpose of the system. Moreover, the costs of group life insurance and of group health and accident insurance are correspondingly reduced as the size of the participating group increases. From the point of view of the employee, compulsory membership is an advantage rather than a disadvantage. The employee is sure to grow old, die, or quit his job. In any event he is guaranteed protection in the form of regular benefits or the return of his contributions with interest. In response to the question in the questionnaire: Was membership compulsory for old members when plan was adopted? Twelve institutions answered "Yes" and 100 answered "No." In replying to the question: Is membership compulsory for new members? Fifty-three institutions reported "Yes" and 64 reported "No." It is evident, therefore, that this principle of compulsory membership of new faculty members is not being followed by the larger proportion of the institutions. As might be expected, the reporting institutions gave a unanimous response to the question: Does the institution assume responsibility for those eligible who do not participate? All institutions answered "No."

IV. *The employees and the institution should share approximately on an equal basis in the payment of the premiums on group insurance and assessments in mutual benefit associations or in making contributions to the retirement fund.*—An almost unanimous agreement exists among authorities on group insurance and annuity systems that the cost should be distributed approximately equally between employer and employees. In the case of group life insurance the employer is required by the life-insurance companies to pay all the premium in excess of $7.20 per thousand. While the employer may pay the entire premium for group life insurance, the laws of a number of States prohibit the employees from bearing the total cost thus legally requiring joint contributions of employer and employee.

With respect to old-age retirement, the fallacious plan of free or noncontributory pensions has been almost universally discarded. Both the employee and employer are interested

in solving the old-age problem because of self-interest and self-protection. Each, therefore, should be required to share the costs. The employee is interested in his own future security, and the employer is anxious to reward the employee for long and faithful service. At the same time a satisfactory means of eliminating employees no longer able because of old age to perform their work efficiently is provided. The latter is especially true in the case of college teachers. The Teachers Insurance and Annuity Association, which specializes in annuities for college teachers, has this to say on the question:

> It is held by many that, after a few years, the payments on the part of the college in this way are taken into consideration by both the teacher and the college in revising salaries, so that these payments become a part of the salaries of the teachers. From this standpoint the teacher pays the whole cost of the retirement plan. On the other hand it may be said that since the college pays the whole of the salary of the teachers, the college pays the whole cost. In other words, the plan in which the college pays for retirement without any contribution from the teacher, the plan in which the college and the teacher go 50-50, and the rare plan under which the teacher pays the full cost without college contributions are not widely different. In all cases provisions for old age is made because service is rendered.[1]

In the returns of the questionnaire, only two institutions having old-age pension systems reported that contributions to the retirement pension fund were paid entirely by the employees. Eight institutions, however, reported that they provided all contributions to the fund, the employees contributing nothing. In all the other institutions where pension plans were in operation joint contributions were made by both employer and employees and in the greater majority of them the contributions were shared on an equal basis.

V. *The amount of group life insurance for each member should be greater during his early and middle life when family obligations are most keenly felt and when retirement deposits have not accumulated adequately for a death claim than during later life.*—Group life insurance uses the plan known as yearly renewal term which is based upon the natural premium system, i. e., the premiums are collected as they accrue in

[1] Planning a Retirement System, New York City Teachers Insurance and Annuity Association, 1935. p. 20.

accordance with advancing age and the increasing scale of mortality. If at age 35, the rate of death per 1,000 is 9, then the annual premium is $9 plus administration costs of the policy. At age 45, if the rate of death is 12 per 1,000, then the annual premium is $12, plus administrative costs. This is the simplest form of insurance, but is objectionable if conversion to another form of policy is demanded at an advanced age when the cost is practically prohibitive.

The results of this study of group life-insurance and pension systems indicate that in general the younger members of a group are forced to pay more than their portion of the costs. Because of their lower salaries, they are not permitted under the law to carry adequate protection against death during the period of maximum family obligations. A scientifically constructed pension system will allow a death payment equal only to the combined accumulations of employee and employer deposits as of time of death. If death occurs prematurely, the young employee has but a small accumulation to his credit. Consequently, it seems only fair that he be allowed to carry the greatest amount of life insurance when the death benefits from the retirement fund are smallest.

