

PROCEEDINGS

OF THE

FIFTY-FOURTH ANNUAL MEETING

OF

Life Insurance Association of America

HELD IN

The Waldorf-Astoria

NEW YORK, N. Y.

December 14 and 15, 1960

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December 14 and 15, 1960

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LIFE INSURANCE ASSOCIATION OF AMERICA

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1961

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- NORTH AMERICAN LIFE AND CASUALTY COMPANY..Minneapolis 3, Minn.
- NORTH AMERICAN REASSURANCE COMPANY.....New York 17, N. Y.
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- THE PENN MUTUAL LIFE INSURANCE COMPANY.....Philadelphia 5, Pa.
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FIFTY-FOURTH ANNUAL MEETING
OF THE LIFE INSURANCE
ASSOCIATION OF AMERICA
THE WALDORF-ASTORIA
NEW YORK

OPENING SESSION

Wednesday, December 14, 1960

The meeting was called to order by Mr. Deane C. Davis, President of the Life Insurance Association of America and President of the National Life Insurance Company, of Vermont.

PRESIDENTIAL ADDRESS

President Davis then addressed the meeting as follows:

MEMBERS AND GUESTS OF THE LIFE INSURANCE ASSOCIATION OF AMERICA:

Following Clarence Myers' example of a year ago, I would like to begin this morning on a note of gratitude. First, I am grateful for the opportunity to have been president of this great organization. Frankly, there's a lot more glory in it than I thought, and far less work. If any of you have political ambitions, I can testify with conviction that it's much easier to be president than it is to be chairman of a joint committee. The obvious reason for that lies in the excellence of the Association's staff. To all of the staff, and particularly to Bruce Shepherd and Gene Thoré, I express sincere gratitude not only for the generous cooperation they have given me during the past year, but also for the efficient manner in which they consistently carry on the business of the Association.

Of course, there are several built-in constitutional safeguards which protect the Association, and particularly the staff, from the meddling of new presidents. Since the president only stays around one year, the staff long ago found the way to handle a new president. If he

ever tries to do anything *constructive*, they show him *how*. If he tries to do anything *destructive*, they appoint a special committee whose report is always delayed until the term of office of the meddler is over.

Those of you who were here last year will remember the optimism which pervaded the whole business community, including our own. The buoyant business climate of the past decade led us to an enthusiastic welcoming of the next decade as the "Soaring Sixties." Over the past months more reflective thinking leads one to view the coming decade with more sober appraisal of the nature of our opportunities. Perhaps today it would be more appropriate to characterize the present decade as the "Competitive Sixties." For competitive this decade is and will continue to be, both within and without our business.

Certainly, economic progress during the first year of the new decade has been substantially less than our expectations, though the contrast is due much more to the high level of our earlier hopes than to a severe downturn in the economy.

There appear to be many strong competitive forces at work and they appear likely to be with us for some time. There is, for example, an increasingly keen battle for markets being waged between producers using traditional raw materials and those using newer materials. There is a growing trend for companies in one field to enter another with better demand prospects. One illustration of this intensified competition is the swiftly rising expenditures on research. This year total industrial research and development spending will approximate \$9.5 billion—\$500 million above that of 1959 in spite of lower corporate profits.

For the first time in years there is hope that the forces of inflation have, at least temporarily, run their course. Dr. Per Jacobson, the distinguished Swedish economist and Managing Director of the International Monetary Fund, as well as other eminent economists, has asserted that inflation is over. Price changes in 1960 tend to confirm this. Dr. Jacobson has pointed out the increased resistance to cost price increases, increased concern over foreign competition, resistance of U. S. employers to excessive wage increases, the stability of raw materials in spite of higher production, and the fact that the excessive liquidity inherited from the war has been absorbed. These assurances that the threat of inflation has receded even temporarily are most encouraging. Yet there still remain strong voices, both within and without government, supporting the claimed economic validity of

intentional inflation. The life insurance industry must continue vigorously to oppose these voices as well as the indifference and apathy on the part of people generally which brought about this insidious reduction in the savings dollar.

Looking back over the printed record of the last few meetings of our Association, I am impressed by the fact that we seem to have most of the same old problems with us still, plus a few new ones.

The everlasting problem of recruiting agents and general agents and managers, rising costs both in the field and the home office, the declining share of savings which life insurance is attracting, coupled with the increasing competition from mutual funds and other savings institutions, so-called minimum deposit sales, controversy between field organizations and the companies concerning company policies relating to distribution of group insurance—all these are with us still in equal or greater degree.

True, we have settled our twenty-year controversy with Congress over the question of a fair and equitable tax formula. While no one is completely happy with the result, a sense of great relief is shared by nearly 100% of the life insurance fraternity. I am convinced that a continuation of the controversy under the conditions prevailing could not possibly have been in the interests of our policyholders or of the public. I am also convinced that the result secured was far better than would have been secured had the controversy been further extended. The business has absorbed the very substantial extra burden of taxes with a minimum of dislocations and extra hardships. If special hardship cases develop after the regulations have been completely definitized, we should be quick to seek correction. However, until a reasonable time has elapsed and more experience gained, it is my opinion that this question should not be reopened, but we should spend our energies in seeking regulations and policy decisions at the administrative level with which we can all live in peace and harmony.

In this connection the Association and the industry owe a debt of gratitude to the special Rood Committee and to Gene Thoré and his Washington staff for the manner in which they are pursuing their labors with the Treasury Department in attempting to secure correction of tentative proposed regulations, some of which would be quite unfair and burdensome.

The problem of recruiting agency and home office manpower will doubtless grow worse as competition with all forms of industry grows stronger, but more particularly as we enter the period soon when the

numbers in the age group from 25 to 35 begin to decline. The problem is magnified to some extent by the increasing level of skills required to be a successful life insurance salesman today, growing out of the increasing complexity of the life insurance contract itself and the higher level of service required to fit life insurance values and proceeds into the estates of both insured and beneficiary without undue estate and income tax depletion.

According to the figures of LIAMA, recruiting has improved in 1960 by about 5%. This is a hopeful sign, particularly in view of increasing evidence that companies are weeding out failures faster as a result of the pressure of financing plans and a more determined policy of supervision.

If, as appears probable, new agents are going to be harder to come by, we ought to make every effort to preserve, protect and nurture the ones we have. We ought at least to keep our lines of communication open. I have made a few special efforts this year to determine the quality of the relations between companies and field men. I have satisfied myself that there is enough misunderstanding and discontent among field men as a group to warrant doing something about it. A survey of field attitudes made by LIAMA in collaboration with N.A.L.U. will be made public today or tomorrow. I have had the privilege of reading the report before it was printed. I commend it to you for special reading. The report shows that principal dissatisfactions of field men at present relate to fears about encroachment upon their market by government, by competition from other forms of savings institution, and by group insurance. A sharp increase is shown in the number of those who express themselves as dissatisfied with company practices in merchandising group insurance.

The report of the Beers Committee has, I believe, done an immense amount of good, even though it has not, of course, finally settled the major issues. But the thorough and patient manner in which that committee pursued its honest attempt to reach agreement on basic principles has been understood and appreciated by many thoughtful men and women in the field. Yet there are too many field people who think the companies are at war with them. It has been proposed that a joint committee on field relations be appointed to provide a convenient mechanism for discussion and communication with the field. I heartily agree with the suggestion and hope it will be carried out.

I believe we should increase our efforts to explain company policy to our own agents, and that in addition we should, as individual com-

panies, do more to explain the point of view of the companies as a whole to organizations of agents—principally the N.A.L.U. We could also help our communications system if more company officers would attend the meetings of N.A.L.U. and other organizations of field men.

Life insurance companies continue to receive a declining share of the total institutional savings. In talking to ourselves, it is frequently said that we must check this declining share and compete more aggressively for the savings dollar. All of us agree with that. But how? So far I have heard of no magic formula. I am sure there is only one way—the hard way—by telling the public the reasons why there is no substitute for our product for the uses for which it was intended.

Discussions about the comparative value as an investment of life insurance and common stocks, mutual funds, and the like are a good deal like arguing religion or politics with your friends. Our product was developed to protect people against early death and to furnish an orderly way to provide certainty for retirement needs. For those two uses, there is no other product or combination of products that can equal cash value life insurance. With those who have no need to provide for these uses, if any there are, we have no argument.

Buying term insurance seems to me to overlook the fact that death is a certainty, that its timing is unpredictable, that full protection requires coverage for life. For retirement, Social Security will help, employer retirement plans will help, but most of us *must* set aside additional money between now and age 65 if we are to be able to retire without substantial drop in our standard of living. The most recent mortality studies indicate that 80% to 85% of our prospects will reach retirement age, and over one-half will live at least 10 years after retirement. For those who do live to retirement, guaranteed dollars will be needed. It will then be too late to make provisions if they have gambled and lost.

A year ago we were giving our attention to the Problem of Inflation. Today we are preoccupied with the implications of the gold flow and the deficit in the balance of payments. We Americans are prone to blow alternately hot and cold about matters of public concern faster than any nation in the world. For at least three years monetary experts have been aware of the problem. Yet the public seems to have been blissfully unaware until the actions of a group of gold specula-

tors made the question front page news and a fertile field for editorial copy.

I can think of no industry or group that has a greater stake in the preservation of the stability and soundness of the American dollar than does the life insurance business and its policyholders. Hence, we view with concern the threat to our currency inherent in the present situation. A scientific exposition of this problem would be out of place in these remarks, even if I were competent to make one. Such an exposition belongs primarily to high level experts in the twin fields of economics and finance. But in the life insurance business our interest is so great and our concern so real that we must accept the responsibility to support sound measures designed to cope with the problem.

It seems obvious that the factors which have caused the present situation are far too fundamental in nature and scope to be adequately dealt with by executive fiat concerning army and civil dependents abroad and purchase of home-grown commodities. It will eventually involve, as do all major issues in a democratic form of society, public action and reaction, which will make it possible for our representatives in government intelligently to reconsider and reconstruct some important aspects of our foreign policy in the light of conditions as they now are.

No matter how you look at the figures, the conclusion is inescapable that the major cause of our payments deficit is the interplay between the extent of foreign aid and the things that are happening to foreign trade. That is not to say that our foreign aid policy was wrong. One needs only to recall the situation prevailing at the end of World War II. We were then the only nation with an economy that was intact. The amazing flexibility of our system, which had quickly geared itself for wartime production, again transformed itself to the needs of peacetime production. At the end of the first year after V. J. Day the United States had a balance of trade surplus larger than it had ever had in peacetime, except following World War I.

In 1947 it became clear that "the entire fabric of the European economy" had been severely dislocated, and there were clear signs that the European economy was incapable of self-rehabilitation.

Foreign aid as a sound adjunct to foreign policy has admirably served both the political and economic interests of this country during the years since the end of the war. It will still be a necessary and

important part of our foreign policy as the cold war goes on to its unpredictable end.

But conditions have changed. And there are clear limitations to what we can do. It will not serve the interests of our allies, and certainly not our own, if we undermine the stability of the dollar or further damage United States credit abroad.

The figures show that our net balance of payments became a deficit beginning shortly after we began the furnishing of massive foreign aid in 1948 and 1949. By the Marshall Plan we declared that the United States believed that a very low standard of living abroad was both morally and politically undesirable. It was determined not merely to provide relief funds but also to help restore the productive capacity of Europe. United States exports boomed as we poured not only relief funds but also capital goods and raw material into Europe. As a result, the United States had sizable surpluses in its balance of trade. But during this period it was not generally realized that much of our export represented goods that would not normally be desired abroad and would not be competitive with foreign production. Nor was it generally recognized that the success of the Marshall Plan would inescapably be marked by the emergence of foreign nations whose production would be competitive with that of the United States. The Marshall Plan did succeed, and as a result Europe and Japan made astounding recovery in the postwar years. By the late 1950s foreign productive capacity exceeded that of its prewar capability.

Not only has foreign aid succeeded in restoring the economies of Europe and Japan, but it looks as if we have overdone the rehabilitation process. We have literally "spent the world rich" by giving away a sizable portion of our current and accumulated national savings.

This situation will need to be corrected, and we know that correction will not be easy or simple. We cannot for long continue to spend more in our international transactions than the foreign exchange we earn through exports and other means. This is something quite new for the United States. Serious as the situation is, there is some good for us in what has occurred, for it has brought rather forcibly to public attention the fact that there are definite limits to what we as a people can give away or spend. Most of our political decisions with reference to foreign aid and foreign trade, for example, have heretofore been made wholly unaffected by considerations of possible deficit payments. That will no longer be true. A new "discipline" has been introduced which cannot longer be ignored.

At this moment in history I believe the American people need more than anything else to realize that savings are the indispensable basis for progress in raising our standard of living. If we don't create the savings, or squander them after we do create them, we do not have the means by which to provide the tools and facilities to increase our productive capacity out of which higher wages are paid and higher living standards attained.

The correction of our international balance will not be easy. Alternative steps will be debated with vigor. Those who believe foreign aid is bad will advocate its elimination. Those who believe foreign aid is good will urge some other approach. Not much can be done for long by throwing the burden upon military and civil personnel abroad and their dependents as long as we permit U. S. tourists to spend a billion and a half dollars abroad annually.

Nor is it to be expected that our exports will suddenly become sufficiently competitive as to offset the net deficits we have been experiencing. In the absence of widespread unemployment, wages will not be reduced and hence we must rely upon increased productivity resulting from gradually improving technology to improve our competitive position. This is a slow process, and again is greatly dependent upon increased savings to furnish the investment to provide the facilities.

Have we Americans the will to face up to this situation? I wonder. I have just finished reading, for the third time, the report of the President's Commission on National Purposes. I must confess my disappointment. It is a beautiful picture of a blueprint of heaven on earth. It should be obvious at once that if our Government were to put into effect any substantial part of the recommendations and superimpose them on our present expenditures, the tax load resulting would be completely unsupportable.

A new administration is about to take office. It is politically committed to many of the goals mentioned in that report. Will this administration be willing to accept the new "discipline" of the international balance of payments? Will the people support such action? In the battle over "how" we solve the fiscal problem, our greatest concern, it seems to me, is that it will not get solved at all. In that event there is only one course left—devaluation of the dollar, and that will only compound our fiscal difficulties and strike a deadly blow to our prestige abroad. It is not easy for us Americans to admit that we can't do everything we want to do because the money

is giving out. But that is the only honorable course to follow. My hope is that the life insurance industry will for once speak in one voice—against devaluation and for the preservation of the soundness of the dollar.

Nearly forty years ago Mr. Kipling cast in poetic form a few of the immutable truths of nature. I would like to read his last four stanzas:

In the Carboniferous Epoch we were promised abundance for all,
By robbing selected Peter to pay for collective Paul;

But, though we had plenty of money, there was nothing our
money could buy,

And the Gods of the Copybook Headings said: "If you don't
work you die."

Then the Gods of the Market tumbled, and their smooth-tongued
wizards withdrew,

And the hearts of the meanest were humbled and began to believe
it was true

That All is not Gold that Glitters, and Two and Two make
Four—

And the Gods of the Copybook Headings limped up to explain
it once more.

As it will be in the future, it was at the birth of Man—

There are only four things certain since Social Progress began:

That the Dog returns to his Vomit and the Sow returns to her
Mire,

And the burnt Fool's bandaged finger goes wabbling back to
the Fire;

And that after this is accomplished, and the brave new world begins
When all men are paid for existing and no man must pay for his
sins,

As surely as Water will wet us, as surely as Fire will burn,
The Gods of the Copybook Headings with terror and slaughter
return!

APPENDIX

Life insurance performance for the year 1960 again will reach new heights. This is indicated by recent forecasts of the year's total new life insurance purchases, of the amount of insurance in force at the year end, and of the volume of benefit payments during the year.

New life insurance purchased by United States residents from legal reserve companies during 1960 is estimated at \$73 billion. About \$52 billion of the estimated total will represent new ordinary insurance, about \$14 billion new group insurance, and \$7 billion new industrial insurance.

The total life insurance in force at the end of 1960 is estimated at \$585 billion. This is an increase of nearly 8% over the \$542,128,000,000 held at the end of 1959. Ordinary life insurance is estimated at \$340 billion—an increase of nearly 8% over the 1959 value. Group insurance in force will approximate \$175 billion—an increase of 9.5%. Industrial insurance in force will be about \$40 billion, approximately the same as last year. Credit insurance is estimated to be about \$30 billion at the end of 1960. This is an increase of over 12% over the \$26,680,000,000 held in 1959. Credit insurance now represents over 5% of the total insurance in force. At the end of 1950 it represented only 1.7% of the total.

It is estimated that the average size ordinary insurance policy at the end of 1960 will be \$3,560—an increase of \$140 over the previous year. The average group certificate has grown to \$4,070—an increase of \$200 over the end of 1959. The average industrial policy has increased \$15 from \$390 to \$405 in 1960. The average credit policy has grown from \$680 in 1959 to \$690 at the end of 1960.

The volume of payments received by policyholders and their beneficiaries in the United States is expected to reach a new high of over \$10.6 billion. Payment of death benefits is expected to approximate \$3,350,000,000 or 31.6% of the total payments by life insurance companies. It is estimated that payments to living policyholders of matured endowments, disability benefits, annuity payments, surrender values, and dividends will approximate \$4,695,000,000 or 44.2% of the total payments. The remaining \$2,573,000,000 represents payment of accident and health claims by life insurance companies.

The life insurance data reviewed above are for the fifty states and the District of Columbia. Data for 1960 are estimates of the Institute of Life Insurance and the Life Insurance Agency Management Association.

BUSINESS IN THE *UNITED STATES OF UNITED STATES AND CANADIAN LEGAL RESERVE LIFE INSURANCE COMPANIES

NEW PAID-FOR LIFE INSURANCE ON RESIDENTS OF UNITED STATES (EXCLUDING CREDIT)

(Not including revivals, increases, dividend additions or reinsurance assumed)

<i>Class</i>	<i>**During 1959</i>	<i>During 1960</i>
	<i>Number of Policies and Certificates</i>	<i>(Estimated)</i>
Ordinary	8,683,000	8,500,000
Group	3,090,000	3,300,000
Industrial	12,336,000	12,200,000
	<u>24,109,000</u>	<u>24,000,000</u>
	<i>Amount</i>	
Ordinary	\$51,678,000,000	\$52,000,000,000
Group	12,317,000,000	14,000,000,000
Industrial	6,859,000,000	7,000,000,000
	<u>70,854,000,000</u>	<u>73,000,000,000</u>

LIFE INSURANCE IN FORCE ON RESIDENTS OF UNITED STATES

(Net coverage after deduction of reinsurance ceded)

<i>Class</i>	<i>December 31, 1959</i>	<i>December 31, 1960</i>
	<i>Number of Policies and Certificates</i>	<i>(Estimated)</i>
Ordinary	92,369,000	95,500,000
Group	41,260,000	43,000,000
Industrial	101,936,000	99,000,000
Credit	39,422,000	43,500,000
	<u>274,987,000</u>	<u>281,000,000</u>
	<i>Amount</i>	
Ordinary	\$315,953,000,000	\$340,000,000,000
Group	159,807,000,000	175,000,000,000
Industrial	39,688,000,000	40,000,000,000
Credit	26,680,000,000	30,000,000,000
	<u>542,128,000,000</u>	<u>585,000,000,000</u>

Estimated number of policyholders on December 31, 1960 in United States:
118,000,000

* United States is used to mean 50 states and the District of Columbia.

** New business in Hawaii limited to last four months of 1959, entire year's business for Alaska.

Sources:

1959 new business from reports of nearly 850 companies to the Joint New Issues Survey conducted by the Life Insurance Agency Management Association and the Institute of Life Insurance. 1959 insurance in force from reports of nearly 1,000 companies to the Life Insurance In Force by States Survey conducted by the Institute of Life Insurance. 1960 data estimated by the Institute of Life Insurance and the Life Insurance Agency Management Association.

The following reports were made available:

A REPORT ON FEDERAL ACTIVITIES

BY EUGENE M. THORÉ

Vice-President and General Counsel
Life Insurance Association of America

INTRODUCTION

Activity at the federal level on matters of interest to the life insurance business during the second session of the 86th Congress continued at about the same pace as that set by the first session. Again, as with the first session, legislation passed was on the whole moderate.

Medical care for the aged dominated the legislative scene this year. There was also considerable activity in the fields of taxation, housing and self-employed individual retirement legislation. The general hearings on the effectiveness of state regulation of insurance continued.

Each year in this report I attempt to look into the legislative future. This year, however, the outlook will be developed at length in an address I shall deliver during the course of the annual meeting, copies of which will be made available to the membership.

TAXATION

Company Income Tax

Proposed regulations under Phase 1 of the Life Insurance Company Income Tax Act of 1959 were published in the *Federal Register* on August 18. These regulations, far more extensive and detailed than any previous tax regulations dealing with life insurance companies, set forth new and revised rules on many provisions carried over from prior law as well as the provisions first enacted in 1959. Careful review of every part of the regulations was necessary.

Copies of the proposed regulations were mailed to every member company, with the request that comments be furnished for consideration by the Joint Advisory Committee on Interpretation of Company Federal Income Tax Law at its meeting on September 8. Forty-

one companies supplied comments, many of them extensive. All of these comments were considered by the Joint Advisory Committee, in addition to the recommendations made by the members of the Committee itself. On September 19 the three associations, LIAA-ALC-LIC, submitted a letter to the Commissioner of Internal Revenue recommending 12 major changes in the proposed regulations and requesting a hearing thereon.

In addition to this letter, the associations filed a separate 74-page memorandum on October 14, setting forth in detail the life insurance business objections to five of the provisions objected to in the letter. This memorandum was developed through the cooperation of the Joint Advisory Committee and its special subcommittees on each of these problems. Both the letter and the memorandum were distributed to all member companies.

Of these five special items, one of the most critical was that of the definition of reserves required by law. Under the proposed regulations, "reserves required by law" meant the reserves "calculated according to the legal minimum standards of valuation." The associations protested this statement as unsound by historical principles of reserves and incompatible with other provisions of the Code, such as the provision for reserve strengthening.

Another major issue was the position taken by the Treasury in the regulations that the reserves under deposit administration contracts are generally not life insurance reserves and hence would not qualify as pension plan reserves, and further that such contracts are not life insurance or annuity contracts so that only the guaranteed interest thereon would be allowed as "interest paid." The associations argued that the regulations should recognize that the reserves under deposit administration contracts will generally qualify as life insurance reserves and, in the case of qualified plans, as pension plan reserves.

The associations objected to the definition of "interest paid" in several respects. Under the regulations, the deduction was allowed only for interest in connection with insurance or annuity contracts. Moreover, the regulations appeared to allow only guaranteed interest on dividends held on deposit. This, the associations maintained, was contrary to the statutory plan of allowing all interest on indebtedness generally and all amounts in the nature of interest, including excess interest, on life insurance or annuity obligations not involving life contingencies.

Other portions of the memorandum set forth objections to the

novel provision of the proposed regulations that the additional charge for premiums paid on other than an annual basis was interest includible in investment income, and the implication in the regulations that all unearned premiums and unpaid losses on noncancellable health or accident insurance policies were to be excluded from life insurance reserves.

The largest crowd ever present at a hearing on Treasury regulations attended the all-day hearing on October 19. The hearing was opened with the LIAA-ALC-LIC presentation, which consisted of a panel composed of staff and company representatives. The panel reviewed the previously submitted letter and memorandum and answered questions from the Treasury.

The associations took no position with respect to the regulations on the treatment of tax-exempt interest and the definition of assets. On these two points, as well as a number of others, several companies filed individual letters of protest. Extensive oral presentations were made on the tax-exempt interest issue, both by the individual companies which had filed protests and by a succession of spokesmen for municipal and state governments. For those who desired to file individual protests, LIAA-ALC-LIC provided information on filing and the hearing dates.

Following the hearing, the staff, in cooperation with the Advisory Committee, engaged in a number of conferences with Treasury officials, prepared drafts to carry out the recommendations made in the letter of protest and the memorandum, and submitted additional explanatory materials.

The final regulations under Phase 1, incorporating the changes adopted by Treasury as a result of the protests made, were published in the *Federal Register* of December 10, 1960. These final regulations reflect favorable Treasury reaction to all of the five main points of objection made by the associations.

The definition of "reserves required by law" was changed to eliminate the reference to reserves "calculated according to the legal minimum standards of valuation." Instead, such reserves are defined as those reserves required by state statute or regulation, and accepted by state regulatory authorities as held for the fulfillment of the claims of policyholders or beneficiaries.

With respect to deposit administration contracts, the final regulations provide that in general the reserves under such contracts, with respect to both active and retired lives, will be treated as life insur-

ance reserves and, in the case of qualified plans, as pension plan reserves.

The definition of "interest paid" was changed in a number of respects. The final regulations define interest paid as including interest on indebtedness, discounts on prepaid premiums, and interest on insurance or annuity contracts for which no provision is made in the life insurance reserves. Interest on indebtedness is defined to cover interest payments on indebtedness generally, and not limited, as it was in the proposed regulations, to interest in connection with insurance or annuity contracts. Amounts in the nature of interest are defined to include both guaranteed and excess interest on insurance or annuity contracts, including supplementary contracts, which do not involve, at the time of accrual, life, health, or accident contingencies. Interest on dividends left on deposit is expressly referred to as one of the items includible as an amount in the nature of interest.

Additionally, the final regulations eliminate the provision for inclusion in gross investment income of interest attributable to the payment of fractional premiums, and also remove the implication that all unearned premiums and unpaid losses on noncancellable health or accident insurance policies are to be excluded from life insurance reserves.

The proposed regulations under Phases 2 and 3 of the new company income tax act were also published in the *Federal Register* for December 10. The procedure followed by the associations with respect to Phase 1 will be repeated here. Comments from member companies on these proposed regulations are currently being sought, and it is expected that the Joint Advisory Committee on Interpretation will meet before the end of December to discuss these suggestions as well as any others made by the Committee members. Written comments are due to be filed with the Treasury by January 9, 1961, and it is expected that an oral hearing will be held soon thereafter.

Ruling on Municipal Bond Discount

In May 1960, the Treasury issued Revenue Ruling 60-210 holding that life insurance companies, as well as mutual fire and casualty companies, must treat market discount on state and municipal bonds as ordinary income.

Insofar as concerns life insurance companies the rationale of the Ruling runs as follows: Section 818(b)(1) of the Code provides for

the amortization of premium and accrual of discount on bonds held by life insurance companies. Under that provision, issue discount on tax-exempt bonds will be accrued each year to increase gross investment income, to increase the deductions for tax-exempt interest under sections 804(a)(2)(A)(i) and 809(d)(8)(A)(i), and to increase the basis of the securities. As a result, the company's share of such issue discount will not be taxed and there will be no capital gains tax. In the case of market discount, however, no deductions under sections 804(a)(2)(A)(i) and 809(d)(8)(A)(i) will be allowed, because such market discount does not qualify as tax-exempt interest. Accordingly, the life insurance company's share of market discount will be taxed as ordinary income. The Ruling also added that the same result obtains under corresponding provisions of the law prior to the Life Insurance Company Income Tax Act of 1959.

In August 1960, LIAA-ALC, with the approval of the Joint Advisory Committee on Interpretation of Company Federal Income Tax Law, submitted to Treasury a memorandum objecting to this Ruling. The memorandum concluded that the Ruling is erroneous and should be revoked as it relates to the treatment of market discount on tax-exempt bonds held by life insurance companies, or if not revoked should be modified so as to apply only to tax-exempt bonds acquired after the date of the Ruling. The American Mutual Insurance Alliance, representing mutual fire and casualty insurance companies, also submitted a memorandum objecting to the Ruling.

On December 2, 1960, the Treasury issued Technical Information Release 274, announcing a new Revenue Ruling 60-376 to be published December 12, 1960, which provides that the earlier Ruling shall be inapplicable to life insurance companies and mutual fire and casualty companies for taxable years beginning prior to May 31, 1960, the date of publication of the earlier Ruling.

Individual Retirement Legislation

Prospects for the enactment of the Keogh bill, the self-employed individuals' retirement bill, appeared brighter at the beginning of the 1960 session of Congress than ever before in its long history. The bill had been passed by the House of Representatives and hearings before the Senate Finance Committee were complete. With respect to the objections previously raised by the life insurance business, most of them had been met and it appeared that the others would

be taken care of in the final version expected to be reported by the Senate. (See p. 24, 1959 Association Proceedings.)

This favorable outlook changed markedly when, on April 1, the Treasury Department offered its alternative proposal to the Senate Finance Committee. This new approach had a twofold impact: It would treat the self-employed as employees and allow them to be covered only under qualified pension plans covering both the self-employed and his employees; it then went further and curtailed several important pension provisions of existing law, particularly affecting employees who are also owners of the business. On this second-point, in particular, strong opposition arose.

Under the Treasury proposal, any employee with as much as a ten percent interest in the business would be designated an owner-manager, subject to special limitations as to pension coverage. Most importantly, annual pension plan contributions on behalf of owner-managers were limited to ten percent of salary up to a maximum of \$2,500. Then such contributions might exceed this limit only to the extent that contributions on behalf of owner-managers were no more than one-half of the contributions currently vested in all other employees.

In addition, the Treasury asked for general amendment to the qualified pension plan provisions to remove the present capital gains treatment for lump-sum distributions and for re-examination of the estate and gift tax exemptions for amounts contributed by the employer.

LIAA and ALC, among others, expressed to the Senate Finance Committee the hope that such far-reaching changes in the pension provisions would not be made without public hearings. In executive session the Senate Finance Committee ruled out further consideration of the capital gains and estate and gift tax proposals. The Committee then called public hearings on the proposals affecting plans of owner-managers. Mr. Verne J. Arends, Assistant Secretary, The Northwestern Mutual Life Insurance Company, represented the two associations at these hearings.

The LIAA-ALC statement pointed out the unfairness of the strict limitation on the amount of pension coverage that might be provided under the Treasury approach, particularly in view of the fact that the limitation would fall almost exclusively on small business. The associations urged that any overall revision in the general pension provisions be taken up separately after further study. Additionally,

the associations urged that any new restrictions not be made applicable to existing plans.

Subsequent to the hearing, LIAA and ALC recommended to the Finance Committee a more reasonable amendment to the Treasury approach, under which contributions on behalf of owner-managers might equal other contributions to the plan whether or not vested, and at any rate the plan might provide pension benefits equal to 50% of average salary for the ten years before retirement. The Committee adopted these proposals in part. As reported out of Committee on June 17, the bill allowed equal contributions for owner-managers and other employees (provided, of course, the nondiscrimination tests of section 401 of the Code were met). It delayed the vesting requirements for three years after enactment, and provided that pensions for owner-managers might, notwithstanding other limitations of the bill, equal 20% of average salary for ten years prior to retirement.

Other amendments were prepared by the two associations for submission in the hope that they might be placed before the Senate during debate and before the conference after Senate enactment. However, it became increasingly apparent that the strength behind enactment for this session had worn thin. In part this was due to the floor fight promised by some Senators who look upon this legislation as a special benefit for the wealthy. In part it was due to the opposition to provisions in the bill affecting existing pension plans. When the bill was called up on the Senate floor shortly before recess for the Conventions, few could be found to support it.

When Congress reconvened after the Conventions, Senator Smathers placed before the Senate a new draft, to be offered as an amendment to the Social Security bill. The new draft incorporated the original Keogh bill with two significant new provisions. The self-employed might deduct only one-half of the amount set aside under the Keogh bill provisions, up to maximum of \$5,000 in savings (or a maximum deduction of \$2,500) in any one year, and he might utilize these provisions only if he had in effect a qualified pension plan for his own employees. This amendment also contained a provision for a special bond savings program, introduced by Senator Curtis as a part of the Senate bill. Although this proposal never received action by the Senate, it is of some significance in suggesting the pattern this legislation might be expected to take in the next session.

*Information at Source and Withholding**Treasury Information Program*

Late in 1959 the Under Secretary of the Treasury, Fred C. Scribner, Jr., made a direct appeal to the Association and Convention to cooperate with the Treasury Department in an informational program designed to encourage the reporting and payment of federal income tax on amounts received as interest and dividends. The two associations agreed to cooperate, but pointed out at that time that merely notifying policyholders and beneficiaries of the tax on interest would be of little benefit to them in view of the fact that payments made by insurance companies may be wholly tax free, may be taxable only in part or may be taxable in full. They pointed out that life insurance companies already supply considerable tax assistance to their policyholders and beneficiaries. At the request of the Under Secretary the two associations set about to determine the extent of such taxpayer assistance.

On December 22, 1959, the two associations submitted extensive questionnaires to the fifty largest companies. Subsequently responses were received representing a high percentage of the assets of all United States life insurance companies. Although there was much variation in the manner of advising taxpayers of taxable amounts received under life insurance and annuity contracts, the survey indicated consistent and extensive efforts by all of those life insurance companies to inform policyholders and beneficiaries of the taxable nature of payments to them. The summary of the results of the survey was furnished to the Under Secretary of the Treasury as well as to the Commissioner of Internal Revenue.

Both the Under Secretary and the Commissioner complimented the insurance business upon the extent to which policyholders and beneficiaries were informed of the taxable amounts owed by them. However, the Commissioner's office pointed out three specific areas in which he believed reporting might be improved. They are: Installment options arising out of death claims, annuity payments where the taxable amount is under \$600 each year and payments under interest options wherein the entire amount is taxable. The letter from the Commissioner's office was immediately circulated among the members of the Joint Committee on Withholding and Information at Source. Responses indicate that life insurance companies are steadily

increasing the amount and effectiveness of policyholder tax information.

Withholding Legislation

The loss of revenue due to the failure of taxpayers to report income on interest and dividends was a subject of close attention by Congress. In the House of Representatives, Congressman Dingell introduced a bill, H. R. 10331, requiring the withholding of tax on dividends and interest. In the Senate, during the consideration of the Corporate Tax Rate Extension Bill, an amendment was proposed within the Senate Finance Committee for the withholding of tax on dividends and interest. In the light of press reports of possible action by the Senate Finance Committee on a withholding provision, the Association and Convention wrote to the Chairman of the Senate Finance Committee on June 8, requesting that no final action be taken by the Committee without public hearings. The two associations pointed out that life insurance companies would be doubly burdened in that as investors they would be deprived during the year of investment returns on which tax had been withheld and at the same time they would be faced with the enormous task of withholding upon the millions of individual payments, many of them in small amounts, to policyholders and beneficiaries.

Thereafter the proposal was defeated within the Committee so that hearings did not become necessary. A proposal to require withholding of tax on dividends and interest was reportedly defeated by a vote of 12 to 3. Another proposal to require withholding of tax on dividends alone was defeated by a vote of 12 to 5, and a third proposal to require withholding of tax on dividends commencing at the end of two years after the date of enactment was defeated by a vote of 10 to 5.

When the Tax Rate Extension Bill was before the Senate, an amendment was offered which would have incorporated in the bill a withholding provision on both dividends and interest. It was represented as a bill taxing the income of the wealthy. Senator Douglas stated: "Of course the major portion of interest income goes to those persons in the upper income brackets." Figures quoted in the debate indicated that 15% of the dividends now paid is unreported and 50% of the interest is unreported. Senator Proxmire stated that the revenue to be gained by this withholding would be in the case of dividends \$450 million, and in the case of interest \$1.4 billion. After an

extensive debate, the amendment was defeated by a vote of 62 to 24.

This legislation remains a subject of active interest. Later during the session, the fiscal responsibility bill, H.R. 12938, was introduced in the House of Representatives, including a provision for the withholding of tax on dividends and interest, largely in the form of the amendment proposed on the Senate floor. In his third debate with Vice President Nixon, Senator Kennedy indicated that the cost of his program would be borne by tax reform, one of the main features of which would be a provision for the withholding of tax on dividends and interest. This is a subject which is freely discussed and will obviously have to be dealt with during the coming session. The products of voluntary reporting will have an important effect on the legislation eventually decided on.

Deductibility of Trade Association Dues

On December 29, 1959, the Treasury Department promulgated its final regulations on the deductibility of expenditures for lobbying the promotion or defeat of legislation and related activities, and of dues paid to an organization which engages in such activities. The regulations state that dues paid to an association are deductible in full (provided, of course, they constitute ordinary and necessary expenses in the taxpayer's trade or business) unless a substantial part of the association's activities consists of lobbying, the promotion or defeat of legislation, or engaging in political campaigns. If a substantial part of the association's activities does consist of lobbying, promotion or defeat of legislation, etc., then the dues must be prorated and only that part allocated to other purposes of the association deducted as a business expense.

Thus far there has been no definition of what legislative activity will constitute a "substantial part" of the activities of an association. LIAA and ALC have taken the position that dues paid to the two associations are deductible in full, subject only to the limitations on deductions contained in the Life Insurance Company Income Tax Act of 1959.

The regulations and the cases decided by the courts had the effect of threatening the free flow of information between business and the legislatures, both state and Federal. With respect to members of trade associations there was an additional administrative problem in determining when legislative activities were "substantial" and in proration of dues in the event the association did engage in a sub-

stantial amount of legislative activity. Because of changing emphasis from time to time, it is conceivable that dues would be deductible in full in some years, in part in others, and not at all in other years.

Two bills introduced during the Congress just ended were directed toward these problems. H. R. 7123, introduced by Mr. Boggs, would allow deductions for ordinary and necessary expenses lawfully incurred in opposing or promoting legislation, and H. R. 11507, introduced by Mr. Byrnes, contained a similar provision and specifically applied the deduction to trade association dues. H. R. 10591, an omnibus bill devoted entirely to proposals on a number of tax matters offered by the American Bar Association, contained a provision for the deduction of the expense of preparation for and appearance at legislative committee hearings. The staffs of LIAA and ALC have been authorized to support legislation which would satisfactorily clarify the law with regard to deduction of expenses in connection with legislation.

Both the Treasury Department and the Commerce Department urged remedial action by Congress in official letters to the House Ways and Means Committee, released during February. The Commerce Department specifically endorsed H. R. 7123. The Treasury Department recommended remedial legislation but mentioned both approaches without specific expression of preference.

Subsequently LIAA and ALC wrote to the Chairman of the House Ways and Means Committee expressing support for the principles of the Boggs and Byrnes bills. Many other trade associations expressed similar support. On July 1, the Committee reported favorably on the Boggs bill, in a new version incorporating the main features of the Byrnes bill, and recommended enactment of the bill. However, the pressure of other business at that late date in the session prevented consideration of the bill by the House of Representatives. It is expected that the bill will be reintroduced in the new session.

Principal opposition to the bills, according to press reports, has come from the AFL-CIO and from prohibitionist groups.

Federal Tax Liens

The imposition of liens upon property of taxpayers and levy on that property by the Government conflict in many cases with the interests of life insurance companies both as creditors and as insurers. During 1959 the Association and Convention cooperated with the

American Bar Association in developing extensive legislation to deal more equitably with these conflicting interests. H.R. 7914, introduced at the request of the Bar Association, contained many of the recommendations of LIAA and ALC with respect to the rights of creditors in competition with the rights of the Government, but omitted several important recommendations with respect to liens and levy on life insurance policies. (See pp. 27 and 57, 1959 Association Proceedings.)

In view of its length and complexity, H.R. 7914 required extensive study both in and out of the Government. The Joint LIAA-ALC Legislative Committee gave its approval, in general, to the provisions of the bill dealing with rights of mortgagees and creditors against the competing liens of the government, with the understanding that continued efforts would be made to incorporate in the bill certain measures previously recommended for the protection of life insurance companies, policyholders, and beneficiaries.

The House Ways and Means Committee delayed action on the bill during this session in order to allow time for Treasury study and recommendations. It now appears that the identical bill will be reintroduced during the next session and that hearings will be held.

Liens on Life Insurance Policies

The Internal Revenue Code provides that on assessment, the tax due constitutes a lien on all the property of the taxpayer (section 6321). After the lien attaches, the Government is empowered to levy on the property of the taxpayer, and any person in possession of property of the taxpayer, or obligated with respect to the taxpayer, must surrender the property, or pay the obligation to the government (section 6332). The courts had held, some years ago, that the cash surrender value of life insurance policies did not constitute property of the taxpayer or an obligation with respect to him until he actually surrendered the contract in accordance with its terms. In order to obtain the cash surrender value, the Government was required to foreclose upon the policy itself, thereby substituting itself for the taxpayer and obtaining such rights as he might have.

This concept was subject to some question after the Supreme Court held in *United States v. Bess*, 78 S. Ct. 1054, that the Government might collect, out of the death proceeds of a policy, the cash value of that policy just prior to death, on the theory that the lien attached to whatever value the taxpayer had in the policy at the time of his

death. Subsequently, in a case itself involving a foreclosure on a policy, the Court of Appeals for the Fourth Circuit stated "The lien * * * attached to the cash surrender value, which we regard as a fund held by the insurance company for the insured." (*United States v. Metropolitan Life Insurance Company*, 256 F. 17.)

New questions faced the insurance companies after these decisions: May the Government demand payment of the cash surrender value without foreclosure upon the policy as a whole to dispose of all rights under the policy? At what point do the rights of the Government to the cash value become fixed? What is the effect of policy loans outstanding against the policy, and what is the effect of policy loans made before the company has actual notice of the lien? What are the obligations of the company to the policyholder after the lien attaches?

Staff members conferred with Internal Revenue Service officials and received assurances that although the necessity of foreclosure is not agreed upon, the accepted Government policy is to follow the foreclosure route. By this means the Court disposes of all rights under the policy and relieves the company of further liability.

No such clarification could be given by Treasury on the amount of the cash value which might be claimed by the Government, when the cash value is affected by policy loans. It appears that this problem can only be settled by litigation and possibly by legislation.