Conventional group life insurance practices follow an opposite principle with the result that the older the member becomes the greater is the death claim both in the life insurance and the annuity account. As he approaches retirement, a high premium for life insurance is being sacrificed which should have been cared for in the past. What principle should be used in determining the amount of insurance a person should carry? Of course the amount varies according to one's obligations and responsibilities; but the general answer may be given to the question here. A human life has a value which can be roughly computed. This is done by capitalizing the individual's future income on a percentage basis, such as 5 percent. A human being has a certain number of years during which he can labor and produce. Even though he remains healthy and nothing prevents him from working, his life value depreciates each year. As this depreciation proceeds, there is less potential productivity to be insured. Hence the decreased amount of protection as the life values are used up. If he dies pre-

maturely, his dependents are deprived of his earning power, but they receive the capitalized value of that future income through the proceeds of his life insurance. A man at the age of 40 is expected to live for approximately 28 more years, according to the American Experience Table of Mortality. At 40 he should be prepared to leave an estate capable of producing an annuity sufficient to provide for his family for 28 years, or his expected lifetime.

Group life insurance is still in the experimental stage, and certain limitations are being placed upon its issuance until it reaches a point where the insurance companies can feel justified in liberalizing the terms of this contract. At present, it is their practice to place a maximum of $10,000 on one life, and no person in a specified classification can apply for more than the others in that group regardless of his needs or desires. This is apparently done to prevent adverse selection, or the tendency for the unfit to apply for larger amounts than the healthy. Until these limitations are removed, personal insurance must be used to supplement the group contracts. This can be secured on the term basis to cover the period of greatest need. However, if all the younger members of one classification, who on the average receive the lowest salaries, are willing to apply for larger amounts, the company is likely to grant them. It is not considered adverse selection where all individuals are accepted on the same basis.

Several of the institutions have made requests for plans that will better equalize the cost of the insurance for the younger members, and the companies are extending their service in an effort to meet the need.

VI. *The income from insurance during disability should be less than the full salary formerly paid the employee.*—The expenses of an employee and his family continue during his disability. Nevertheless, the disability insurance paid him should be less than the full salary formerly received by him. It is under no circumstances advisable to pay an income equal to full salary during disability as such an arrangement has the effect of encouraging idleness and prolonged lay-offs.

If the disability is prolonged or become technically permanent, the best plan is to regard it as a sort of economic death although the employee is still alive. The disabled

employee should be allowed the face amount of his group insurance policy. At the same time the accumulated deposits in his retirement account should also be allowed him. It is highly important that these payments be used to purchase some form of annuity for his benefit rather than be paid to him in cash to expend as he sees fit. If the employee later completely recovers and is reemployed he should be treated as a new member of the system re-entering on the same terms as other new members.

VII. *A minimum age of optional retirement and a maximum age of compulsory retirement should be provided.*—Individual differences do not permit the fixing of an arbitrary age of retirement. As a protection to both the employee and the employer, however, a minimum and maximum age of retirement should be stipulated. Early retirement from active duty, such as 60 years of age as a minimum, does not appeal as a rule to the average faculty member because the retirement annuity paid him is much smaller than his regular salary. However, the accumulation of his contributions in the retirement fund at this age should be adequate to permit his retirement should he feel unable to perform his duties satisfactorily and desire to retire voluntarily.

The reason for fixing a maximum age for retirement is to avoid any possible embarrassment to the institution should the faculty member insist on remaining in active service after he has outlived his usefulness. The most advantageous compulsory retirement age has been found to be 70 years. The retirement systems of some institutions provide for retirement on a basis of years of service rather than a certain age. The reports of the institutions having retirement systems indicate that the average minimum age for retirement is 65 years and the average maximum age, 70 years.

VIII. *The contributions for retirement purposes should be paid into a fund controlled and administered by a responsible agency other than the college.*—An employee's life is divided into two periods so far as retirement provisions are concerned. The first represents that period during which contributions are made and extends from the time he enters the system until retirement. The second begins with retirement and ends with death unless the income payments are continued to his widow.

The contributions collected during the first period and held in trust for the individual must be safely invested where they will be augmented by a reasonable interest yield. An adequate and actuarially sound reserve must be created to provide retirement allowances when the employee reaches old age. When the contributions are made regularly during the active life of the employee and improved with interest, the accumulation represents a reserve. This total is used to pay an annuity or pension no matter how long he may live after retirement.