Life insurance companies have relied on a ruling of the Internal Revenue Service, Revenue Ruling 56-48, for protection against claims of the Government in cases of policy loans made prior to the receipt by the company of actual notice of the lien. This ruling states: "Where an insurance company does not have actual notice * * * and in the absence of negligence and fraud, the company will not incur liability to the Government in making payments to an insured or beneficiary, against whom a Federal tax lien is outstanding * * *. This ruling is equally applicable to so-called policy loans which are deemed in reality mere advances of sums due the insured * * *." In reliance on this ruling, companies and policyholders have been spared the expense and delay of checking records of lien notices at the domicile of the taxpayer before making each policy loan.

Doubt has now been thrown on this ruling by the position taken by government attorneys in the case of *United States v. Kann*, currently before the United States District Court for the Western District of Pennsylvania, that policy loans are not deemed advances but

are in fact loans and, having been made after notice of the lien was filed even though before actual notice was received by the company, are secondary to the Government liens. Therefore, the Government takes the position that the ruling does not apply, but that if it does apply, it is not supported by the statute itself and is therefore not binding. Such a position by the Government necessarily throws doubt upon the entire ruling.

Due to the great importance of the outcome of this litigation, the Joint Legislative Committee has authorized LIAA to participate in the Kann case as *amicus curiae*. Member companies will be kept informed of the progress and disposition of this case.

Miscellaneous Tax Legislation, Regulations and Rulings

The day by day representation of the interests of the life insurance business in federal tax matters necessarily involves close attention to and participation in governmental channels for interpretation of tax laws, the publication of regulations, and planning for future tax legislation. The attitude of the courts and of the administrative bodies have a bearing on future legislation in addition to their determinative effect on the application of existing law. The Association is an active party in many of these Government processes; in others it acts as an observer. Recent developments in several of these areas of direct interest to the life insurance business are set forth in the appendix.

REGULATORY PROBLEMS

State Regulation—O'Mahoney Hearings

Since early in 1958—almost three years ago—the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary, with Senator O'Mahoney as Acting Chairman, has been conducting a study of the effectiveness of state regulation of the insurance business.

During 1958 and 1959, the Subcommittee held hearings on aviation insurance (including air travel insurance and air hull and casualty insurance), ocean marine insurance, and state rating laws and bureaus in the fire and casualty fields. Additionally, the Subcommittee took the testimony of a panel of NAIC witnesses on state rating laws, received a detailed written statement from the NAIC on all of the areas of study covered to the end of 1959, and received responses from the state insurance commissioners to two questionnaires dealing with state regulation in general. The history of the

hearings during 1958 and 1959 is summarized in our annual reports for those years.

The year 1960 saw several additional developments. During the months of May and June, the Subcommittee held another five days of hearings. These were devoted primarily to foreign surplus line insurance and state regulation of such activities, with some attention also being given to the recent development in the credit insurance field of setting up foreign reinsurance subsidiaries to avoid federal company income taxes. Also, in August the Subcommittee issued its first report, a 337 page document (including the separate views of Senators Dirksen, Hruska, and Wiley) dealing with the hearings on aviation insurance and ocean marine insurance, together with a study of state regulation based largely on the responses of the state insurance commissioners to one of the two Subcommittee questionnaires. A second report, covering rating laws and bureaus along with the responses to the second questionnaire, and perhaps other matters touched upon in the hearings to date, is expected to be printed sometime early in 1961.

Insofar as concerns aviation insurance and ocean marine insurance, the report recommends no immediate change in the McCarran Act. The report is, however, critical of a number of alleged restrictive market practices in both fields, and concludes that if the United States Department of Justice cannot reach these practices because of the McCarran Act, and if at the same time the states are unable to cope with the problem because of jurisdictional limitations, then it will be necessary for Congress to consider appropriate revisions of the law.

The portion of the report dealing generally with state regulation is entitled "A Critique of the Structure of State Supervision", and concludes with 20 criticisms and recommendations. These conclusions may be summarized as follows:

- (1) Insurance regulation should be under a separate department, not joined with any other regulatory functions.

- (2) Insurance commissioners should be selected on the basis of administrative and professional skills, preferably appointed rather than elected.

- (3) There should be a greater tendency toward appointment to the office of commissioner from departmental ranks, to insure experienced and qualified leadership.

- (4) Commissioners and staff should not hold concurrent em-

ployment or advisory connections with the industry they are regulating.

(5) The commissioner's term of office should be lengthened in some states, with 4 years the minimum.

(6) The actual tenure of the commissioner has frequently been too short, with many leaving office for more remunerative employment elsewhere.

(7) The compensation paid most state commissioners is grossly inadequate.

(8) The compensation of staff personnel is similarly inadequate in many states.

(9) The insurance departments of many states are either under-staffed or poorly staffed.

(10) Few states allow for self-improvement programs for their personnel on departmental time.

(11) Insurance department examiners are in general poorly paid, and in 19 states are paid directly by the company being examined, a practice which the Subcommittee questions.

(12) The budgets of insurance departments are generally inadequate, and a greater share of the premium taxes should be allocated to this purpose.

(13) The practice of levying premium taxes which discriminate against foreign insurers should be reexamined in the light of its competitive impact on the insurance market structure.

(14) The admission and licensing of foreign insurers has not been conducted in an efficient and expeditious manner.

(15) Examinations of domestic companies should be improved and in some cases made more frequently. Such examinations should include scrutiny of competitive trade practices as well as financial condition.

(16) In many states the capital and surplus requirements for entry into the business are inadequate. Greater uniformity in these requirements among the states should exist.

(17) The capital and surplus requirements of an operating company should differ from the requirements for new companies.

(18) The states have not dealt effectively with insurance mergers. Mergers have an important effect on the market and, if the states are unable to cope with this problem, it may be necessary for the federal government to intervene.

(19) A substantial number of liquidations have taken place in recent years, due in part to inadequacy of state regulation.

(20) The states have been lax in enforcing laws on restraint of trade, monopoly, and unfair trade practices.

Senators Dirksen and Hruska filed a separate statement of their views, in which they analyzed the evidence before the Subcommit-

tee and concluded that most of the conclusions of the majority are not supported by the evidence. They also took the position that the study made by the Subcommittee was not sufficiently detailed to provide any reasonable basis for criticism of state regulation. Senator Wiley also filed a short statement of his individual views, in which he asserted that the states have demonstrated their ability to regulate the insurance business in the public interest, and that many of the criticisms of the majority report are based on personal opinion rather than facts developed at the hearings. He added, however, that the states should pay heed to the Subcommittee comments with respect to improvement in regulation, so as to make certain that insurance regulation will remain a function of the states rather than the federal government.

The future of this study is at present uncertain. Senator O'Mahoney who has been responsible for the study from its inception, has retired from the Senate. Senator Kefauver recently stated in response to a question from the press that the investigation would continue in 1961, and that the Subcommittee would take up the adequacy of state regulation of health and accident insurance, and also would consider further the effectiveness of state regulation of foreign surplus line insurers. However, no formal announcement to this effect has as yet been made. If the study is resumed, it is not certain whether Senator Kefauver will chair the hearings, or whether he will select another member of the Subcommittee as acting chairman. Moreover, two vacancies on the majority side of the Subcommittee exist, and the filling of these positions could have some influence on the future of the hearings.

Securities Exchange Act

Variable Annuities

During the past year, several significant developments with respect to the regulation of variable annuity contracts have taken place.

In February 1960, the Securities and Exchange Commission ruled on the applications of The Variable Annuity Life Insurance Company and The Equity Annuity Life Insurance Company for exemptions from certain of the provisions of the Investment Company Act of 1940, granting the requests in large part but denying some of the requests. These applications had been filed shortly after the March

1959 five-to-four Supreme Court decision that the variable annuity contracts issued by these two companies are subject to the provisions of the Investment Company Act, as well as the Securities Act of 1933. Within a few months after the SEC ruling on exemptions, prospectuses of the companies covering their variable annuity contracts were cleared by the Commission, thereby bringing to a close this initial controversy between the SEC and insurance companies interested in selling variable annuities.

In June 1960, the United States Congress enacted a bill amending the District of Columbia Life Insurance Act to provide for the regulation of the sale of variable contracts in the District. The Superintendent of Insurance had requested technical assistance from the Association staff in the preparation of this bill, and in accordance with Association policy such assistance was given. The Association, however, took no position on the bill as it went through the legislative process. The key features of the bill are: It requires domestic companies of the District which issue variable contracts to maintain separate accounts for funds received in connection with such contracts. It authorizes foreign companies, licensed to do business in the District, to sell variable contracts there only if authorized to issue such contracts under the laws of their domiciles. It gives the Superintendent of Insurance authority to refuse either domestic or foreign companies the right to issue variable contracts in the District unless they meet certain tests. It permits domestic companies issuing such contracts to invest a somewhat larger percentage of their assets held in separate accounts in the common stocks, preferred stocks, or bonds of a single corporation.

In general, the basic issues with respect to these contracts—who is to sell them and how they are to be regulated—are gradually developing. During the past year, several additional organizations, both insurance companies and mutual funds, have indicated an interest in entering the field. A few states have adopted legislation of one kind or another dealing with such contracts. Also in a few states opinions have been rendered on whether these contracts are subject to regulation under the state insurance laws. For the present at least, it seems to be fairly clear that contracts of the nature of those sold by VALIC and EALIC are subject to regulation by SEC at the federal level and by the state insurance departments at the state level. Unresolved is the question of whether variable contracts may also in some instances be subjected to regulation by the state Securities Ad-

ministrators. Undoubtedly numerous important questions with respect to the sale and regulation of these contracts will arise and be resolved in the years ahead.

Proposed Rule 155 On Convertible Securities

In December 1959, the Securities and Exchange Commission issued notice of a proposed new Rule which would make subject to the registration provisions of the Securities Act of 1933 a public offering of a convertible security, or of the underlying security received upon conversion, even though the convertible security was acquired in a direct placement. The Commission invited all parties interested in the proposed Rule, to be designated Rule 155, to submit their comments in writing.

In its notice the Commission summarized the tentative conclusions on which the proposal is founded. One of the basic conclusions is that the provision of section 4(1) of the Securities Act exempting direct placements does not apply to convertible security transactions, for the reason that there is inherent in this type of transaction the probability that before completion a public offering of the convertible or underlying security will be made. Another key conclusion is that section 3(a)(9), which exempts from the statute any security exchanged by the issuer with its existing securities holders, has the effect of exempting the actual transaction of conversion in the case of convertible securities but does not grant a permanent exemption of the underlying securities.

In January 1960, an ad hoc committee of representatives of a number of life insurance companies engaged in direct placement transactions concluded that the proposed Rule should be opposed, and this recommendation was subsequently approved by the Joint Legislative Committee. Accordingly, on February 25, 1960, a letter protesting the proposal was submitted to the SEC on behalf of LIAA-ALC.

The letter took exception to both of the Commission's basic tentative conclusions mentioned above, and in addition listed other objections. In connection with the conclusion with respect to the probability of an ultimate public offering, the letter pointed out that in fact life insurance companies have very seldom sold either the convertible or the underlying securities, but on the contrary have usually held them for investment purposes. In connection with the conclusion concerning section 3(a)(9), the letter asserted that, contrary to the Commis-

sion's interpretation, the purpose of this section is to exempt the securities themselves when received in an exchange transaction with the issuer, and not merely the transaction of exchange. Additionally, the letter pointed out that: (a) Application of the proposed Rule to convertible securities previously issued would seriously affect investors who had acquired such securities without any reason to anticipate such a Rule. (b) The proposed Rule would appear to impose the liabilities of a statutory underwriter on an insurance company which at any time sold such securities, even though it had no part in any public offering and such an offering was effected by persons over whom it had no control. A number of other interested parties also submitted objections somewhat along the same lines.

In July 1960, the Commission issued a revised proposed Rule 155, which took cognizance of these last two points. Thus the proposal was amended to apply only to convertible securities issued after its effective date. Also, it was amended to provide that intermediate holders of either convertible or underlying securities having no direct connection with any public offering are not to be considered as statutory underwriters.

The Commission again asked for comments by interested parties. On September 30, LIAA-ALC submitted a short letter stating that the revised proposal is still faulty in certain respects, and reiterating the basic objection that the proposed Rule is unnecessary and unwarranted by the law or the facts. Again, other interested parties submitted like comments. The Commission has not as yet taken further action.

Credit Labeling Act

Early in 1960 Senator Douglas introduced his so-called "Truth in Lending" legislation for himself and seventeen other Senators. Counterpart legislation was introduced in the House but interest and action centered in the Subcommittee on Production and Stabilization of the Senate Committee on Banking and Currency of which subcommittee Senator Douglas is Chairman.

The bill as introduced would require persons extending credit to make full disclosure, prior to consummation of the transaction, of the total amount of finance charges and the percentage that such amount bears to the outstanding balance in terms of simple annual interest. The Federal Reserve would be charged with administering the law.

This bill would apply pertinently with respect to two areas of life insurance company operation, mortgage lending, and credit life and accident and health coverages. At the outset it was felt that the bill's sponsors were principally aiming at so-called consumers installment credit such as that utilized in the sale of automobiles, appliances, etc. It was further felt that disclosure substantially in line with that required by the bill is already being made with respect to mortgage loans and that additional requirements of form would simply add to the cost of these transactions. However, statements of Senator Douglas made it clear that he feels that mortgage lending should be covered by the bill.

There was considerable interest in credit insurance. There seemed to be general agreement that if this legislation were to be passed, the charges for this coverage should be appropriately disclosed, along with all other charges incident to credit extension. However, disagreement arose over the manner in which such charges should be disclosed, i.e., as an insurance charge accompanying the transaction, or as a part of an "aggregate finance charge" which would thereafter be restated in terms of simple annual interest. This latter method would convey the implication that credit insurance charges are a part of the interest rate on the loan, an erroneous implication.

From the outset, the prospects for this bill for this session were doubtful. Nevertheless, eight days of hearings were held and the Subcommittee favorably recommended an amended bill to the full Banking and Currency Committee. This bill continued the concept of required disclosure under rules and regulations established by the Federal Reserve Board but would have exempted states effectively regulating credit transactions under laws calling for substantially the same disclosure required under the proposed bill. However, the full Committee did not act upon the recommendation and the legislation died with the adjournment of Congress.

This legislation will undoubtedly be reintroduced in the 87th Congress and will in all probability receive more attention than it did this past session.

Welfare and Pension Plans Disclosure Act

No substantial problems developed under this Act during 1960, its second year of operation. Liaison has been maintained and informal conferences have been held between insurance representatives and staff of the Division of Welfare and Pension Plan Reports of the

Department of Labor toward the end of facilitating the operation of the Act.

Last year's annual report outlined legislation which had been introduced during 1959 to effect certain recommendations of the Administration for amendments to strengthen the Act. Congressional preoccupation with the so-called, "Landrum-Griffin Act," precluded consideration of these proposed amendments during 1959. They remained inactive during 1960 and died with the adjournment of Congress.

There is considerable likelihood, however, that the program for welfare and pension plan disclosure will come in for Congressional review during the 87th Congress. Late in the session Secretary of Labor Mitchell submitted a lengthy report reviewing the operation of this program from January 1, 1959 to June 30, 1960. In a covering letter to the House and Senate the Secretary stated that there has been "a substantial amount of confusion and non-compliance" under the Act. He stated that to continue the law in its present form is a "shameful delusion" and that abandonment would be an "act of betrayal." He therefore urged adoption of the Administration's amendments.

In support of his position, Secretary Mitchell discussed the following summary points:

1. 142,500 plan descriptions filed is "many thousands" short of the estimate. Some of the suggested areas of "under-reporting" were listed as group life insurance plans, hospital and surgical care benefit plans and paid sick leave plans. Plan amendments filed likewise fall far short of estimates.
2. 100,500 annual reports filed fall short of estimates. Thousands of annual reports consolidated data for several plans into a single report contrary to the provisions of the Act.
3. Thousands of reports contain defects and omissions patently in non-compliance. Many of these have remained uncorrected even after they were called to the attention of plan administrators.
4. Adequacy and accuracy cannot be verified because of absence of departmental enforcement authority.

The Labor Department touched off floor statements by Senators Scott, Douglas and Allott. The latter two were in the forefront of the legislative fight in 1958. All three of the Senators cited the Secretary's charges that the provisions of the present Act are inadequate and called for strengthening amendments.

Military Life Insurance Solicitation

The 1959 revision of the Defense Department's basic directive controlling world-wide solicitation of life insurance on government installations was reported and evaluated in last year's annual report. The Navy and the Air Force issued implementing service regulations during the past year. The Air Force regulations were bulletined with Joint General Bulletin 882 dated March 17, 1960 and the Navy regulations were bulletined with Joint General Bulletin 884 dated April 5, 1960. The Army has not revised its implementing regulations of 1958. However, it is believed that these regulations were issued sufficiently in anticipation of and conformity with the basic departmental directive as to not require extensive revision and reissue.

The Defense Department regulation governing overseas accreditation of life insurance companies remains as revised in 1959. (Joint General Bulletin 838 dated March 6, 1959.) Under these regulations, 55 companies have been accredited for overseas solicitation during fiscal year 1961. This represents an increase of nine companies over the number accredited for the prior year.

Problems on individual posts within the continental United States, as indicated by company inquiries, appear to have fallen to a new low with only a few having been received over the past year. On a more general level, inquiries have been undertaken with the Defense Department aimed at permissive use of either the 1941 or 1958 CSO mortality tables until January 1, 1966 with mandatory use of the 1958 table after that date, as well as recognition of the problem of compliance with the "current license" requirement of the overseas regulations on the part of agents who have been residing overseas for a period of years. The present outlook on both of these matters is favorable.

The September 12, 1960 issue of the *Washington Insurance Newsletter* contained an article on this program by Assistant Secretary of Defense, Charles C. Finucane. The first paragraph of the article was reassuring:

"First off, it should be stated, that generally, the day-to-day operations of the life insurance industry with respect to the solicitation and underwriting of military personnel pose no problem; indeed these activities are acknowledged as valued services in the personal affairs of the military members of the Department of Defense."

Thereafter Mr. Finucane's article reviewed the history of the program and also briefly discussed departmental concern over certain mail order solicitation practices which have given rise to widespread complaints.

Antitrust—Preactquisition Notification

Periodically since 1956, bills have been introduced to amend section 7 of the Clayton Act to require advance notification to the Attorney General and the Federal Trade Commission in the case of certain stock or asset acquisitions by corporations.

As originally proposed, these bills were so broad as to apply to a great many investment transactions entered into by life insurance companies and others having no possible aspect of merger or lessening of competition. Through the years this defect has gradually been remedied by the addition of provisions exempting such investments made in the ordinary course of business.

At the end of 1959, bills on this subject were pending in both the Senate and the House. Since the bills contained adequate exemptions, we had taken no position. On the Senate side, the Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee had held hearings and recommended favorable action in May 1959. The House had taken no action whatsoever.

There were no further developments of any consequence during 1960. The full Senate Judiciary Committee did not act on the recommendation of its Subcommittee. The Antitrust Subcommittee of the House Judiciary Committee again held no hearings. Two additional bills on preacquisition notification were introduced in the House early in 1960. These bills contained no exemptive provisions and consequently would have been objectionable. Had the House Antitrust Subcommittee taken any action, however, it seems likely that the bill previously introduced by its chairman, which did contain adequate exemptions, would have been given precedence.

The history of these bills over the past few years would suggest a slackening of interest. At the same time, both parties have stated adherence to the principle of preacquisition notification. Moreover, the chairmen of the Antitrust Subcommittees in both the Senate and the House have consistently introduced bills of this type. It appears quite likely, therefore, that similar bills will be introduced in the next Congress. If a bill of this nature should be enacted, however, it seems reasonable to expect that it will include exemptive provisions

broad enough to cover all regular investment transactions of life insurance companies and others similarly situated.

HEALTH INSURANCE

General

As in 1959 activity in this area centered almost wholly on the Forand bill and alternative legislative proposals which are reported elsewhere in this report under "Social Security."

Reinsurance legislation, District of Columbia cash sickness legislation, small company pooling, national compulsory health insurance legislation and the so-called "non-can" legislation were all inactive. The first two categories of legislation were not even reintroduced. Legislation in the other categories was described in last year's annual report.

Federal Trade Commission

In March 1960, the Supreme Court rendered another significant decision concerning the meaning of the proviso clause of section 2(b) of the McCarran Act, which states that the Sherman Act, Clayton Act, and Federal Trade Commission Act "shall be applicable to the business of insurance to the extent that such business is not regulated by State law."

In a 6-3 decision in *Federal Trade Commission v. Travelers Health Association*, 80 S. Ct. 717, the Court held that the Federal Trade Commission Act does apply to the health insurance advertising of a mail order company even though its state of domicile has a statute expressly regulating such advertising when used at home or "in any other state." In so doing, the Supreme Court overruled a 2-1 decision previously reached by the United States Court of Appeals for the Eighth Circuit.

The Supreme Court carefully distinguished its earlier opinion in *Federal Trade Commission v. National Casualty Company*, 78 S. Ct. 1260, dealing with the same proviso clause of the McCarran Act. It pointed out that there the company involved was licensed in each of the states in which it sold policies, and was regulated by the states where its advertising was used. Referring to the proviso clause, the Court said that Congress meant by this language to displace the Federal Trade Commission Act only to the extent that there was regulation by the states in which the advertising was received.

The Supreme Court refused to pass upon the question of whether the advertising of Travelers Health Association is regulated by the laws of the states in which its advertising is received and in which it

is not licensed, since this question had not been considered by the Court below. Consequently it returned the case to the Eighth Circuit Court of Appeals for consideration of that question, together with other questions left open. These questions have now been briefed and argued before the Court of Appeals and are awaiting decision.

As of the present, only this case and three others of the 41 advertising cases originally filed by the FTC are still pending. The remaining 37 have been disposed of through FTC dismissal, consent orders, or court proceedings. The three additional cases still pending before the FTC all involve mail order companies, and presumably are being held up awaiting final decision in the Travelers Health Association case.

SOCIAL SECURITY

Medical Care For the Aged

The problem of government participation in meeting the health care needs of the elderly was one of the dominant problems in the second session of the 86th Congress and was the most active legislative problem with which the insurance business found itself faced. The legislation finally enacted furnishes a good example of how a political pressure generates an opposing pressure and resulting compromise.

The Social Security Approach

The background of this approach, as it was advanced and supported by leading liberal Democrats, was developed at length in the annual report of the Washington office for 1959. At the beginning of the 1960 session this legislation, in the form of the so-called "Forand" bill, had been heard by the House Committee on Ways and Means and lay before that Committee for executive action. The Administration, most of the Republican legislators, and many conservative Democrats were opposed to the bill. This was thought by some to indicate a political stalemate which would result in no action. On the other side, almost daily news stories and Congressional Record statements served as a clear indication of the likelihood of Congressional action in some form prior to the session's end.

Anticipating that the Senate would sooner or later be faced with legislation in this area, several Senate bills along the lines of the Forand bill were introduced. These bills all embodied a program for health care of the aged administered and financed through the Social Security system and payroll tax, but varying in the type and duration of benefits as well as conditions of eligibility.

Throughout the session, the Social Security approach was defeated on several occasions as will be developed.

Republican Counter-Proposals

The session opened with the Administration, substantially backed by Republican legislators, standing in a position of outright opposition to the Forand bill with little hint of an alternative plan. As an almost lone exception at that time, HEW Secretary Flemming indicated that his department was continuing its study of the problem and the possibility of some form of government participation. On April 6, the Secretary in a Congressional appearance laid down a series of guide lines for the so-called "voluntary approach" promising to develop a specific proposal within the near future. The Secretary's guide lines included strengthening and stimulation of private initiative in the health insurance field, opposition to any form of compulsion, and emphasis on protection against catastrophic illness particularly for low income groups.

The following day Senator Javits introduced his proposed Health Insurance for the Aged Act providing for federal payments to approved state plans offering elderly subscribers a choice between service and indemnity benefits at a subscription charge ranging from \$0.50 to \$13.00 per year depending upon the subscriber's income. The state and federal governments would share the difference between the subscription fee and the total premium cost on a formula whereby the federal share would range from 33⅓% to 75% on the basis of the per-capita-income position of each state.

On May 4, before the House Committee on Ways and Means Secretary Flemming unveiled the Administration proposal to provide eligible aged subscribers a choice of benefit plans consisting of 80% of the costs of comprehensive health and medical services or alternatively 50% of the cost of a privately purchased major medical program up to a \$60 government maximum. The program would be open to all whose income for the prior year did not exceed \$2,500.00 per individual or \$3,800.00 per couple. There would be a modest annual individual subscription fee as well as a deductible. The federal share would range from 33⅓% to 66⅔% based on a per-capita-income equalization formula.

With the announcement of these two alternative plans, the stage was set for a series of votes which finally culminated in the passage of the Social Security Act Amendments of 1960.

The Compromise

The House Committee on Ways and Means began executive sessions on Social Security legislation in March, sessions which continued off and on until early June. An early action was a 17-8 rejection of the Forand bill. Following Secretary Flemming's appearance, the Committee considered but finally dropped a modified version of the Administration bill and reconsidered and again rejected the Forand bill. Throughout this period rumors were heard to the effect that the Committee was becoming interested in an expanded public assistance approach.

Finally, in early June, an omnibus Social Security bill was introduced and ordered favorably reported. The principal feature of this bill was a title embodying the Committee's proposal for medical care for the aged. (Amendments to other phases of the OASDI system will be reported separately.) This title provided for the establishment of a new federal grant-in-aid program to assist the states in providing medical care for the aged determined by each state to have insufficient income and resources. Benefits would be determined by the states within certain ceilings. Federal participation would vary between 50% and 65%. This bill was taken to the House floor under a closed rule. On June 23d it was passed by a vote of 381-23 and sent to the Senate.

By this time Congress was faced with the prospect of a recess to accommodate the two national political conventions. Nevertheless, Senator Byrd, Chairman of the Senate Finance Committee, scheduled two days of hearings on the House-passed bill as well as other health care measures pending before the Committee. Mr. E. J. Faulkner, President of the Woodmen Accident and Life Company of Lincoln, Nebraska, appeared as witness for HIAA-ALC-LIAA. Mr. Faulkner urged the Committee to withhold approval of any health care proposal but in no event to go beyond the House bill. He developed the progress made by voluntary insurance and urged further definition of the problem prior to any action.

Shortly following these hearings Congress recessed until August for the political conventions. The two national party platforms both contained planks on this subject and the emerging candidates promptly aligned themselves on opposite sides of the question all of which added fuel to the already intense controversy.

A week after Congress reconvened, the Senate Finance Commit-

tee began its executive consideration. The Social Security approach was defeated by a substantial margin. Thereafter the Committee reported out an amendment as a substitute for but along the general lines of the House-passed provision. The amendment provided for federal payments to states having an approved plan for providing medical benefits to individuals 65 or over who are not recipients of old-age assistance but whose income and resources are insufficient to meet all of the cost of certain specified medical services. Federal matching would range from 50% to 80% based upon a per-capita-income equalization formula. Additionally the amendment provided for federal participation in payments for medical care for old-age assistance recipients up to \$12.00 per recipient.

The final phase of the legislative process began on the Senate floor on August 20. Following two days of general debate, the voting began. The first vote came on an amendment consisting of a modification of the Administration's bill as offered by Senator Javits. This amendment was defeated by a vote of 67-28. Next an amendment offered by Senator Anderson to graft the Social Security approach onto the Committee bill was defeated by a vote of 51-44. Senator Long offered an amendment to include treatment for mental illness and tuberculosis which was adopted. In this form, the bill was finally passed by a vote of 91-2 and sent to conference with the House.

In conference, the House conferees accepted the Senate version of the medical care program but with the deletion of Senator Long's amendment. Both houses accepted the conference version of the bill and it was signed into law by President Eisenhower on September 13, 1960 as P. L. 86-778.

Other Amendments

For purposes of continuity, the discussion of the Social Security Act Amendments of 1960 thus far has been confined to the medical care provisions of that Act. Actually, this was an omnibus bill which also contained numerous other amendments to the existing OASDI program. While not producing the controversy engendered by the medical care program, some of these amendments are important to note. One of the principal changes was a revamping of the retirement test to provide a flat exemption of \$1,200, a loss of \$1.00 in benefits for each \$2.00 of covered earnings from \$1,200 to \$1,500 and a dollar for dollar diminution of benefits over \$1,500. The age-50 requirement

for disability benefits was eliminated with the result that an estimated 250,000 additional individuals under that age will become eligible for benefits. The insured status requirement was liberalized to provide that a worker will need only one out of every three quarters rather than one out of every two quarters of the time between January 1, 1951 and the time at which he otherwise becomes eligible. Changes were also made aimed at bringing the interest earnings on the trust funds more nearly in line with the rate of return on government obligations in the open market. Provisions for raising the limitation on earnings to a flat \$1,800 and for reduction of the retirement age for men to 62 were included in either the House or Senate versions but were dropped in conference. During the early executive sessions of the House Committee on Ways and Means reports were received to the effect that the Committee was seriously considering an increase in the wage base from \$4,800 to \$6,000. Immediate representations in opposition to this proposal were made to the Committee members by the LIAA, ALC and NALU. Subsequently the Committee voted this proposal down in conjunction with a tentative vote against any increase in OASDI taxes as a means of financing liberalizations in the system which had the effect of restricting changes to those of a minor nature.

Outlook

The outlook for further medical care legislation is far from clear. Much will depend upon the speed and effectiveness with which the states implement the new program. On September 19 HEW Secretary Flemming sent a letter to all of the state governors pointing up the provisions of the new law. As of November 15, 1960, the situation with regard to state implementation in 54 jurisdictions stood as follows:

- | | |
|--|-----------|
| 1. Planning to effect program in 1960. | 4 states |
| 2. Legislation enacted. | 2 states |
| 3. Giving active consideration to proceeding under their present laws. | 6 states |
| 4. Seeking interpretation of present law as to whether further legislation is needed. | 5 states |
| 5. Needing legislation and definitely planning recommendations to legislatures after 1/1/61. | 4 states |
| 6. Needing legislation and considering possible action by legislatures after 1/1/61. | 13 states |
| 7. Needing legislation but not contemplating action in near future. | 20 states |

President-elect John F. Kennedy has consistently urged a plan of medical care under the Social Security system and will in all likelihood submit such a plan as a part of his legislative program. Some Congressional leaders have openly forecast such a plan as one of the first three or four bills to receive attention. The validity of such a forecast can be fully evaluated only after the organization of the new Congress.

Studies and Reports

White House Conference on Aging

This Conference, originally provided for by P. L. 85-908, is now scheduled for January 9-13, 1961 in Washington. In preparing for the Conference, great emphasis has been placed upon state conferences prior to the national conference. During the period from May through September preliminary conferences were held in each of the fifty states. Numerous representatives from the insurance business have been active in these conferences. Recommendations and reports coming out of these state conferences will be collated as the basis for the work of the national conference.

An Advisory Committee of 150 persons appointed by HEW Secretary Flemming and working through numerous planning subcommittees has laid the plans for the four-day conference. As set out in last year's report, six representatives from the insurance business have served on this Committee. Nearly 3,000 delegates will attend the January Conference. Almost 1,800 of these delegates will represent the states on a quota basis proportioned roughly to size. No state will have less than ten nor more than one hundred delegates. Here again the insurance business will have representatives serving as delegates from many states. There will be an additional 600-700 delegates representing some 300 national organizations. Among the organizations represented will be LIAA, ALC, HIAA and NALU. Another nearly 400 delegates will consist of members of the Advisory Committee as well as consultants to the planning committees and certain others designated by HEW Secretary Flemming.

The Conference will be organized under ten principal groupings broken down into twenty sections which in turn are broken down into some sixty work groups. The interests and contributions of the insurance business appear to be focused principally in the Income Maintenance, Inflation and Employment Security and Retirement sections of Group I.

It is anticipated that out of the Conference will come a series of policy statements which will form the basis for further study and possible action on the part of the individual and private and public organizations as well as at various levels of government.

Senate Subcommittee on Problems of the Aged and Aging

Established by a Senate Resolution in the first session of the 86th Congress, the life of this Subcommittee was likewise extended through the second session. During these two years, the Subcommittee held numerous Washington hearings during which it heard individual experts and consultants as well as representatives of national organizations and government agencies. In addition, so-called grass roots hearings were held in seven cities. The work of the Subcommittee was published in eleven volumes of hearings, a problem survey and a lengthy final report.

In its final report, the Subcommittee recommended among other things:

1. Health service benefits for OASDI beneficiaries.
2. A substantial increase in all OASDI benefits with a minimum benefit increase from \$33 to at least \$50.
3. A wage base increase from \$4,800 to at least \$6,000.
4. A study of proposals for protection of purchasing power of retirement income through "constant purchasing power" government bonds.

Throughout its second year, the Subcommittee emphasized the problem of health care for the aged and its final hearings were on this subject. Out of these hearings, the Subcommittee became heavily involved in the issue of health care for the aged when it reached the Senate floor. Subcommittee Chairman McNamara introduced the "Retired Persons Medical Insurance Act" which was co-sponsored by all of the Democratic members of the Subcommittee but was later rejected by the Senate Finance Committee.

Senator McNamara also introduced several other bills which evolved from the Subcommittee's work including a proposal for a constant purchasing power bond, and a proposal for establishing a U. S. Office for the Aging. None of these bills was acted upon but it can be anticipated that they will be reintroduced next session and will form the basis for further legislative activity.

INVESTMENTS

Housing and Mortgage Lending

The keynote to the housing and mortgage lending legislative picture this past session was restraint. Almost from the outset it appeared that there would be no extensive new programs although there was to be almost continuous Congressional consideration of various proposals in this area. This situation stemmed principally from the Administration's concern with fiscal stability buttressed by similar concern on the part of many conservatives in Congress.

A restricted bill finally passed in the closing moments of the bobtailed August session providing for: (1) Extension of the FHA Title I Home Improvement program to October 1, 1961; (2) Increases in the funds for college housing and public facilities of \$500 million and \$50 million respectively.

Just prior to this, the question of the VA Home Loan program was extracted from the omnibus legislation and acted upon in the form of a bill providing for a two-year extension to July 25, 1962 of both the guaranteed home loan program and the direct loan program, providing \$150 million per year for the latter program.

Beyond these two bills which passed, it is revealing to take a brief look at the general developments with respect to housing legislation. On the House side, the year began with a call from Congressman Rains, Chairman of the Housing Subcommittee, for an Emergency Home Ownership bill providing \$1 billion for FHA and VA loans together with a central mortgage bank which he urged as a necessary secondary market mechanism. The bill was introduced as forecast except that it deferred the fundamental question of a central mortgage bank and instead provided for certain changes in the existing structure of FNMA aimed at increasing FNMA's role in the mortgage market. This bill was favorably reported, passed by the House and referred to the Housing Subcommittee of the Senate Committee on Banking and Currency where it died for lack of further action.

On the Senate side the year started with a floor statement by Senator Robertson of Virginia, Chairman of the Senate Committee on Banking and Currency. The Senator reviewed the status of the housing market and the various factors affecting it. He opposed direct loans at subsidized rates, calling for flexible rates on government programs as well as federal fiscal stability. Later, an omnibus housing bill was introduced, heard by the Housing Subcommittee, favor-

ably reported and passed by the Senate. However, when it reached the House, it was referred to the Banking and Currency Committee where it likewise died for lack of action.

Still a third effort at comprehensive housing legislation came with the introduction, hearings and favorable reporting of another omnibus housing bill by the House Committee on Banking and Currency. This bill would have once again liberalized FHA lending terms as well as made certain far-reaching changes in FNMA's structure with the ostensible purpose of expanding its facilities and functioning "so that it can more truly supply the central banking function which is needed to assure a more adequate and even supply of mortgage capital * * *". The House Committee on Rules held a hearing on the question of granting a rule on this bill. By tie vote the Committee declined to grant a rule and the bill died with the end of the session.

Thus all efforts at housing legislation culminated in the passage of the two earlier-described bills. Both Senator Sparkman and Congressman Rains, Chairmen respectively of the Senate and House Subcommittees on Housing, made floor speeches deploring the failure to pass an omnibus bill and forecasting early efforts in 1961 at comprehensive legislation.

Throughout hearings on the foregoing bills the LIAA-ALC position in favor of a sound private mortgage market and avoidance of inflation was ably presented by a series of witnesses including Mr. R. Manning Brown, Jr., Vice President in Charge of Real Estate and Mortgage Loans, New York Life Insurance Company, Mr. Ehney A. Camp, Vice President and Treasurer, Liberty National Life Insurance Company, Mr. John G. Jewett, Vice President, The Prudential Insurance Company of America, and Dr. James J. O'Leary, LIAA's Director of Economic Research.

Last year's annual report developed the background of the "Study of Mortgage Credit" conducted by the Senate Housing Subcommittee in 1959. A report on this study was issued on April 15, 1960, which provides some good indications of proposals which may well come up for consideration during the 87th Congress. The report concludes that a minimum of 16 million nonfarm units will be required for the period 1961-1970. The report analyzes various housing supply factors including mortgage credit, estimating that \$160 billion will be needed and will be available only if positive action is taken to assure it. Such action, the report indicates, may have to include new sources of credit and new financial instruments. The report

concludes with ten recommendations some of which are for further study and others of which are legislative recommendations pertaining to various federal programs.

As for the outlook next year it can be said with certainty that action in the field of housing and mortgage lending will be initiated just as soon as the new Congress is organized. Another bill along the lines of the Emergency Housing Act of 1958 is a distinct possibility. Congressman Rains has urged an increase in the Special Assistance Funds available to FNMA as well as the establishment of a central mortgage bank. Other possibilities are: a middle-income housing program as well as legislation to create a Department of Urban Affairs. The state of the economy generally, the current rate of housing starts and the attention given interest rates during the recent campaign act to assure early attention to this area of legislation.

MONETARY POLICY AND DEBT MANAGEMENT

Again this past year the Administration evidenced a determination to follow sound fiscal policies, to maintain the stability of the dollar, and to avoid inflation. At the time the budget for fiscal 1961 was submitted to the Congress, it provided for a projected surplus of \$4.2 billion to be applied to public debt retirement. However, by October, circumstances had changed to require a downward revision of this estimate to around \$1 billion. It presently appears that even this figure will be difficult to maintain. This surplus reduction is attributed by the Budget Bureau to several factors including failure of Congress to enact recommended revenue measures, Congressional insistence on certain unrecommended expenditures and decreased revenue resulting from lower corporate profits than estimated.

Early prospects were favorable for legislation to relieve the government's financing problem by raising the 4¼% statutory interest ceiling on long-term government bonds. The House Committee on Ways and Means favorably reported out legislation in the nature of a compromise. This bill would have authorized a limited issuance at a rate in excess of 4¼% of long-term and intermediate obligations up to 2% of the national debt upon a Presidential finding that the national interest requires such action. However, it was never called up for floor action in the House and it died with adjournment.

As in the past, the life insurance business, throughout its appearances on various legislative proposals, has consistently urged financing of the economy through individual savings as the sound way to

finance economic growth without the dangers of inflation. Consistent opposition has been offered to all efforts at government allocation or rationing of capital as a substitute for the market place.

The Congressional Joint Economic Committee this year concluded the publication of its 1959 hearings with five more volumes of hearings as well as the balance of a series of twenty-three study papers. The Committee also published a staff report as well as a principal Committee report.

Brief hearings were held before the Production and Stabilization Subcommittee of the Senate Committee on Banking and Currency with regard to amendments to the Employment Act of 1946. These amendments would have required the President to include in his Economic Report a discussion of monetary and credit policy. They would also have assigned to the President the responsibility of holding public hearings on price or wage increases which appear to threaten economic stability. No action was taken on either this bill or a similar bill favorably reported by the House Committee on Government Operations during the first session.

Legislation to permit the item veto, establish a Joint Congressional Budget Committee and provide for consolidated appropriating remained pending before the various committees of jurisdiction. However, no hearings were held and no action taken.

INSURING FEDERAL CIVILIAN AND MILITARY PERSONNEL

Federal Employees Health Insurance

Last year's report outlined the developments leading to the passage of the Federal Employees' Health Benefit Act of 1959. This act provided federal employees with a choice between a government-wide indemnity benefit plan and a government-wide service benefit plan. Where available employees could also choose employee organization plans or comprehensive prepayment medical plans. The Act requires two levels of benefits under both the indemnity and the service plans. The Aetna Life Insurance Company was chosen as the prime carrier for the government-wide indemnity benefit plan.

The Civil Service Commission, on August 2, 1960, announced that 1,738,828 government employees had enrolled to participate in the new program. This figure represents over 90% of the eligible employees. The total of the employee and government contributions was estimated at \$300 million per year with the employees paying 62% of that amount and the employing agencies paying the balance.

Set out below is a Commission table which gives a breakdown of the employer enrollment by plan.

	<i>Enrollment</i>	<i>% Total Enrollment</i>	<i>% High Option</i>	<i>% Low Option</i>
Service Benefit Plan.....	943,377	54%	82%	18%
Indemnity Benefit Plan.....	465,385	27%	82%	18%
Employee Organization Plans...	229,079	13%	68%	32%
Comprehensive Medical Plans...	100,987	6%	93%	7%
Total	1,738,828	100%	81%	19%

RETIRED EMPLOYEES

The question of a counterpart health benefits program for retired Federal employees was carried over from the first to the second session of the 86th Congress. As the session opened, the Senate Post Office and Civil Service Committee had before it a bill which had been introduced and heard during the first session. The bill was favorably reported to the Senate and passed without amendment. In this form, the bill provided for a government contribution for those persons electing to participate in a health benefits program to be established by the Civil Service Commission.