In determining the annual amount that the employee shall receive, a number of factors must be considered. The most important factor is whether he lives for a short or long time after retirement. The application of the "law of large numbers" is the only solution to this problem. The average group employed by a university or college is not large enough to insure the normal operation of this law. There must be literally thousands, and regular actuarial adjustments must be made from time to time. This difficulty may be best met by transferring the risks to a specialized agency, such as an insurance and annuity company of the legal reserve type or some larger pension system. Such organizations are large enough to insure the operation of the "law of large numbers." Moreover, they are staffed with persons well versed in the science of investment of funds. They are likewise equipped with the necessary machinery and facilities to guarantee the handling of the funds in an economical manner. The cost of administration is practically absorbed through excess interest income. In the case of the professional employees of universities and colleges, a special insurance and annuity association of the legal reserve type has already been established and is organized as a corporation. Carnegie Corporation of New York has endowed most of the administrative costs of this organization.

IX. *The agency responsible for the administration of the fund upon the basis of a contract with each employee should open a separate account with him. Joint contributions of the individual and the institution should be made regularly and concurrently during the employee's period of service. Sums deposited in that account should be held in trust for that employee and increased through interest until withdrawn at death, transfer,*

or retirement.—A contract should exist between the employee and the selected agency setting forth the conditions under which the contributions are to be made and under which the accumulated funds are to be distributed to him at the time of his retirement. Each employee should be credited with his contributions which are to provide the retirement annuities. Contributions of one member should not be used to pay the annuities of another. The interest rate earned on the composite investments of the accumulated fund should be prorated by the agency and applied to each of these accounts after deducting the necessary administrative costs.

The success of a retirement system is directly dependent upon regular and concurrent contributions by both the employee and employer. The institution must be bound by contract to match the payments of the employee. On the other hand, the employee must authorize the institution to make the necessary deductions of contributions from his current salary as they become due. These contributions should be made during the entire period of service of the employee to insure an adequate amount to provide an annuity in old age.

X. *In the event of withdrawal of the employee, the accumulated contributions should either be returned with interest or held until his retirement with or without the employee continuing to make contributions under his new employer.*—If the member leaves the employ of the institution to engage in some other work, his annuity contract should be continued in force and he should retain the right to all the accumulations to his credit. In case the contract has a cash surrender value, it should be equal to the sum of his deposits plus interest.

Previously, it has been pointed out that the employee and the employer should share equally in contributions to the retirement fund. Since the employee has contributed only a portion of the fund, the amount to which he is entitled at withdrawal or death before retirement becomes an involved question. The maximum amount that can be returned to him would be the total of the joint contributions with interest. On the other hand there are certain situations where the employee forfeits his entire equity upon withdrawal. The Teachers Insurance and Annuity Association has assumed

the position that the entire amount to the credit of the employee, including contributions of the employer should become the employee's property upon withdrawal without the right of surrender for cash. Under this plan the employee has the option of allowing the fund to remain unmolested accumulating interest until his retirement when a small annuity will be provided for him or he may continue to make regular contributions individually or jointly with his new employer. In the event of death before retirement the entire equity including accretions through dividends is paid in 120 equal installments at the rate of $9.83 for each accumulated $1,000 to the employee's widow or beneficiary. The main reasons advanced by the association for allowing the contributions of the institution to become the property of the teacher were that the teacher would be enabled to move freely from one employer to another and that the institution's contributions were indirectly a part of the original compensation paid the teacher.