The House Post Office and Civil Service Committee held hearings on this legislation in June. During these hearings the Administration objected to the multiplicity of plans with which the Commission would have to deal under the Senate bill. The Commission alternatively approved the corresponding provisions of substitute legislation directing the Commission to establish a single health benefits program (either indemnity or service) for retired employees but authorizing the government to contribute to other plans, meeting certain requirements, which might be elected or retained by retired employees. The House Committee favorably reported the substitute bill, estimating that as many as 415,000 retired employees and survivors would be eligible at a first-year cost estimated at \$15 to \$25 million. The House, under suspension of rules, passed the Committee substitute without amendment.

The Senate concurred in the House bill with a single amendment which the House in turn accepted thus clearing the bill for Presidential signature. It was signed into law on September 8, 1960 as P.L. 86-724.

The single Senate amendment to the House bill mentioned above deserves further explanation. Section 10 would have exempted

insurance plans operated by federal employee organizations from regulation by the District of Columbia Insurance Department, a feature which had earlier been the subject of an unfavorable report by the Senate District Committee. The report held that the Civil Service Commission is not set up to act as an insurance regulatory agency, that rejection of the amendment would not result in burdensome duplication and finally, that insurance regulation by the Commission would run counter to the intent of the McCarran Act. It was on the basis of this report that the Senate struck this provision, an action which was accepted by the House.

Veterans' and Survivors' Benefits Including N.S.L.I.

There were no major changes during the 1960 Congressional session in the "Servicemen's and Veterans' Survivors' Benefits Act of 1956" (P.L. 84-881) and it continues to operate substantially as enacted. Likewise, there were no material changes in the veterans' compensation and pension programs.

The question of reopening the National Service Life Insurance program started out in the usual pattern which we have reported over the past few years. However, although the proposal once again failed of enactment, the circumstances surrounding its final defeat were such as to give rise to continuing and growing pressure for this type of legislation in future sessions of Congress.

In March of this year the House Committee on Veterans' Affairs held hearings on numerous pending insurance bills. LIAA-ALC submitted a statement in opposition to nine of these bills which would have, in varying degrees, restored the rights of certain veterans to purchase NSLI coverage notwithstanding prior termination of such eligibility. Additionally the two associations opposed two bills which would have permitted veterans to purchase double indemnity coverage to be added to existing policies.

Subsequently the Committee reported out three essentially non-controversial insurance bills withholding favorable action on either the reopening or the double indemnity bills. One of the three, H. R. 11045, would have provided new modified life insurance plans for NSLI policyholders. Under this plan the premium would remain level throughout the life of the insured but the face value would be reduced by 50% at age 65. The three bills passed the House and went to the Senate where they were referred to the Finance Committee.

The Finance Committee already had before it the most current form of the Long reopening amendment which he had introduced in the closing days of the prior session with the co-sponsorship of over fifty Senators. This version was framed to assess administrative costs against the insureds. The Veterans' Administration, which opposed the measure, estimated that some 16 million veterans would be eligible under the bill and that around one million policies would be written.

No hearings were held by the Senate Finance Committee on the insurance bills. In favorably reporting these insurance bills, the Committee attached the Long amendment to the above-described H. R. 11045. In this form the bill passed the Senate by a vote of 75-0. During this period, Senator Long took the floor on two occasions to criticize the life insurance business for its position on his amendment. LIAA-ALC Joint General Bulletin 893 dated June 14, 1960 alludes to these remarks and develops the historical background of the Associations' position.

On June 29 Congressman Teague rose and asked unanimous consent to take the bill from the Speaker's table and consider the Senate amendments. Congressman Smith of California engaged in colloquy with Congressman Teague during which Mr. Teague stated that the Veterans' Affairs Committee had considered the amendment in each of the past four years and on each occasion had rejected it. He likewise stated that he is opposed to the bill but referred to his earlier promise to Senator Long that he would ask to have it taken up. Reference was also made to the opposition of the Veterans' Administration. Thereafter Congressman Smith objected to the unanimous consent request which had the parliamentary effect of sending the bill to the House Rules Committee for a rule permitting its consideration. However, the Rules Committee did not act during the remainder of the session and the bill died with adjournment.

Subsequent to the objection and prior to adjournment, three members of the Veterans' Affairs Committee took the floor on separate occasions to disagree with the implication of the Smith-Teague colloquy that the Insurance Subcommittee had studied the Long amendment and unanimously turned it down. Their statements were to the effect that the Subcommittee had simply deferred action pending the outcome of developments in the Senate. All three of the Congressmen expressed themselves in favor of the reopening amendment which indicates possible difficulty in holding the line the next time

this legislation comes up which will undoubtedly be early next session.

LIFE INSURANCE AGENTS

Fair Labor Standards Act—Outside Salesmen

During the year 1960, there were no developments of consequence with respect to the provision exempting outside salesmen from the wage and hour requirements of the Fair Labor Standards Act.

As pointed out in last year's report, there were at the end of 1959 a few bills pending in the House which, among other things, would have provided for the elimination of this exemption. At the House hearings held in 1960 on amendments to the Fair Labor Standards Act, however, this particular issue was never given consideration, and all of the emphasis was on the questions of increase in the minimum wage and extension of coverage. On the Senate side, none of the bills introduced on this subject during the 86th Congress included any reference to the outside salesman exemption.

Both the Senate and the House passed bills to amend the Fair Labor Standards Act, the House in June, 1960, and the Senate in August. The matter died in conference, however, with disagreement on the issues of extension of coverage and the wage floor.

Bills on this subject are certain to be introduced early in the next session. On the basis of experience since 1951, it seems reasonable to expect that at least some of these bills will provide for elimination of the outside salesman exemption. Should that issue receive serious consideration, LIAA-ALC, consistent with past policy, will oppose any such amendment.

Unemployment Compensation

As reported last year, several bills were introduced in the House during 1959 which would have imported into the federal unemployment compensation law the "employee" definition of the Social Security Act. This would have affected the status under the unemployment compensation system of life insurance agents who are independent contractors. In April, 1959, LIAA-ALC submitted to the House Ways and Means Committee a statement opposing this change, and subsequent to the hearings a new bill was introduced which contained no amendments of the "employee" definition.

Later, the House Ways and Means Committee incorporated its amendments to the federal unemployment compensation law into the

bill providing for amendments to the Social Security Act, which was reported out favorably in June 1960. No change in the "employee" definition in the unemployment compensation law was included. This bill was ultimately passed by the Senate and the House and became law in September 1960 as the Social Security Act Amendments of 1960.

APPENDIX

MISCELLANEOUS TAX LEGISLATION, REGULATIONS AND RULINGS

Premium Payment Test

Objections to the restoration of the premium payment test on constitutional grounds were effectively removed this year, by the decision of the Supreme Court in the case of *United States v. Manufacturers National Bank of Detroit* that the provision of the pre-1954 law was constitutional. In this case, the decedent had transferred all incidents in his life insurance policy long before his death, but he had continued to pay the premiums. The Internal Revenue Code provision in effect at his death included in the estate of an insured the proceeds of policies purchased with premiums paid by the decedent.

The premium payment test was left out of the 1954 Code, and currently life insurance proceeds paid other than to the decedent's estate are included in gross estate only if the decedent retained incidents of ownership in the policy. Restoration of the premium payment test has been recommended to Congress several times since the enactment of the 1954 Code, and a limited version of the premium payment test was included in the 1958 Technical Amendments bill. LIAA and ALC have been successful thus far in opposing this legislation. However, re-enactment was again proposed in the 1959 Tax Revision Compendium prepared for the House Ways and Means Committee by a number of tax experts. Furthermore, overall revision of the estate tax provisions of the Code was stated as an administration objective in one of the speeches of President-elect Kennedy. It therefore appears that the premium payment test must remain a subject of careful attention.

Pension Plans of Unincorporated Associations

Ordinarily the owners of a business may obtain the advantages of tax deferment through qualified pension plans by incorporating their

businesses, constituting themselves employees, and then establishing qualified pension plans. Only employees may be covered by qualified pension plans, and only through incorporation may owners become employees. Furthermore, the tax benefits incident to employee group term life insurance described in section 1.61-2(d)(2) of the regulations and health insurance plans described in sections 105 and 106 of the 1954 Code are available only to employees.

Since the decision of the United States Court of Appeals in *United States v. Kintner*, 216 F. 2d 418, doctors and others prevented by law or professional ethics from incorporating under state law have hoped to attain corporate status, and thereby become employees, for Federal tax purposes under section 7701 of the 1954 Code, which, notwithstanding state law, treats associations as corporations if, in fact, they have the major characteristics of corporations. Extensive utilization of the "Kintner" principles was, however, not practical without Treasury concurrence.

The *Kintner* case was decided in 1954. In 1956 the Internal Revenue Service announced, in Revenue Ruling 56-23, that it would not follow the *Kintner* decision in other cases. The following year, the Service modified its position and, in Revenue Ruling 57-546, announced that the standards by which such associations would be regarded as corporations would be published in a Revenue Ruling.

On December 23, 1959, instead of a ruling, the Treasury published extensive new proposed regulations setting forth the requirements to be met by an association taxable as a corporation. The Subcommittee on Federal Taxation of the Joint Legislative Committee studied the regulations and offered no major comments. Representatives of the two associations attended the hearings on the regulations.

As set forth in the regulations, the factors deemed most critical for determination of corporate status for associations are centralization of management, continuity of life, limited liability and free transferability of interests, although not all of these attributes need be present in every case. At the hearing on the proposed regulations, spokesmen for a number of professional associations, primarily in the medical field, urged that these tests be measured by the intention of the parties to such association agreements rather than by the precise terms of the local law governing partnerships and associations. The Treasury Department did not adopt these recommendations. Instead, the final regulations, published November 17, 1960, require even closer adherence to state law definitions.

It thus appears that utilization of these regulations for pension plan purposes will be quite limited.

Pension Plans With More Than One Contract or Trust

Original regulations under section 72 of the 1954 Code provided that where a qualified pension plan encompassed more than one contract or even more than one trust, the several contracts or trusts should be treated as a single contract in determining the excludible portion, i.e., the annual return of the employee's own contributions to the plan, of the distributions to the employee or his beneficiaries. On February 4, 1960, the Treasury proposed new regulations which could have required separate computations of the excludible portions of each separate contract under the plan.

Separate computations for each of the individual contracts or trusts could change the incidence of tax. In the case of plans funded through life insurance, the Treasury emphasized that while those amounts includible annually in the employee's income as current life insurance protection might be applied as a part of the cost or other consideration of the contract providing the insurance, thereby reducing the taxable portion of the annuity payments received on retirement, these amounts may not be considered as cost or other consideration of other contracts within the same plan not providing the life insurance protection. In some cases pension trusts purchase group term life insurance contracts which provide no retirement benefits at all. In this case no part of the amount currently taxed to the employee would later be excludible as a part of the cost or other consideration of the annuity contract.

Following careful study of these proposed regulations, the Association and Convention, on March 7, 1960, filed recommendations for changes in the amendments so proposed. They urged that under the regulations separate contracts pursuant to a single program of coverage be treated as a single contract, as, for example, under a plan by which, at the outset, each employee is covered by a single contract with additional similar contracts provided in later years to reflect increases in salary. The associations recommended further that in any event the regulations should be made effective only with respect to employees entering benefit status after the date of these regulations. Mr. John F. Gleason, Second Vice President, New York Life Insurance Company, represented the two associations at the oral

hearings on March 29, 1960, and submitted additional material at that time.

Final regulations, published October 29, 1960, were in substantial accord with the recommendations made by the life insurance business. The following statement appears in T. D. 6497, at section 1.72-2(a)(3)(i):

"A separate program of interrelated contributions and benefits may be financed by the purchase from an insurance company of one or more individual contracts, or may be financed partly by the purchase of contracts from an insurance company and partly through an investment fund, or may be financed completely through an investment fund."

To the extent that the new regulations do require breakdown of computations to the individual contracts under a qualified plan, this computation is to be enforced only with respect to benefits commencing after the date of the regulations, October 20, 1960. See section 1.72-2(a)(3)(iii).

The new regulations re-emphasize the provision of some years' duration that the cost of current life insurance protection which is included annually in the income of the employee is to be considered as premiums or other consideration paid by him only with respect to benefits attributable to the contract providing the life insurance protection.

Withdrawal by an Employee of His Own Contributions to a Qualified Pension Plan

Rulings of the Internal Revenue Service, Revenue Rulings 56-693 and 57-163, placed serious doubt as to the qualification of a pension or profit-sharing plan under which the employee might, on application, withdraw the amount of his own contribution to the plan prior to retirement or termination of employment. LIAA and ALC filed a letter with the Internal Revenue Service requesting the Service to make a public statement to the effect that withdrawal by an employee of his own contributions will not disqualify the plan, and joining in an individual taxpayer's request for ruling on this subject. (See p. 65, 1957 Association Proceedings.)

After extensive consideration, the Service this year published two rulings directed to this problem. First, in Revenue Ruling 60-281, the Service ruled that a qualified plan might grant a participant the right to withdraw his own contributions to the plan, plus the

interest attributable to those contributions, on withdrawal from further participation in the plan. Later, in Revenue Ruling 60-323, the Service specifically modified its earlier rulings, Revenue Rulings 56-693 and 57-163, and held that an employee may have the right to withdraw his own contributions to a pension plan at any time without interest and continue to participate in the plan.

Deduction of Amounts Contributed to Annuity Plans

For some years LIAA and ALC have sought to obtain relief from the provisions of Mim. 6020, a ruling published in 1946 holding that "A plan which is represented by a group annuity contract or by annuity contracts is not in effect before such contract is, or contracts are, executed and issued." Often, payments are made by an employer under an annuity plan before the contract is issued, and the contract itself may be held up because of some provision requiring clearance by the state insurance department. Under Mim. 6020 there was considerable doubt that such payments were deductible unless the contract was issued by year end.

The life insurance business took the position that if the plan is complete and binding, a mere delay in issuance of the contract should not prevent recognition of the plan. LIAA and ALC presented detailed specifications for recognition of the plan and attended several conferences in furtherance of a new ruling to replace Mim. 6020. (See p. 64, 1957 Association Proceedings.)

On December 21, 1959, the Internal Revenue Service issued Revenue Ruling 59-402 adopting in full the recommendations made by the LIAA and ALC.

ASSOCIATION'S 1960 STATE LEGISLATIVE
AND LEGAL ACTIVITIES

BY HENRY R. GLENN

General Counsel

Life Insurance Association of America

This customary annual report on the Association's state legislative and legal activities, covering the year 1960, will attempt to highlight some of the unusual developments in these fields during the year. The Association's activities embrace, as we have outlined in many previous reports, all matters which are of general concern to the life insurance business and its policyholders. Within these broad boundaries, we have continued to discharge our objectives to preserve and, where necessary, improve the system of state regulation of insurance and to advance the business climate in which our business operates, at least to the extent that it depends upon legislative and departmental developments.

We have sought to accomplish these objectives by supporting properly designed regulatory measures, while opposing others which would unreasonably restrict the conduct of our business. These comprehensive objectives have been expressed in (1) objections to excessive taxation, including resistance to proposed premium and other tax increases and the sponsorship of reductions in annuity taxes, (2) participation in litigation of general concern to the business, (3) detailed insurance code revision work, usually far in advance of legislative sessions, (4) attention to the thousands of legislative and departmental developments which, each year, affect our business, and (5) cooperation with the NAIC in all matters, including most recently the regulation of accident and health insurance advertising, the development of a model bill relating to credit life and A&H insurance, and the advancement of modern individual and group mortality tables. Information concerning all of these matters is trans-

mitted regularly to our membership through the various Association and joint Association-Convention services.¹

In recent years, we have reviewed with you some of the activities of the legal staff, its participation in the various areas of concern to our business, the development of that staff, and the various professional skills which are employed in the discharge of the Association's functions. This year, I would like to outline briefly to you some features of the Association's operations, the significance of which, in my view, may not be fully realized by many of our members. I speak here of the indispensable guidance given to the staffs, in the performance of their legislative and departmental duties, by the joint committees of the Association and the Convention. These committees are comprised of company executives and specialists who, in addition to their normal company duties, devote substantial time and special skills to solving industry problems. It is at this committee level that policy is made, or to put it another way, it is at this level that the staff gets its orders. While many of these committees give consideration to particular problems which involve legislation, it is the Joint Legislative Committee which finally determines, often upon the recommendations of the other joint committees, the broad policy positions of the business in the legislative and departmental areas. I should like to tell you something about that committee.

The Joint Legislative Committee is presently composed of thirteen members and its representatives over the years have come from the executive, actuarial, group, legal, investment and agency segments of our business. As is the case with all other Association-Convention committees, the members are from stock and mutual companies, large, medium and small. In the consideration of their appointments by the presidents of the two organizations, further thought is given to appropriate geographical considerations. Representatives from forty-one of LIAA-ALC member companies have already served on this committee. It is designed to be a balanced committee,

¹ *Association Services*

Agents Licensing Manual
Card Index Digest of Statutes
Group Insurance Manual
Insurance Law Pamphlet Service
Investment Law Manual
Monthly Report of Committee
and Board Activities
New Insurance Laws Service
Real Estate Investment Law Manual
Real Estate Law Service

Joint Association-Convention Services

Bulletin Service
Information-at-Source Manuals
Municipal Tax Manual
State Premium Tax Manual

with the view to reaching balanced policy decisions regardless of the importance of a single issue to any particular segment of the business. Its members thus are not considered to represent any company nor either the Association or Convention as such, but instead are encouraged, to the greatest extent possible, to act for the business as a whole. This committee, together with its various subcommittees appointed to consider particular problems, has been an important operating arm of the life insurance business in the solving of the varied and complex industry-wide problems in today's insurance world.

Still another phase of our operations, the importance of which in this dynamic legislative process might often be overlooked, is the work of the company executives and other personnel who, as LIAA-ALC state legislative representatives, act for the business as a whole as their voluntary contribution to the industry. Often this requires of these representatives several months of hectic legislative detailed work, sometimes at a sacrifice to their normal company duties. Thus, under this philosophy, company officials in state X do for all companies doing business there the same legislative task which is performed in state Y for all companies doing business in the latter state. This type of operation has been conducive to the development of industry-wide spirit and viewpoints, forces which have stood the life insurance business in good stead during times of emergency. As an aside, it should also be mentioned that if we could measure all of these contributions in terms of dollars and cents, the cost of this kind of cooperative industry-wide service on behalf of the common good, and now willingly given on a gratis basis, would be astronomical. This perhaps justifies an observation here that in back of all of our members in their effort to market a superior product, and to do business with the least possible difficulty, stands this somewhat vast mechanism designed to foster the betterment of life insurance and its utility to the insuring public.

1960 was what we term an "off" legislative year. Thus, the volume of legislation was relatively small compared with the "on" years when most legislatures are in session. Nevertheless, there were some important developments and there are some trends. As we look forward to the years ahead, perhaps no development is more challenging than that recently presented as the result of the investigation conducted by the O'Mahoney subcommittee of the U. S. Senate on Anti-Trust and Monopoly. In the majority report of that subcommittee,

after advancing a series of recommendations with respect to state regulation of the insurance business, a challenge is made to the state supervisory system under which we operate. It may be worth while to quote here one of its conclusions:

"It has been over 36 years since the first suggestions were advanced to renovate and strengthen State regulation as proposed in the Patterson study; later, suggestions were made by the TNEC; and now, after another study, recommendations are being made by this subcommittee. It is hoped that these suggestions will not be again ignored by the States. It remains to be seen how long such a regulatory structure can stand without substantial improvement in substance and administration."

It is perhaps too early to predict here what the ultimate effect of this report will be. Certainly some of its conclusions can be, and have been, challenged. That its recommendations deserve careful study is beyond question and I am sure that the Association will discharge its responsibilities in this area. We remain fully conscious that the best defense against any Federal encroachment upon the traditional system of state supervision of insurance under which we operate is found in being able to demonstrate that our present regulatory system, despite some shortcomings, operates in the public interest more effectively than would be the case under any undemonstrated Federal supervisory system.

The state legislatures in 1960, even with their relatively small volume of legislation, did produce many changes in the overall legislative and regulatory picture. We divide these again into what seem to be significant categories, and as such we begin this year with that important area of concern to our business—taxation.

TAXATION

State tax legislation during 1960 was highlighted by favorable results in several jurisdictions. In Georgia, the new Insurance Code changed the premium tax base to permit the deduction of policyholder dividends paid or credited. In South Carolina, the 4½% license tax on investment income of domestic and foreign insurance companies was repealed. In addition, a number of measures to impose increased tax burdens on insurance were defeated. In West Virginia, the Governor, in his message to the legislature, requested (1) that the present temporary additional 1% tax on premiums, enacted in 1957 for a two-year period, be made permanent, making the perma-

nent rate in that state 3%, and (2) that the 1% tax on annuity considerations be increased permanently to 3%. After strenuous industry objections, the proposed annuity tax increase was defeated outright, as was the proposal to make permanent the additional 1% premium tax. Instead the latter tax was extended for a one-year period and efforts are continuing to prevent a further extension.

In Rhode Island, a proposed premium tax increase from 2% to 3½% to finance state grants to augment the pay of local police and firemen was defeated largely because of its extreme retaliatory tax impact on Rhode Island domestic companies.

At the policyholder and beneficiary level, in Rhode Island, a bill (sponsored by the Governor and originally endorsed by the legislative leadership) which would have subjected to the estate and transfer tax all life insurance proceeds, whether payable to an estate or to a named beneficiary, was amended prior to passage to tax only proceeds in excess of \$50,000 with respect to which the insured possessed at his death any of the incidents of ownership.

We expect 1961 to produce many attempts to increase the tax burdens on the business and its policyholders. The avoidance of adverse results will be attained only through the cooperation of the business as a whole.

GROUP INSURANCE

In October, the governing bodies of this Association and the American Life Convention adopted the Report of the Joint Committee on Reexamination of Group Policy, better known as the Beers Committee Report. By this time, its recommendations are well known, so they will not be repeated here.

Implementation of the recommendations contained in the report is the next order of business. This will be the responsibility of the Joint Group and Legislative Committees. The Group Committee has appointed a subcommittee to develop language expressing the anti-discrimination principle which replaces the \$20,000/\$40,000 amount limit, to study the problems of control of franchise and wholesale insurance, and the commission problems involved, in some instances, in the direct writing of group insurance. Since major changes in the laws of many states will be required, it seems reasonable to forecast that the implementation of the report will be a gradual process.

There was comparatively little group insurance legislation in 1960. An important bill was passed in Michigan, which amended its minimum first-year group life insurance premium rate law to make it clear that it is not extra-territorial in application and to permit the use of the new NAIC group mortality table. New York and Pennsylvania already had statutory authority to substitute the new table for the 1941 CSO table. Thus of the five states having group minimum premium laws, legislative action relative to the new table is still required in Ohio and Maine. It is expected that each of these states will amend its law in 1961, and thereafter the five states will simultaneously promulgate minimum premium rates reflecting the current mortality experience contained in the new table.

Compulsory cash sickness bills failed in Arizona, Massachusetts and Michigan, while in New York a bill was enacted increasing the maximum weekly benefits from \$45 to \$50 and extending coverage to employers of two or more.

ACCIDENT AND HEALTH INSURANCE

The leading development in accident and health insurance was the adoption in New York of a bill, sponsored by Governor Rockefeller, requiring group accident and health contracts issued or amended after January 1, 1961 to contain a conversion privilege. This law contains specific provision for premium rate regulation with respect to conversions over age sixty. Enacted without change despite defects repeatedly pointed out by industry representatives, this law left to the Insurance Department the resolution of the apparent conflict between the program's declared objectives of self-supporting rates for converted policies and rates low enough to be "reasonable." This major problem, plus numerous lesser but still important difficulties which have arisen, furnish ample proof, if any were needed, that the conversion approach is not the way to solve the health insurance problems of the aging. It is to be hoped these difficulties will stimulate interest in such sounder approaches as continuation of group coverage after retirement and prefunding.

INVESTMENTS

Last year's report noted a widespread development in the laws governing domestic company investments in that fourteen jurisdictions amended their laws to increase permitted mortgage loan-to-value ratios from 66⅔% to 75%. In our opinion, this resulted from the

need to improve the competitive position in the mortgage loan market of life insurance companies vis-a-vis other institutional lenders. This trend continued in 1960 with Georgia, Kentucky, Louisiana, Massachusetts, Pennsylvania and Virginia acting. Whether additional states will act would seem to depend largely upon the economic philosophy prevalent among each state's domestic companies.

No legislative year would seem complete without at least one compulsory investment proposal, and 1960 was no exception. Bills were defeated in Alaska, Georgia, Mississippi and Rhode Island.

INSURANCE CODES

As anticipated, state Insurance Code revisions continue to require substantial attention. In Georgia, a complete code carried forward from the 1959 session was enacted. This brings to thirteen the number of states which have completely revised their insurance laws since the end of World War II.¹ Hearings have been completed on a proposed code for Idaho and a bill will be introduced at the 1961 regular legislative session. The reporting date for the Maryland Insurance Code Commission has been extended to the 1962 General Assembly, with hearings scheduled for January through April, 1961.

NAIC LEGISLATION

This past year, eight additional jurisdictions² adopted the new 1958 CSO and CET tables and the provision permitting age setbacks for females recommended by the NAIC in 1958. As indicated in the attached tabulation (Appendix A), 36 jurisdictions have now acted. The tabulation also lists the remaining states requiring amendments.

Alaska and Georgia enacted laws generally following the NAIC Model Credit Insurance Bill. In Virginia, a law was passed similar to the NAIC bill in many respects but not containing provisions for control of premium rates. A tabulation of the current status of credit insurance legislation in all the states is attached. (Appendix B)

Omitted from this year's Report are the usual tables of uniform laws in which the business is interested. The All Industry Fair Trade Practices Law, Uniform Individual Accident and Sickness Policy

¹ Arizona (1954), Arkansas (1959), Florida (1959), Georgia (1960), Hawaii (1955), Kentucky (1950), Louisiana (1948), Montana (1959), Oklahoma (1957), Utah (1947), Virginia (1952), Washington (1947), and West Virginia (1957).

² District of Columbia, Georgia, Kentucky, Louisiana, Massachusetts, Michigan, New Jersey and South Carolina.

Provisions Law, Unauthorized Insurers Service of Process Act, Photographic Copies of Business and Public Records as Evidence Act, and the Simultaneous Death Act have now been enacted in all or nearly all states. Complete schedules of these laws, with their citations, will continue to appear, however, in the Association's New Insurance Laws Service.

GENERAL

In New York, a bill sponsored by the associations was enacted amending the minimum valuation standard for annuities to increase the permitted interest assumption from 3% to 3½%. The new rate may be used for individual annuities issued on or after January 1, 1960, and for annuities purchased under group annuity contracts with considerations received on or after January 1, 1960. This change was necessary to reduce the differential between required reserve interest assumptions and the interest rates actually earned, and expected to be earned, thereby permitting the maintenance of more realistic reserves on annuity business.

Massachusetts adopted a law permitting life insurance companies to establish separate investment accounts for funds received in connection with qualified pension plans. Retirement plans funded by means of these special accounts would be required to provide a combination of guaranteed and variable benefits, and wider investment latitude would be permitted with respect to portions of the assets in such separate accounts. It will be recalled that Connecticut passed somewhat similar special funding legislation in 1959. A related important development is in progress in New York, where the Insurance Department has under consideration the question whether the so-called "new money" method of allocating income to group annuities is in conflict with Regulation 33, governing allocation of investment income.

Other significant 1960 legislation included laws enacted in Kentucky and Virginia relating to unclaimed life insurance funds; a bill adopted in Kentucky regulating the issuance and sale of variable annuities by domestic and foreign insurance companies; and a law adopted in Mississippi generally following the NALU Model Agents Qualification Law.

A bill failed which would have extended indefinitely the duration of the California employee welfare fund disclosure law and would have

expanded its scope. By reason of the failure of this bill, the law automatically expired June 30, 1960. To many, this seemed a desirable result since the enactment of the federal disclosure law in 1958 reduced state legislation on this subject to the status of needless duplication. Two favorable decisions by the Massachusetts Supreme Judicial Court reversed an administrative regulation which had construed the law of that state as applicable across the board to all employee welfare and pension plans. The Court held the law does not apply to such plans unless they are trustee, thereby excluding most group life and group annuity policies.

Legislation to establish a moratorium on payment of industrial life insurance premiums during strikes of agents failed in Louisiana, Massachusetts, New York and Rhode Island. The pressure was particularly severe in New York where a bill was reported out of committee and debated twice on the floor of the Assembly.

LEGAL ACTIVITIES

Since last year there have been the following developments at the state level with respect to litigation undertaken by the Association on behalf of its member companies.

Equitable Life Assurance Society of the United States v. Hunt (Oklahoma)

This suit, begun in 1959 to test the statutory authority of the Oklahoma Insurance Commissioner to order all life insurance companies doing business in the state to recompute their premium taxes for the years 1954-1958 to include a tax on annuity considerations at the 4% rate, was tried early this fall before the District Court of Oklahoma County. Since there is likely to be an appeal regardless of what the trial court decides, the final conclusion of this matter is not expected for some time.

Union Welfare Funds (New York)

It will be recalled that in 1958 demand was made upon the Superintendent of Insurance of New York, asking that some 20 named self-administered welfare funds, and others similarly situated, be restrained from continuing to do an unlicensed insurance business. The Superintendent, in turn, submitted the matter to the Attorney General. We are informed that the Attorney General has ruled on the

question but that the Superintendent of Insurance is giving further consideration to the problem before responding to the 1958 demand.

Guaranteed Insurability Options (New York)

In January of this year, an appeal from the Circular Letter issued by the Albany Office of the New York Insurance Department requiring new life insurance policies issued pursuant to guaranteed insurability option riders to date both the contestability and suicide periods from the date of issue of the original policy was argued by the Association's counsel before the First Deputy Superintendent of Insurance. There has been no decision as yet.*

Premium Taxation (Kentucky)

In 1959, counsel was retained to object to an Attorney General's Opinion involving deductions in computing the Kentucky premium tax. This matter is pending.

OUTLOOK FOR 1961

With the exception of Kentucky, Louisiana, Mississippi and Virginia, the legislatures of all of the fifty states will meet in regular session next year. Many thousands of bills will be examined for possible harmful effect upon any phase of life or accident and health insurance. In addition to matters of an adverse nature, the ALC-LIAA program of affirmative legislation will require close attention. Among other things, this program includes sponsorship in ten states (see Appendix A) of the 1958 mortality table amendments to the Standard Nonforfeiture and Valuation Laws, and sponsorship where needed of the 1960 NAIC amendments to these Laws. These latter would substitute modern tables for the older tables now prescribed as minimum valuation standards for annuities, disability benefits and accidental death benefits and would change the method of calculating minimum nonforfeiture values for certain term riders and family policies. In connection with the 1960 amendments, a staff study has been completed showing what changes are required in the laws of all fifty-one jurisdictions. With the invaluable help we receive from the officers and field forces of our member companies, and the always generous cooperation of our sister organization, the American Life Convention, the staff will continue to do its best to discharge its responsibilities.

*On December 28, 1960, the Insurance Department sustained the position taken in its Circular Letter. It is likely this decision will be tested in the courts.

APPENDIX A

CURRENT STATUS OF LEGISLATION TO IMPLEMENT NAIC SHEEHAN SUBCOMMITTEE
RECOMMENDATIONS RELATIVE TO THE 1958 CSO AND CET MORTALITY TABLES AND
THREE YEAR AGE SETBACK FOR FEMALES

I. Jurisdictions (36) in which bills have become law:

State	Bill No.	Optional Compliance Dates	Mandatory Date
California	S. 770	1/ 1/61 to 1/1/66	1/1/66
Connecticut*	*	12/19/58	
Delaware	S. 145	5/21/59 to 1/1/66	1/1/66
District of Columbia	H. R. 10684	6/27/60 to 1/1/66	1/1/66
Florida	H. 1626	10/ 1/59 to 1/1/66	1/1/66
Georgia	H. 115	1/ 1/61 to 1/1/66	1/1/66
Hawaii	S. 1200	6/ 1/59 to 1/1/66	1/1/66
Illinois	S. 214, S. 215	7/ 8/59 to 1/1/66	1/1/66
Indiana	H. 381	3/11/59 to 1/1/66	1/1/66
Kansas	S. 258	6/30/59	
Kentucky	S. 198	6/16/60 to 1/1/66	1/1/66
Louisiana	S. 347, S. 348	7/27/60	
Maine	S. 270	9/12/59 to 1/1/66	1/1/66
Maryland	H. 96, H. 113	6/ 1/59 to 1/1/66	1/1/66
Massachusetts	S. 554	7/17/60 to 1/1/66	1/1/66
Michigan	S. 1039	8/17/60 to 1/1/66	1/1/66
Minnesota	S. 210	2/21/59 to 1/1/66	1/1/66
Missouri	H. 267, H. 268	8/29/59 to 1/1/66	1/1/66
Nebraska	L. B. 570, L. B. 591	9/28/59 to 1/1/66	1/1/66
New Hampshire	H. 228	8/22/59 to 1/1/66	1/1/66
New Jersey	A. 404	4/ 7/60 to 1/1/66	1/1/66
New York	S. 2575	4/13/59 to 1/1/66	1/1/66
No. Carolina	H. 283	5/12/59 to 1/1/66	1/1/66
No. Dakota	H. 755	7/ 1/59	
Ohio	S. 428	11/ 5/59 to 1/1/66	1/1/66
Pennsylvania	H. 1389, H. 1390	8/14/59 to 1/1/66	1/1/66
Rhode Island	S. 371	4/17/59	
So. Carolina	H. 1569	3/24/60 to 1/1/66	1/1/66
So. Dakota	S. 385	7/ 1/59	
Texas	H. 754	1/ 1/60	
Vermont	S. 74	4/ 7/59 to 1/1/66	1/1/66
Virginia	H. 41	7/ 1/59 to 1/1/66	1/1/66
Washington	S. 386	6/11/59 to 1/1/66	1/1/66
W. Virginia	S. 203, S. 204	6/ 3/59 to 1/1/66	1/1/66
Wisconsin	H. 438	6/14/59 to 1/1/66	1/1/66
Wyoming	H. 61	5/24/59	

II. Jurisdictions (4) in which no amendment of the law is necessary to authorize use of the new tables:

Alabama
Alaska

Iowa
Nevada

* Adopted by Insurance Department Regulation, January 7, 1959, pursuant to authority provided in statute.

III. Jurisdictions (11)* in which amendments of the law are needed:

Arizona	New Mexico
Arkansas	Oklahoma
Colorado	Oregon
Idaho	Tennessee
Mississippi	Utah
Montana	

* The legislature of Mississippi, which met in 1960 but failed to enact the legislation, does not meet again until 1962. The legislatures of the remaining states have their next sessions in 1961.

APPENDIX B

STATUS OF ENACTMENT OF NAIC
MODEL CREDIT INSURANCE REGULATORY BILL

Eighteen states have enacted laws patterned substantially after the NAIC Model Credit Insurance Bill. These states are as follows:

Alaska	H. 307, Ch. 147, L. 1960
Arkansas	S. 4, Act 148, L. 1959 (Also contains cap on commission)
California	A. 1580, Ch. 1667, L. 1959
Connecticut	S. Sub. 36, Act 576, L. 1959
Florida	H. 1626, Ch. 59-205, L. 1959
Georgia	H. Sub. 115, Act 589, L. 1960 (Also provides Commissioner may set maximum rate)
Idaho	H. 287, Ch. 240, L. 1959
Illinois	H. 728, L. 1959
Michigan	S. 1301, Act 173, L. 1958
Montana	H. 29, Ch. 286, L. 1959
Nebraska	L. B. 594, L. 1959
Nevada	S. 119, 127, Chs. 413, 417, L. 1959
New Hampshire	H. 168, Ch. 66, L. 1959
New Jersey	H. 305, Ch. 169, L. 1958
Ohio	Sub. H. 1058, L. 1959
Rhode Island	S. 574, Ch. 91, L. 1959 (Credit life only)
South Dakota	S. 60, Ch. 214, L. 1959
Vermont	S. 84, Act 221, L. 1959

In Virginia, a law was passed closely similar to the NAIC model bill except for the omission of Section 7B granting authority to control rates charged for the insurance coverage (H. 122, Ch. 67, L. 1960).

Four other states have laws which, although dissimilar to the NAIC version, have been construed by the Insurance Departments to grant authority to regulate credit insurance and impose controls upon premium rates. These states are:

New York	S. 3401, Ch. 683, L. 1958; S. 3055, Ch. 583, L. 1959
Texas	Ch. 81, Acts 1949
West Virginia	H. 126, Ch. 97, L. 1957
Wisconsin	S. 472, Ch. 321, L. 1957

1960 RECORD OF LIFE INSURANCE INVESTMENTS

BY JAMES J. O'LEARY

Director of Economic Research

Life Insurance Association of America

ASSETS AND INVESTMENTS IN 1960

The assets of all United States life insurance companies as of December 31, 1960 are estimated at \$119.45 billion, an increase of \$5.8 billion during the year. Table 1 shows how these assets are expected to be invested at the year-end. Actual investment holdings at the end of 1957, 1958, and 1959 are also shown. Corporate securities, mortgages, and other investments of a nongovernmental character are expected, as in the recent past, to account for approximately 90 percent of assets. Corporate bonds are estimated to account for 39 percent of assets, mortgages for 35 percent and stocks for 4 percent. In the governmental sectors of the economy, investments in United States Government bonds are estimated at 5.5 percent of assets.

Of the investments of a nongovernmental character, corporate bonds are expected to total \$47.1 billion, of which industrial and miscellaneous bonds should account for \$26.6 billion, public utility bonds, \$16.75 billion, and railroad bonds, including equipment trust obligations, \$3.75 billion. Holdings of mortgages are expected to amount to \$41.75 billion, including \$3 billion of farm mortgages. Of non-farm mortgages, estimated at \$38.75 billion, FHA and VA loans are expected to account for about \$16 billion. Altogether residential loans are expected to make up three-fourths of total non-farm mortgages with the remaining one-fourth representing business and commercial mortgage loans. Real estate holdings should approximate \$3.85 billion. Holdings of stocks, including both preferred and common, are estimated at \$4.8 billion. Policy loans are expected to reach \$5.3 billion. Cash and miscellaneous assets are estimated at \$5.15 billion.

TABLE 1
ASSETS, BY CLASSES, 1957-1960
ALL UNITED STATES LEGAL RESERVE LIFE INSURANCE COMPANIES
(Dollar amounts in millions)

Investment class	December 31, 1957		December 31, 1958		December 31, 1959		Estimated December 31, 1960	
	Amount	%	Amount	%	Amount	%	Amount	%
Bonds—U. S. Government.....	\$ 7,029	7.0	\$ 7,183	6.7	\$ 6,868	6.1	\$ 6,500	5.5
Foreign Government	332	.3	320	.3	349	.3	400	.3
*U. S. state and local	2,376	2.3	2,681	2.5	3,200	2.8	3,600	3.0
*Foreign state and local	787	.8	829	.7	935	.8	1,000	.8
Total government	10,524	10.4	11,013	10.2	11,352	10.0	11,500	9.6
Railroad	3,863	3.8	3,843	3.6	3,774	3.3	3,750	3.1
Public utility	15,252	15.1	15,938	14.8	16,455	14.5	16,750	14.0
Industrial and misc.	21,717	21.4	23,439	21.8	25,105	22.1	26,600	22.3
Stocks—Railroad	51,356	50.7	54,233	50.4	56,686	49.9	58,600	49.0
Public utility	99	.1	118	.1	106	.1	100	.1
Other	1,342	1.3	1,550	1.4	1,666	1.5	1,900	1.6
Mortgages—Farm	1,950	1.9	2,441	2.3	2,789	2.4	2,800	2.4
Other	3,391	3.3	4,109	3.8	4,561	4.0	4,800	4.1
Real estate	2,584	2.6	2,667	2.5	2,844	2.5	3,000	2.5
Policy loans and premium notes	32,652	32.2	34,395	32.0	36,353	32.0	38,750	32.5
Cash	35,236	34.8	37,062	34.5	39,197	34.5	41,750	35.0
Other assets	3,119	3.1	3,364	3.1	3,651	3.2	3,850	3.2
Total assets	3,869	3.8	4,188	3.9	4,618	4.1	5,300	4.4
* Includes revenue bonds.	1,292	1.3	1,366	1.3	1,309	1.1	1,300	1.1
Total assets	3,046	3.0	3,258	3.0	3,628	3.2	3,850	3.2
Total assets	\$101,309	100.0	\$107,580	100.0	\$113,650	100.0	\$119,450	100.0

* Includes revenue bonds.

Source: Institute of Life Insurance and Life Insurance Association of America.

Of the investments in the governmental sectors of the economy, United States Government securities are expected to account for \$6.5 billion at the end of the year. State and local government bonds are estimated at \$3.6 billion. Canadian and other foreign government bonds, including the bonds of political subdivisions, should approximate \$1.4 billion.

Net Investments During the Year

Table 2 below shows how the companies are expected to invest the net increase in assets of \$5.8 billion. Actual statistics are included for 1958 and 1959. It should be noted that these increases reflect valuation changes, primarily of common stocks. The 1958 and 1959 increases included gains in the statement values of common stocks while the 1960 estimate gives effect to lower stock values.