The conclusion of the National Education Association after prolonged study of this subject was that "teacher's accumulated deposits with interest should be returnable upon withdrawal from the teaching service, or death prior to retirement." In other words, his deposit should be considered as a savings account until the amount was actually transferred into a definite retirement fund to be used to pay him an annuity after retirement. "Under no circumstances should a teacher forfeit his right in this trust fund."[1]

Most State teachers' retirement boards will not be responsible for the investment of the accumulated fund after a certain number of years when the teacher has withdrawn from the service. The Teachers Insurance and Annuity Association insists that the accumulated fund remain in its possession until the normal age for retirement, or death prior to that age. In any event, it seems apparent that the most efficacious plan is to allow the fund to remain in the hands of the agency responsible for the administration to be invested at interest and at the same time to permit the employee to continue his contributions individually or jointly with his new employer. In case the original employer does

[1] Current Issues in Teacher Retirement, vol. VIII, no. 5, p. 228, National Education Association, Washington, D.C.

not agree to surrender his equity in the accumulated fund to the withdrawing employee, he would render a great service by allowing a certain part of it to remain, conditional upon the fund being continued intact until the employee's normal retirement. This would tend to conserve the accumulations and deter the employee from withdrawing his contributions in cash. It is believed that colleges should adopt the policy of encouraging their employees to allow their accumulated contributions to stand upon withdrawal and to continue to make deposits until retirement thus obtaining their regular old-age annuities.

Life-insurance, health- and accident-insurance companies provide for the contingency of withdrawal of employees by allowing them to convert their contracts into any regular type policy. The application for such conversion must be made within a specified period. No physical examination is required of the applicant at the time of conversion of the policy. In the event of death or disability the policy matures and the face amount is paid in cash or some other plan of settlement is adopted. Insurance companies recommend that an annuity be paid the beneficiary rather than that the accumulated fund be given to him in a lump sum so as to avoid any possibility that it may be lost through improvident investments.

XI. *The member should have a choice as to the manner in which he shall receive the retirement income in old age.*—At the time of retirement, the employee should be given the right to select the type of annuity he shall receive. Six popular annuity forms are available for men and women, as follows:

(1) *Immediate life annuity.*—Payable during the lifetime of the annuitant. Any unused portion of the fund at the time of his death is forfeited. This type is intended for individuals in good health without dependents.

(2) *Deferred life annuity.*—Payable during the lifetime of the annuitant, but beginning after a designated waiting period. Intended for those in good health without dependents, who wish to increase the size of their annuities during the time that they receive the payments. This type is especially advantageous to individuals who retire early in life but have other sources of income available for use prior to the time when they will be dependent on the old-age annuities.

(3) *Refund annuity.*—Payable as long as the annuitant lives, with the additional guarantee that should the annuitant die before the accumulated fund is exhausted the annuity will be continued to the widow or beneficiary until the remaining sum in the fund is consumed. The annuity under this form is generally less than under the other forms but is recommended for individuals who have no other available means of support for their dependents.

(4) *Joint and survivor annuity.*—Payable during the life of the retired employee and continued after his death to his widow or beneficiary for life. The annuity may or may not be reduced upon the first death. This form is used when the annuitant wishes to protect his wife. In order to assure continuance of the income to the widow, provision should be made for a reduction in the amount of the annuity after the death of husband. Under this arrangement a larger annuity is provided when the two individuals are to be supported and a smaller one when only one remains.

(5) *Survivorship annuity.*—Under this form the retired employee does not receive any annuity during his lifetime. Beginning at his death the annuity is paid his wife or beneficiary continuing during her lifetime. The annuity paid the widow is much larger in size than it would otherwise have been because of the additional accumulations in the fund from interest accruing during the period when no withdrawals were made to pay the retired employee. A survivorship annuity is similar to the deferred annuity, but is rarely used. It is especially advantageous when the retired employee has other means of support and his wife or beneficiary is relatively young.

(6) *Assured annuity of a certain number of equal payments.*—The principal feature of this form of annuity is that the annuitant is paid a pre-arranged amount monthly for a fixed period of time after which he receives the regular annuity during the remainder of his life. The pre-arranged amount is less than the regular life annuity and may run either for a period of 5 or 10 years. At the death of the annuitant before the expiration of the selected period, whatever balance remains in the fund to the credit of the annuitant is paid in a single lump sum to the widow or estate, discounted at current rate of interest compounded annually.

Evidence must be furnished that the annuitant is living when each payment of an annuity is made. Under the joint and survivor annuity form and also under the survivorship annuity form, proof of the widow's date of birth and of her being alive at the time is required. The income from annuities for men is slightly more than that for women because of greater life expectancy in the case of women.