TABLE 2
NET CHANGE IN ASSETS, 1958-1960
ALL UNITED STATES LEGAL RESERVE LIFE INSURANCE
COMPANIES
(In millions of dollars)

<i>Investment class</i>	<i>1958</i>	<i>1959</i>	<i>Estimated 1960</i>
Railroad bonds	\$-20	\$-69	\$-24
Public utility bonds	686	517	295
Industrial & Misc. bonds	1,722	1,666	1,495
Stocks	718	452	239
Mortgages	1,826	2,135	2,553
Real estate	245	287	199
Policy loans & premium notes.....	319	430	682
Total private	5,496	5,418	5,439
U. S. Government bonds	154	-315	-368
Other government bonds	335	654	516
Total government	489	339	148
Cash and other assets	286	313	213
Increase in assets	6,271	6,070	5,800

The mortgage market has been the largest net user of life insurance funds in 1960. Holdings of mortgages are estimated to increase more than \$2.5 billion, the largest net increase in mortgage loans since 1956 when they had increased by \$3.5 billion. Non-farm conventional loans are expected to increase \$1.75 billion this year, close to the \$1.8 billion gain of 1956. In the earlier year, however, FHA-

VA mortgages had increased almost \$1.5 billion while this year the gain in such loans is estimated at \$600 million. The indications are that a good part of the \$1.75 billion gain in non-farm conventional loans this year will be accounted for by commercial and business mortgages.

Corporate bonds are expected to account for almost \$1.8 billion of the net increase in assets with industrial and miscellaneous bonds contributing \$1.5 billion and public utility bonds \$295 million. This is the smallest net investment in industrial and miscellaneous bonds since 1955 and the smallest in public utility bonds in the last fifteen years.

Net investments of life insurance companies in domestic state and local issues are estimated at \$400 million, \$100 million less than last year but well above the average of \$215 million for the past ten years. A decline of approximately \$368 million in holdings of United States Government securities is anticipated, with both long and short-term Governments contributing to the decline.

Policy loans have continued to increase as they have each year beginning in 1947. The rise this year is estimated at almost \$700 million, an all-time high. Since policyholders may borrow on the cash value of their insurance not only from life companies but also from other lenders, the increase in policy loans held by life companies does not necessarily reflect increased over-all borrowing but may simply reflect the channeling of a larger portion of such loans with the life companies rather than with other lenders.

Holdings of preferred and common stocks are estimated to increase \$239 million this year compared with an increase of \$718 million in 1958 and \$452 million in 1959. These changes reflect fluctuations in the market values of common stocks. Unlike most bonds and preferred stocks which may be carried in the statements of life companies at stabilized values, common stocks are almost universally carried at year-end market values. The estimated \$239 million increase in stock holdings this year may understate the net investment of the companies by perhaps \$150 million due to the decline in market values of common stocks during the year. The 1960 estimate is based on the level of prices prevailing in September.

Acquisitions of Investments in 1960

Table 3 below shows estimated acquisitions of investments in 1960, together with final statistics for 1958 and 1959.

TABLE 3
ACQUISITIONS OF INVESTMENTS, 1958-1960
ALL UNITED STATES LEGAL RESERVE LIFE INSURANCE
COMPANIES

(In millions of dollars)

<i>Investment class</i>	<i>1958</i>	<i>1959</i>	<i>Estimated 1960</i>	<i>Net change</i>
Railroad bonds	\$ 53	\$ 79	\$ 100	\$ 21
Public utility bonds	1,050	1,061	650	-411
Industrial & misc. bonds	4,755	5,342	5,850	508
Stocks	365	498	600	102
Mortgages	5,277	5,970	6,100	130
Real estate	463	445	300	-145
Policy loans & premium notes...	1,008	1,117	1,450	333
Total private	12,971	14,512	15,050	538
U. S. Government bonds	4,766	4,416	3,600	-816
Other government bonds	800	902	800	-102
Total government	5,566	5,318	4,400	-918
Total acquisitions	18,537	19,830	19,450	-380

Source: Institute of Life Insurance and Life Insurance Association of America.

Total acquisitions during 1960 are estimated at \$19.45 billion, \$380 million less than in 1959. Acquisitions of United States Government bonds are estimated at \$3.6 billion, approximately \$800 million less than in 1959. The bulk of these acquisitions, as in recent years, represents Treasury bills and certificates which are part of the cash position of the companies available for the takedown of forward investment commitments.

Acquisitions of corporate bonds are expected to approximate \$6.6 billion and mortgage loans are estimated at \$6.1 billion. Industrial and miscellaneous bonds are expected to account for \$5.85 billion, public utility bonds for \$650 million, and railroad bonds, including equipment trust obligations, for \$100 million. Of the \$5.85 billion of acquisitions of industrial and miscellaneous bonds a good proportion—perhaps 40 percent—represents commercial and finance company paper. This paper is also utilized by the companies as part of their cash position and appears to have gained in importance this year at the expense of Treasury bills.

Acquisition data do not provide a meaningful measure of the volume of funds available for investment. As already indicated, they include Treasury bills and other short-term paper which are rolled over several times a year. This turnover of short-term investments does not add to the volume of funds the companies can make available to the market during the year. In addition, the acquisition data,

because of the manner in which they are derived, are substantially inflated by the inclusion of many non-cash items. Most companies prepare these data throughout the year in the form consistent with the requirements of the annual statement. Exchanges, such as one type of investment for another or a coupon for a registered bond, frequently show up in the data. Similarly, the renegotiation of terms on mortgages and directly placed securities may be reported as disposals and acquisitions. Because of this inflation of the acquisition data by rollover and non-cash transactions, it is necessary to consider data on cash flow as a measure of life insurance funds available for investment.

Funds Available for Investment

In early 1957 the economic research staff instituted a quarterly survey to obtain information on the inflow of investible funds to life insurance companies. In the reporting system cash flow is defined as new cash arising from payments by policyholders (net of expenses), net investment income, bond maturities exclusive of the turnover of short-term issues, mortgage amortization and prepayments, and cash sinking fund payments. In the reporting, an increase in policy loans and cash position is treated as a reduction of funds available for investment. On this basis, investible funds of the life insurance business amounted to about \$11.0 billion in 1959 and are expected to decrease to \$10.2 billion this year. The 1960 estimate is based on actual cash flow data in the first three quarters of the year of a representative group of companies and their projection for the last quarter, as shown in Table 4.

Table 5 presents quarterly data for a group of thirty-nine companies whose statistics have been consistently available for the past four years. These data indicate that the decline in investible funds this year as compared with last has been accounted for by a greater increase in policy loans, a smaller draw-down of cash position, and a lessened flow from mortgages and securities. Detail provided in the reporting shows a drop in mortgage amortization and partial prepayments and a smaller volume of outright sales of Governments this year as compared with last.

Interest Rates and Net Investment Earnings

Net investment earnings of all United States life companies in 1960 are estimated at \$4.6 billion, an increase of \$390 million over

TABLE 4
QUARTERLY INFLOW OF INVESTIBLE FUNDS, 1960
ALL REPORTING LIFE INSURANCE COMPANIES
(Dollar amounts in millions)

	Quarter ended 3/31/60		Quarter ended 6/30/60		Quarter ended 9/30/60		Quarter ending 12/31/60e	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>Gross inflow of investible funds</i>								
Net increase in ledger assets (adjusted)	\$ 710	49.0	\$ 766	52.1	\$ 850	53.2	\$ 944	53.7
Net increase (-) or decrease in cash position.....	38	2.6	-51	-3.5	-46	-2.9	98	5.6
Net increase (-) in policy loans	-127	-8.7	-133	-9.0	-112	-7.0	-114	-6.5
Mortgages (total)	500	34.4	488	33.2	519	32.5	536	30.5
Securities (total)	307	21.2	374	25.4	371	23.2	273	15.6
Sales of real estate.....	4	0.3	7	0.5	5	0.3	7	0.4
Sales and repayments from other assets.....	13	0.9	14	1.0	13	0.8	15	0.9
All other sources of funds	5	0.4	5	0.4	-3	-0.2	-3	-0.2
Total investible funds	1,451	100.0	1,470	100.0	1,597	100.0	1,757	100.0
<i>Cash position at end of quarter</i>								
Cash and deposits	488	65.7	523	65.9	503	59.9	553	74.7
Short-term Government securities	169	22.7	126	15.9	144	17.2	77	10.3
Commercial paper, etc.	87	11.6	144	18.2	192	22.9	111	14.9
Total	743	100.0	793	100.0	839	100.0	741	100.0

e—Estimated by reporting companies.

Note: Quarterly data are for 53 to 55 companies holding 61-62 percent of the assets of all United States life insurance companies. Percentages are computed from unrounded figures. Because of rounding, components may not add to totals shown.

TABLE 5
QUARTERLY INFLOW OF INVESTIBLE FUNDS, 1957-1960
39 LIFE INSURANCE COMPANIES

(In millions of dollars)
Sources of funds

1957	Net change in:				Securities (total)	Sales of real estate	All other	Total investible funds
	Ledger assets	Cash position ¹	Policy loans ¹	Mortgages (total)				
I.....	590	58	-54	380	332	2	19	1,328
II.....	602	17	-59	385	297	4	18	1,263
III.....	695	-65	-61	403	315	1	12	1,301
IV.....	751	97	-73	416	296	6	8	1,502
Annual total	2,639	107	-247	1,584	1,241	12	56	5,393
1958								
I.....	624	-100	-68	399	276	1	20	1,152
II.....	667	19	-62	406	413	3	20	1,466
III.....	713	-110	-44	504	433	4	7	1,507
IV.....	815	66	-47	490	407	16	15	1,762
Annual total	2,818	-125	-221	1,799	1,528	25	62	5,886
1959								
I.....	644	-93	-56	500	343	4	15	1,357
II.....	728	-12	-61	493	304	2	12	1,466
III.....	637	139	-74	486	301	4	14	1,508
IV.....	843	90	-97	461	387	18	12	1,713
Annual total	2,852	125	-288	1,940	1,334	28	54	6,044
1960								
I.....	618	46	-118	448	281	3	17	1,294
II.....	676	-58	-122	432	351	7	17	1,303
III.....	746	-43	-104	461	344	5	9	1,418
IV e.....	826	104	-105	475	259	7	13	1,580
Annual total	2,866	49	-449	1,817	1,236	22	56	5,596

e—Estimated by reporting companies.

¹An increase in cash position or policy loans is shown as a negative, and a decrease is shown as a positive figure.

Note: The 39 companies hold approximately 57 percent of the assets of all United States life insurance companies. Because of rounding, components may not add to totals shown.

the net earnings reported in 1959. The net rate of investment earnings before Federal income taxes will approximate 4.12 percent as compared with 3.96 percent last year. Statistics for the years 1951 through 1959, together with the estimates for 1960, are shown in Table 6.

TABLE 6

NET INVESTMENT EARNINGS AND THE RATIO OF EARNINGS
TO ASSETS—ALL UNITED STATES LEGAL RESERVE
LIFE INSURANCE COMPANIES

(Dollar amounts in millions)

<u>Year</u>	<u>Before Federal income taxes</u>	
	<u>Amount</u>	<u>Percent</u>
1951	\$2,036	3.18
1952	2,248	3.28
1953	2,473	3.36
1954	2,728	3.46
1955	2,972	3.51
1956	3,265	3.63
1957	3,556	3.75
1958	3,865	3.85
1959	4,209	3.96
1960	4,600	4.12e

e—Estimated by the Life Insurance Association of America.

Source: Institute of Life Insurance.

The gradually rising rate of return on life insurance company investments will continue a trend that began in 1947 when earnings were at an all-time low of 2.88 percent. This increase is a reflection of the heavy demand for capital funds that has persisted throughout the postwar period. It is also the result of the maturing of investments made on considerably lower yield bases many years ago, and the reinvestment of these funds at higher interest rates. It is healthy for an increase in interest earnings of life companies to occur in response to market conditions for the following reasons: (1) a higher rate of interest encourages savings and thus aids to balance the supply of funds in relation to the heavy demands; and (2) a higher rate of investment earnings of life insurance companies decreases the net cost of life insurance to the millions of life insurance policyholders.

INVESTMENT RESEARCH PROGRAM

It is customary in this report to present an account of the progress of the Association's investment research program. This program consists of two main parts, namely, activities of the economic research staff of the LIAA and research sponsored by the Association.

Activities of the Association's Economic Research Staff

A major part of the time of the economic research staff is devoted to research on various phases of life insurance investments and the capital markets. Included in this work are such regular annual studies as that of the mortgage lending income and costs of life insurance companies, the investment experience of a group of eighteen major life insurance companies in several major classes of bonds and stocks, and the record of life company acquisitions of corporate bonds either by direct placement or public offering. Some of the material developed in these studies appears elsewhere in this report. In addition, the research staff obtains and reports to the life insurance business quarterly data on mortgage loan delinquencies and foreclosures, quarterly data in detail on cash flow of life companies, monthly data on various classes of forward investment commitments, and monthly data showing the investment yields realized by life insurance companies on direct placements of corporate bonds. The quarterly data on mortgage delinquencies and cash flow are reviewed elsewhere in this report. The staff likewise prepares and makes available periodical reports on developments in the capital markets, and during the course of the year data are prepared at appropriate intervals showing sources and uses of capital funds in the country as a whole. Tables drawn from this latter study are also set forth elsewhere in this report. In addition to these and other studies completed regularly during the course of the year, the economic research staff conducts research devoted to investment policy questions or questions which have arisen in the legislative area. For example, this year staff research underlies much of the industry testimony before Congressional housing committees.

In addition to the above research, the research staff serves as an economics department for the Association, and in this capacity works with the Joint Economic Policy Committee and its various subcommittees. Frequently this entails the preparation of statements, and investment and economic data, which the Joint Economic Policy Committee utilizes in congressional hearings or in meetings with governmental agencies. Considerable time of the economic research staff is devoted to working with the Subcommittee on Housing and Mortgage Lending. Here, in particular, is involved the preparation of testimony of the life insurance business in the housing and mortgage lending field in hearings before congressional committees. The Di-

rector of Economic Research usually joins the Chairman of the Subcommittee in the presentation of testimony before congressional committees. Several such appearances were made this year. Also, the staff works closely with the Voluntary Home Mortgage Credit Program and has been the center of information for the life insurance business about that Program. Through staff work with the Joint Economic Policy Committee and its subcommittees, as well as through the research program, the economic research staff has been a primary point of contact for the life insurance business with a number of Government agencies interested in the general economic and investment field, particularly the United States Treasury, the Federal Reserve Board, the Housing and Home Finance Agency, and the President's Council of Economic Advisers. These contacts have frequently stemmed from requests which these agencies have made for information about life insurance investments. This year the Director of Economic Research has served on advisory committees to President Eisenhower's Council of Economic Advisers, as well as on an advisory committee established by the Bureau of the Census in connection with the census of housing.

During the past year work has been done toward the preparation of a monograph on life insurance as a financial institution as requested by the National Commission on Money and Credit. Under the supervision of the Subcommittee on Monetary and Fiscal Policy, six chapters have been completed.

The staff has worked closely, as usual, during the year with the Washington office of the Association in connection with a wide variety of investment and general economic questions affecting the life insurance business.

The economic research staff also performs a staff function for the Joint Committee on Valuation of Assets. In this connection it undertakes frequent research jobs on the matter of valuation of life insurance company securities and on valuation reserves. This year it has worked closely with the University of Wisconsin study of the valuation of life insurance company assets, which is described presently. It likewise serves as a center of information to the life insurance business on valuation questions and it provides a liaison with the staff of the NAIC Committee on Valuation of Securities. This activity has involved the presentation of testimony to the NAIC.

More and more in recent years the economic research staff has become a central source of information for the life insurance busi-

ness on investment, capital market, and general economic questions. A great deal of time is devoted to consulting with investment officers of life insurance companies and supplying them with information on questions in the investment field. Hardly a week goes by without a visit from a financial officer of one of our member companies. This activity is a natural outgrowth of the investment research program as a whole. In this connection, also, the research staff has been utilized as a source of information by other institutions functioning in the investment field, namely, commercial banks, savings banks, pension funds, savings and loan associations, government securities dealers, mortgage bankers and the like. A great deal of contact work is involved. These institutions are naturally interested in life insurance investments and investment policies, as well as general capital market questions, and they have turned to us frequently for information in this area. With increasing frequency, in serving as a central source of information for the life insurance business on investment, capital market, and general economic questions, members of the staff are called upon to address group meetings. Related to this, the research staff works closely with the Institute of Life Insurance on public relations matters of the life insurance business in the investment and general economics field. This has been done in a variety of ways through addresses, consulting on news releases, advertisements, and reports prepared by the Institute, and in other ways.

Finally, the Director of Economic Research has the responsibility of general supervision of the work carried on by the statistical department of the Association in which statistical material is prepared for the legislative work on insurance questions by the Association. From time to time the research staff assists in preparing materials to be employed in state legislative matters. The staff maintains an elaborate body of data relating to the investments and reserves of 49 life insurance companies. Assets by investment classes since 1906 and by geographic location of the underlying security in each class for 1958 and 1959 are provided in the appendix to this report.

Research Financed by the Association as Part of the Investment Research Program

In addition to the activities of the economic research staff, the Association sponsors and finances basic economic research of importance to the life insurance business, particularly the investment phase. This research is conducted independently by universities and

private research bureaus outside of the life insurance business. It is planned and followed closely by the Investment Research Committee of the Association and by the Director of Economic Research. Since 1946 the LIAA has made research grants totaling over \$1,500,000 for basic research in the field of finance and the capital markets. These various projects, described and listed below, are widely regarded by scholars as having been the most important carried out in this vital area of economic research. They have been conducted by men of outstanding national reputation such as Arthur F. Burns, Raymond J. Saulnier, Raymond Goldsmith, and Simon Kuznets. A report of this research follows.

During the course of the year further progress has been made in the *Study of Capital Formation and Financing* which is being directed by Simon Kuznets, now Professor of Economics at Harvard University. The basic purpose of this study, which has been carried on by means of a grant to the National Bureau of Economic Research, is to shed light on the demand for capital funds in coming years. The results of the study are being published in the form of several booklength monographs, five of which have been published by the Princeton Press, and two others are now in press. The first of these monographs to appear, entitled *Capital Formation in Residential Real Estate—Trends and Prospects*, was prepared by Leo Grebler, David M. Blank, and Louis Winnick. Based on a rich array of statistical material, the study analyzed the various forces which have led to a demand for housing and mortgage financing in the United States over the past fifty years. Taking these historical forces into account and recognizing new forces in the making, the study sheds light on the prospective demand for housing and residential mortgage financing of all types in the years ahead. Reviewing the study in *The New York Times*, Will Lissner stated:

The study is the first systematic investigation of long-term trends in housing construction and its financing in the United States. It provides answers for questions that penetrate to the basis of the country's long-run economic outlook.

* * *

The experts' answers are that for the 1950 to 1975 period, a bigger housing rise is in sight. Mortgage funds at interest rates comparable with present rates are likely to be scarcer. Residential construction may even compete with business investment in the capital market. The funds may not be large enough to satisfy all demands. The answers to these questions, which

concern everybody, were based on measurement and analysis of the forces and factors that have determined the ways in which accumulated savings have been put to work as construction capital in the housing field from 1890 to 1955.

The second monograph, namely, *Capital in Agriculture; Its Formation and Financing Since 1870* (Alvin S. Tostlebe, Professor of Economics, College of Wooster, Ohio), traced the past demand for capital funds in agriculture and considered prospective demand for funds in agriculture in coming years. The third monograph was *Financial Intermediaries in the American Economy Since 1900*, by R. W. Goldsmith. It shows the increase during the past half-century in the practice of entrusting savings to institutions and traces the growth and changes in the assets of institutions holding savings. In addition, it measures the share of the nation's assets that is held by financial intermediaries and discusses the implications of present trends for the future.

This year the fourth monograph was published, namely, *Capital in Transportation, Communications, and Public Utilities: Its Formation and Financing* (M. J. Ulmer, Professor of Economics, American University). Based on capital formation in the regulated industries in earlier years, this monograph sheds light on future capital needs of these industries in the next 15-20 years.

A fifth monograph, *Capital in Manufacturing and Mining: Its Formation and Financing* (Daniel Creamer, National Industrial Conference Board; Sergei Dobrovolsky, Wayne University; and I. Borenstein, NBER), will be published by the Princeton Press before the end of this year. It studies the forces behind capital formation and financing during preceding decades in the field of manufacturing and mining and sheds light on future demands for capital funds in this area.

In addition to the monographs already described, the final two monographs in this project which are completed and are to be published in 1961, are *Trends in Government Financing* (Morris Copeland, Cornell University)—expected to be published in early 1961, and the summary monograph entitled: *Capital in the American Economy: Its Formation and Financing*. This monograph, which will knit together the entire project, has been prepared by Simon Kuznets and will also be published in mid-1961. Kuznets' monograph will set forth conclusions about capital formation and financing in the entire economy in the next fifteen to twenty years in the light of perspec-

tive on the various forces which have in the past and are now influencing capital formation and financing. The Kuznets report is an outstanding piece of work, and it is bound to contribute a great deal to our understanding of the basic importance of savings to the economic growth of the country in coming years. It will also shed light on financing problems and the course of interest rates in the next fifteen to twenty years. Kuznets' book will be widely regarded as the outstanding work produced on capital formation and financing and the growth of the American economy.