XII. *If a definite income is promised at retirement, the fund should be subject to adjustment as determined by periodic actuarial investigations.*—Two methods of accumulating funds for retirment allowances and annuities have been followed in the past. The first method, which is the more simple, consists of the accumulation of the regular contributions in an account or fund during the active service of the employee until the retirement age is reached. The actual amount of the annuity to be paid is then determined upon a basis of the total accumulated fund. The second method, which is more complicated, provides for fixing the definite annuity to be paid and then determining in advance the requisite contributions that must be made over the period of years to accumulate the required fund. This method necessitates the consideration of such factors as ages of all the employees, prospective salary increases, estimated number of withdrawals and deaths prior to retirement, accrued liabilities of old and new members, and the like. In order to maintain the reserve fund on an adequate basis to pay the stipulated retirement annuities, periodical readjustments must be made to take care of these varying factors.

In general, the services of expert actuaries are needed to make the calculations essential for these adjustments. Certain well-established mortality and annuity tables are used at the time of the system's establishment in computing the amount of contributions or premiums necessary to meet future obligations. These tables are generally based on large groups. Frequently, the basic calculated averages for smaller groups do not conform to those of the larger group. Likewise, interest and earnings from investments change from time to time. As a result, original estimates of necessary contributions must be revised if financial soundness of the system is to be insured. This is particularly true where

the college attempts to administer its own retirement system. However, if the college secures the services of a legal reserve agency under official State supervision to administer its retirement fund, such readjustments and revisions are made by the agency. The soundness of the operation of the system is thus insured from the beginning.

Experience has shown that it is not particularly advantageous to predetermine in advance the exact amount of retirement annuity that the employee is to receive during his old age. The important thing is for the employee to begin making his contributions as early in life as possible so that the accumulated funds may be safely invested where they will yield a reasonable interest rate. It has been definitely found that 5 percent of an employee's annual salary plus an equal amount contributed by the employer over a period of about 30 years of service with moderate salary increases will produce a retirement annuity consisting of one-half the salary of the employee for the remainder of his life.[3]

XIII. *Upon the adoption of a plan of old-age protection, employees nearing retirement should be given credit for their services prior to its inauguration and be permitted to retire with the same annuity as younger employees. Provision must be made for payment of the accrued liabilities for these older employees.*—One of the questions arising at the time of the adoption of an old-age retirement system is the status to be given the employees who have reached advanced age and will shortly retire. These older employees will have made a relatively small number of contributions out of their annual salaries so that the accumulations to their credit will be inadequate to pay the required annuities at retirement.

Several plans have been proposed for solving the problem. One consists of extending the age of retirement for these older employees so as to give them a longer time to make contributions. Another provides for the reduction of the annuities paid them to a smaller amount on the ground that they should not expect to receive a large annuity in view of their limited contributions. The plan generally recognized as the fairest and most satisfactory is an arrangement by

[3] Robbins, Rainard B. Retirement Plans for College Faculties. Teachers Insurance and Annuity Association of America, 1934. P. 51.

which the institution assumes responsibility for the payment of all back contributions of the older members. The actual amounts are calculated on a basis of the number of their years of service and are designated as accrued liabilities. The institution agrees to pay these accrued liabilities into the retirement fund as a supplementary obligation to its regular contribution. Under this plan the older employees who are to retire in the near future receive the same annuity as the younger employees.

Small institutions with limited incomes sometimes hesitate to assume the accrued liabilities because they regard them as too great a burden. Frequently these liabilities may total as high as $100,000, depending upon the number of older employees approaching retirement age at the time the system is inaugurated. One way of meeting them is to transfer the needed amount from the institution's endowment. Another solution of the problem is for the institution to exclude these employees entirely from the new retirement system arranging through a life-insurance company for their retirement annuities. The institution, of course, must take out a policy with the company and pay the required premiums. The institution may also make a special arrangement with these older employees to pay them a certain annuity upon retirement out of its regular income.

The better plan is for the institution to compute the total amount required to cover the accrued liability for each older employee nearing retirement age, and then make proportionate increases in its regular contribution along with that of the employee until he is finally retired. This method spreads the necessary payment of the accrued liability over a period of years. Forty-four out of the 71 institutions reported that they were confronted with this problem at the time of instituting their retirement system. Of this number 26 arranged to pay the accrued liabilities for older employees from institutional funds, 4 from State funds, 4 from private endowments, 8 from current funds, 2 from city funds, and 5 from funds provided by the Carnegie Foundation.

XIV. *The rights of employees already having protection should be recognized and respected when a new plan is instituted.*—When a new retirement system is adopted, the problem arises as to what is best to do in the case of employees already

provided with some sort of protection. As already shown, some colleges under the control of certain denominations have faculty members who are entitled to receive old-age pensions as ordained ministers under the system operated by their church. Faculty members in other institutions have expectations from the Carnegie Foundation. Likewise, every institution finds at the time of inaugurating its pension system that many of its employees have already through individual initiative provided for their protection to a degree through personal insurance policies of some type or other. It is necessary, of course, that adjustments be made so that these equities be safeguarded and at the same time the employees, if possible, be included in the new system.

Under no circumstances should the employee receive smaller benefits than those to which he is entitled under the existing plan to which he has subscribed or under the insurance policies held by him. The employee should be assured of the payment of the same annuities under the new system even if they are larger than the benefits of the other employees. This may be accomplished by revisions in the contributions and retirement allowances for these particular employees. In case the institution has a considerable number of older members eligible to receive free pensions from the Carnegie Foundation, the institution is greatly aided since it is relieved of paying the accrued liabilities for them. When a considerable proportion of the employees are already included in another system, which is organized and operating on a sound basis, it is often well to leave them entirely out of the new plan.

Where an employee belonging to a system of another institution transfers into the institution, he should be permitted to continue to make salary contributions to the former institution so that he will not lose his equity. Frequently, it is possible to make an adjustment whereby he may withdraw his accumulations at the old institution in a lump sum and receive credit for it in the system at the new institution without sacrificing any of his rights. Depreciation of the reserve fund by transfer from one institution to another, however, should always be avoided. As more institutions adopt insurance and annuity systems it will be possible to devise means for transferring the accumulated fund of an employee

when he resigns from a position at one institution to assume a new one at another college.

Before adopting a new system an institution should make a careful appraisal of each personal life insurance or annuity policy carried by the individual employees. Since the institution under the new system will pay a share of the contributions or premiums it may be profitable for the employee to surrender his personal policy. There may be cases, however, when the employee has paid such a large number of premiums that the policy is nearing maturity, or when other advantages would accrue to him by its retention. Under these circumstances, it would be better to allow the employee to continue his personal policy and not join the system being established by the institution.

XV. *Membership in retirement systems may be postponed until the new employee has passed the probationary period.*—When a new employee starts making payments for group life insurance or for health and accident insurance, he has the right to expect that he is immediately covered by protection. This is true unless otherwise specified in the policy or contract. In the case of old-age retirement protection for college faculties, however, the new employee's membership in the system is frequently postponed until he has become permanently established in his position on the staff. For a young employee there is no objection to this arrangement, but it has the disadvantage of shortening the period over which contributions will be accumulated thereby reducing the ultimate amount available to pay the retirement annuities. Some institutions offer protection to their employees immediately upon entering the service giving them a certain period of time when they must decide whether they intend to join the retirement system. At its expiration they are denied the right of membership. The same plan is followed when they leave the institution with respect to conversion privileges.

XVI. *When a plan of protection is first considered, a carefully selected joint committee of the employer and employees should be appointed by the president of the institution.*—One of the first steps to be taken when an institution contemplates the installation of an insurance and pension system is the

appointment of a committee to make a detailed and comprehensive study of the question.

The committee should include both employee and employer. Special care should be taken in selecting the committee to make certain that all classes of employees are represented. The committee should consist not only of the representatives of the governing board, the employing authority, but also representatives of administrative officers, faculty members, clerical workers, laborers, and other classes of workers in the institution.

In its study, the committee should investigate all the various insurance and annuity plans available for college employees. The findings of the committee should be presented to the entire group and, if possible, a copy of the report furnished to every employee. After the plan has been adopted by the institution, a standing committee should be created to exercise general supervision over the operation of the system, to receive and investigate complaints, and to conduct further studies for the improvement of the system. It is highly important that this committee consist of individuals having a special interest in the development of the system and a general interest in the whole problem of social security.

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