Work has continued to go forward on another major research project sponsored by the Association as part of the investment research program, namely, *The Study of the Postwar Capital Markets*. This project, now nearing completion, is being conducted through a grant made by the LIAA to the National Bureau of Economic Research. Building on the authoritative work, *A Study of Saving in the United States* by Raymond W. Goldsmith, which we also financed, as well as the work of Kuznets described above, the project is focusing on the way in which the capital markets have been functioning in the period following World War II. An integral part of the work is the obtaining of accurate and comprehensive data on sources and uses of capital funds and an analysis of the inter-relationship between different types of interest rates in the market and how they are determined. The primary staff carrying out the study consists of Roland Robinson, a member of the research staff of the Federal Reserve Board, who is concentrating on the market for Federal, state, and local securities; Eli Shapiro, Professor of Finance at Massachusetts Institute of Technology, who is devoting himself to an analysis of the market for business financing; Saul B. Klamman, a former member of the Federal Reserve's Research Staff (now a member of the staff of the National Association of Mutual Savings Banks), who is studying the real estate mortgage market; and Raymond W. Goldsmith, who is compiling the basic data on sources and uses of capital funds.

This project will result in several reports to be published by the Princeton Press. Two were released last year. The first, *The Volume of Mortgage Debt in the Postwar Decade*, was prepared by Saul B. Klamman. It provides the most complete and consistent set of statistics now available on total amounts of mortgages outstanding on different types of properties and on the holdings of these mortgages by the main groups of investors, from 1945 through 1956. The data

are annual through 1952 and quarterly for the four years 1953-1956, and thus fill an important gap in our basic financial knowledge, namely knowledge of the magnitude, composition, and holdings of mortgage debt. The second report, *The Postwar Rise of Mortgage Companies*, was also prepared by Mr. Klamman. It deals with the rise of the mortgage banking companies in the postwar years and presents quantitative information on these companies and discloses their importance as institutions in the postwar market.

This year the third report coming out of the Postwar Capital Markets study was published by the Princeton University Press, namely *Postwar Market for State and Local Government Bonds*, a book-length monograph prepared by Roland Robinson. Other monographs expected to be published in 1961 are as follows: *The Postwar Mortgage Market* (Saul B. Klamman)—scheduled for publication in mid-1961; and *The Postwar Market for Corporate Securities and Loans* (Eli Shapiro). The latter is in an advanced stage of preparation and will probably go to press in 1961. In addition, Robinson and Mendelson are preparing a study of the market for Federal securities in the postwar period. Several shorter reports are also in preparation and should be published in 1961. One of these is a report by Mendelson, presenting estimates of saving from 1946-1956 (continuing the Goldsmith estimates of saving). Another will be a report (also by Mendelson) presenting and analyzing quarterly estimates of the flow of funds through the capital markets. Still another is a report by Shapiro on corporate sources and uses of capital funds. Finally, George Hanc has prepared a study of the U.S. Savings Bond Program.

Our Postwar Capital Market project covers much of the same ground to be explored by the Commission on Money and Credit. The reports coming out of the project should be of particular interest to the Commission. It is interesting to note that Eli Shapiro, one of the project's research team, was appointed Associate Director of Research for the Commission. Growing out of our Postwar Capital Markets project the National Bureau is working up a summary of the results of the study for the monetary Commission. The Bureau was also asked by the Joint Economic Committee of the Congress to bring together a substantial amount of financial data emanating from the study.

Another project financed through the investment research program of the Association, which has received favorable attention by

students this year, is *Corporate Earning Power and Market Valuation, 1935-1955*, by C. S. Cottle and Tate Whitman of the Stanford Research Institute and the School of Business Administration of Emory University, respectively. This project, based on the assumption that corporate earning power and market valuation are two of the most important aspects of common stock investment appraisal, produced a wealth of pertinent statistical data for 33 industries (including 150 companies). The results obtained were reviewed widely by investment specialists during the course of the project, and the data are regarded as filling an important need in appraising common stocks as investment. The data are, however, also useful for investors in other types of securities. The report, published by the Duke University Press, was circulated to life insurance companies. It has attracted much favorable attention by financial institutions.

The Corporate Bond Research Project of the National Bureau of Economic Research has also been carried out by W. Braddock Hickman (appointed this year Vice President of the Federal Reserve Bank of Cleveland) with the aid of a grant under the LIAA investment research program. The first report was *The Volume of Corporate Bond Financing Since 1900*, prepared by Mr. Hickman, and published by Princeton Press. A second report *Corporate Bond Quality and Investor Experience* was published in 1958. A third and final report *Statistical Measures of Corporate Bond Experience Since 1900* is completed and planned for publication in December 1960.

The Study of Bond Redemption Features, which got under way late in 1957, is being conducted by the Wharton School of Finance of the University of Pennsylvania under the direction of Professors Willis Winn (also Dean of the Wharton School) and Arleigh Hess. Guiding the project is an advisory committee composed of representatives from university positions, pension funds, investment banking, the Federal Power Commission, the Securities and Exchange Commission, the life insurance business and similar groups. The life insurance representatives on the advisory committee are Donald C. Slichter, President of The Northwestern Mutual Life Insurance Company; George T. Conklin, Jr., Senior Vice President of The Guardian Life Insurance Company of America; Floyd T. Starr, Vice President of The Penn Mutual Life Insurance Company; and the writer.

During the past several years, with flexible interest rates, investors

have become more and more conscious of the importance of redemption features in corporate bond financing. This project, which is nearing completion, will develop information on types of redemption provisions in currently outstanding securities and mortgages, a comparison of redemption features in bond issues in the United States and issues in other countries, the effect of call provisions on yield, the effect of the exercise of the call privileges on (a) the capital structure of the borrower, (b) on the payment of interest, and (c) on the lender. It will also develop information on investor experience with the exercise of call provisions, the attitudes of interested parties with respect to call features, and similar questions. A first draft of the report has been reviewed by the Advisory Committee. A second draft will soon be reviewed by the Committee, and it is expected that the results of the study will be published in 1961 by the University of Pennsylvania Press.

During the past year work has proceeded satisfactorily on another project sponsored under the investment research program—namely the *Study of the Valuation of Securities Held by Life Insurance Companies and the Mandatory Securities Valuation Reserve*. This study is being conducted under the direction of Professor Harold Fraine by the School of Commerce of the University of Wisconsin with the aid of a research grant from the Association. During the past several years considerable progress has been made in the development of a better system for valuing securities held by life companies. However, there are problems which remain, particularly with regard to the mandatory securities valuation reserves which have been in effect. The purpose of this study is to bring the tools of research to bear on questions regarding the valuation rules and the valuation reserves and thus to appraise the existing system. Working with the project is an advisory committee consisting of representatives from the life insurance companies, the state regulatory authorities, university specialists in finance, and the general public. The life insurance representatives are Sherwin C. Badger, Financial Vice President, New England Mutual Life Insurance Company; Haughton Bell, formerly Vice President and General Counsel, The Mutual Life Insurance Company of New York; William Chodoroff, Vice President and Comptroller, The Prudential Insurance Company of America; Alfred N. Guertin, Actuary, American Life Convention; Grant A. Martell, Second Vice President, New York Life Insurance Company; and the writer. During the past year

the Advisory Committee has met several times. It is expected that the first draft of the report by Dr. Fraine will be ready for review in February of 1961.

This year marked the beginning of two new projects recommended by the Investment Research Committee and approved by the Board of Directors of the LIAA. One of these is a major investigation of interest rates, for which a grant of \$225,000 has been made to the National Bureau of Economic Research. The objectives of the study are as follows: (1) to bring together existing interest rate data and, by obtaining new data, to fill the important gaps in our knowledge about interest rates; (2) from an analysis of these data, to obtain a better understanding of the structure of interest rates and the forces which lead to changes in the structure and general level of interest rates; and (3) to understand better the ways in which monetary, Federal debt management, and other Government policies affect the structure and level of interest rates. It is widely agreed that this project is greatly needed to improve our knowledge of the behavior of interest rates, especially in this period in which interest rate changes are so much in the public eye. There is much misunderstanding of the behavior of interest rates—with the general public, students, and public policymakers—which the results of this study can help to clear up. The project, planned for 2-3 years, will be conducted by the National Bureau of Economic Research, under the direction of Dr. Joseph Conard, Professor of Economics at Swarthmore College. He will be assisted by an able staff and by an advisory committee appointed by the National Bureau including the following: W. Braddock Hickman, *Chairman*, Senior Vice President, Federal Reserve Bank of Cleveland; Lester V. Chandler, Professor of Economics, Princeton University; W. A. Clarke, W. A. Clarke Mortgage Company; George T. Conklin, Jr., Senior Vice President, The Guardian Life Insurance Company of America; Milton Friedman, Professor of Economics, The University of Chicago; Raymond W. Goldsmith, National Bureau of Economic Research; John G. Gurley, The Brookings Institution; Sidney Homer, Scudder, Stevens & Clark; Roger F. Murray, Professor of Economics, Columbia University; Roy L. Reiersen, Vice President, Bankers Trust Company; Robert V. Roosa, Vice President, Federal Reserve Bank of New York; Eli Shapiro, Professor of Economics, School of Industrial Management, Massachusetts Institute of Technology; Ralph A. Young, Adviser, Board of Governors of the Federal Reserve System;

C. Richard Youngdahl, Executive Vice President, Aubrey G. Lanston & Co., Inc.; and the writer.

Another project which has progressed well this year is a study of the functioning of the secondary mortgage market to determine whether there is a real economic need for a "central mortgage bank" to increase and stabilize the flow of capital funds into residential mortgages, as has been proposed in some quarters. This study includes an examination into the functioning of the Federal National Mortgage Association. This project, involving a grant of \$60,000, has been undertaken by the University of California at Los Angeles under the direction of Professor Leo Grebler. It is being financed jointly by the LIAA, the National Association of Mutual Savings Banks, and the United States Savings and Loan League. The study is being aided by an advisory committee composed of representatives of mortgage lending institutions and university professors specializing in mortgage finance, as follows: R. Manning Brown, Jr., Vice President, New York Life Insurance Company; W. A. Clarke, W. A. Clarke Mortgage Company; Miles L. Colean, Consultant, Washington, D. C.; Ernest M. Fisher, Professor of Economics, Columbia University; Raymond W. Goldsmith, National Bureau of Economic Research; Neal Hardy, Director, National Housing Center; Harry Held, Senior Vice President, The Bowery Savings Bank; Neil H. Jacoby, Dean, School of Commerce, University of California; John Lintner, Professor of Economics, Harvard University; William Marcus, Consultant, American Trust Company; Thomas T. Taylor, President, Prudential Federal Savings and Loan Association; Woodlief Thomas, Economic Adviser to the Federal Reserve Board; William L. C. Wheaton, Professor of Economics, University of Pennsylvania; and the writer.

There follows a list of the publications growing out of research sponsored by the LIAA's investment research program since its inception in 1947, as well as reports in an advanced stage of preparation.

- I. *A Study of Saving in the United States*, Raymond W. Goldsmith (Published in three volumes by the Princeton University Press, 1955 and 1956)
- II. *The Study of Capital Formation and Financing* (Conducted by the National Bureau of Economic Research under Simon Kuznets)

A. Published monographs (Princeton University Press)

1. "Capital Formation in Residential Real Estate: Trends and Prospects," Grebler, Blank and Winnick, 1956.
2. "Capital in Agriculture: Its Formation and Financing since 1870," Tostlebe, 1957.
3. "Financial Intermediaries in the American Economy Since 1900," Goldsmith, 1958.
4. "Capital in Transportation, Communications, and Public Utilities: Its Formation and Financing," Ulmer, 1960.
5. "Capital in Manufacturing and Mining: Its Formation and Financing," Creamer, Dobrovolsky, and Borenstein, 1960.

B. Monographs in press

1. "Trends in Government Financing," Copeland.
2. "Capital in the American Economy: Its Formation and Financing," Kuznets.

C. Occasional Papers—all published

1. "The Role of Federal Credit Aids in Residential Construction," Grebler (#39).
2. "Capital and Output Trends in Manufacturing Industries, 1880-1948," Creamer (#41).
3. "The Share of Financial Intermediaries in National Wealth and National Assets, 1900-1949," Goldsmith (#42).
4. "Trends and Cycles in Capital Formation by United States Railroads, 1870-1950," Ulmer (#43).
5. "The Growth of Physical Capital in Agriculture, 1870-1950," Tostlebe (#44).
6. "Capital and Output Trends in Mining Industries, 1870-1948," Borenstein (#45).
7. "The Volume of Residential Construction, 1889-1950," Blank (Tech. paper #9).

III. *The Study of the Postwar Capital Markets* (Through a grant to the National Bureau of Economic Research)

A. Published papers

1. "The Postwar Rise of Mortgage Companies," Klamen (Occ. paper #60).
2. "The Volume of Mortgage Debt in the Postwar Decade," Klamen (Tech. paper #13).

B. Published monograph

1. "The Postwar Market for State and Local Government Securities," Robinson.

- C. Monographs in press
 - 1. "The Postwar Mortgage Market," Klamann.
 - 2. "The Market for U.S. Treasury Obligations," Robinson and Mendelson.
- D. Advanced stage of preparation
 - 1. "The Flow of Funds through the Financial Markets, 1953-1955, Development and Appraisal of Quarterly Accounts," Mendelson.
 - 2. "United States Savings Bond Program, 1946-1958," George Hanc (Occ. paper).
 - 3. "Basic Tables on Saving, Investment, and National Balance Sheets," Goldsmith and Mendelson (2 or 3 vol. monograph).
 - 4. "National Wealth in the Postwar Periods," Goldsmith (Occ. paper).
 - 5. "The Market for Corporate Securities and Loans," Shapiro (Monograph).
 - 6. "Corporate Sources and Uses of Funds," Shapiro and Meiselman (Tech. paper).
 - 7. "A Flow-of-Funds Analysis of Financial Phenomena," Mendelson (Occ. paper).
- IV. *Corporate Earning Power and Market Valuation, 1935-1955*, C. S. Cottle and W. T. Whitman. (Published by Duke University Press.)
- V. *Corporate Bond Project* (Financial Research Program)
 - A. Published monographs (Princeton University Press)
 - 1. "The Volume of Corporate Bond Financing Since 1900," W. B. Hickman, 1953.
 - 2. "Corporate Bond Quality and Investor Experience," W. B. Hickman, 1958.
 - 3. "Statistical Measures of Corporate Bond Finance since 1900," W. B. Hickman, 1960.
- VI. *Earlier Published Studies*
 - A. "Investment Timing: The Formula Plan Approach," C. S. Cottle and W. T. Whitman (McGraw-Hill, 1953).
 - B. "The Mutual Mortgage Insurance Fund," Ernest M. Fisher and Chester Rapkin (Columbia University Press, 1956).
 - C. "Economic Aspects of Atomic Power," S. Schurr and J. Marschak (Princeton University Press, 1950).

CITY MORTGAGE LENDING INCOME AND COSTS

An annual study of income and costs from city mortgage lending activities of life insurance companies has been conducted by the LIAA economic research staff since 1948. The study is a continuation of one initiated through a grant by the LIAA to the National Bureau of Economic Research. The results of the original study, covering the years 1945-47, were presented in Chapter 5 of Dr. Raymond J. Saulnier's report, *Urban Mortgage Lending by Life Insurance Companies*.

The ratios in Table 7 summarize the lending experience of a sample of companies representing 80 percent or more of the urban mortgage loans held by all United States life insurance companies. It was found that the income returns of these companies differed according to their size, the type of mortgage loans predominating in their portfolios, and their methods of acquiring and servicing loans. The composite averages represent a wide range of individual company ratios, but the figures tend to be weighted by the experience of larger companies. The studies show that larger companies tend to realize lower gross income rates but at the same time lower cost rates than smaller companies.

TABLE 7
AVERAGE RATES OF INCOME, COSTS, AND TURNOVER
ON CITY MORTGAGE LOANS OF LIFE INSURANCE COMPANIES

	1951	1952	1953	1954	1955	1956	1957	1958	1959
	(In percent)								
Gross cash income	4.17	4.22	4.30	4.43	4.52	4.59	4.64	4.73	4.88
Total costs .....	.65	.59	.57	.57	.56	.55	.51	.50	.49
Originating fees and premiums .....	.12	.07	.06	.06	.05	.05	.03	.02	.03
Servicing fees .....	.22	.22	.22	.22	.22	.23	.23	.24	.23
Home and branch office costs .....	.31	.30	.28	.29	.29	.27	.25	.24	.24
Net cash income	3.52	3.64	3.73	3.86	3.96	4.04	4.12	4.23	4.38
	(In years)								
Turnover rate	11.0	11.1	11.2	10.2	9.7	11.1	12.8	11.5	11.0

Note: Because of rounding, components may not add to totals shown. Income and cost items are on a cash accounting basis and are percentages of the average of month-end holdings of city mortgage loans.

The gross income rate has improved steadily from 4.17 percent in 1951 to 4.88 percent in 1959, while total costs have declined from .65 percent to .49 percent during the same period. Although the increase

of 86 basis points in net income during the last eight years is due mostly to an improved gross yield on mortgage loans, it may be noted that the drop in total costs has been relatively large.

An analysis of the elements of cost reveals that originating fees and premiums paid in order to acquire loans have shown the greatest decrease from .12 percent to a low of .02 percent in 1958, with the 1959 figure only one basis point higher at .03. This drop is due to the elimination of originating premiums, particularly for Government-insured and guaranteed (FHA and VA) loans. Servicing fees paid to correspondents and other outside agents on a continuing basis over the life of a loan remained practically unchanged since 1951, the range being only two basis points during the period. (Because a large volume of loans does not involve the services of mortgage correspondents, the average ratio shown in the table is below the actual rate paid for loans that are serviced.) Branch and home office costs (include payments for company personnel and services attributable to mortgage operations) at .09 percent and .15 percent, respectively, have each decreased a few basis points compared with 1951.

Also shown are average turnover rates (the period required to liquidate loans outstanding at the prevailing annual rate of repayment) for the mortgage holdings of all companies combined. The rate has ranged from just under 10 years to nearly 13 years during the period covered by the table.

A similar study is compiled annually for farm mortgage loans.

EARNINGS, PROFITS, AND LOSSES ON BONDS, PREFERRED STOCKS, AND COMMON STOCKS

For a number of years the economic research staff has maintained a record of the combined earnings, net profits, and net losses on the bonds, preferred stocks, and common stocks held by eighteen major United States life insurance companies. These statistics are a continuation of the series in the Yale University doctoral dissertation of Orson H. Hart, *Life Insurance Investments in Bonds and Stocks*. In addition to extending the series so that annual figures are available from 1929 through 1959, the staff of the LIAA has segregated the data on stocks between preferred (including guaranteed) and common. The data cover the same eighteen companies for the entire period. At the end of 1959, they accounted for 73 percent of the assets of all United States life insurance companies. Table 8 provides earnings and net profits and losses on bonds, preferred stocks,

TABLE 8

COMPARISON OF THE RATES OF RETURN EARNED ON BONDS,
PREFERRED, AND COMMON STOCKS, 1929-1959
18 MAJOR LIFE INSURANCE COMPANIES

(In percent)

Year	<i>Rate of total return¹</i>			<i>Rate of interest or dividend return²</i>		
	<i>Bonds</i>	<i>Pfd. and gtd. stocks</i>	<i>Common stocks</i>	<i>Bonds</i>	<i>Pfd. and gtd. stocks</i>	<i>Common stocks</i>
1929	4.77	4.88	10.77	4.72	4.70	4.68
1930	4.76	5.16	6.72	4.72	4.96	4.68
1931	4.70	4.99	4.53	4.65	4.97	4.44
1932	4.51	4.61	3.21	4.56	4.75	3.34
1933	4.25	3.94	2.03	4.30	4.05	2.89
1934	4.08	4.51	.83	4.12	4.53	3.18
1935	4.02	4.14	1.27	3.82	4.24	3.09
1936	3.97	6.24	2.07	3.63	5.86	3.40
1937	3.55	5.72	2.88	3.51	5.67	3.57
1938	3.53	4.55	2.82	3.35	4.82	3.55
1939	3.49	5.21	3.33	3.32	4.83	3.69
1940	3.40	4.13	3.71	3.26	4.74	3.90
1941	3.05	4.41	2.85	3.16	4.82	3.92
1942	2.92	5.02	3.06	3.18	5.03	3.95
1943	3.31	4.72	2.53	3.00	4.72	4.05
1944	3.21	5.83	3.72	2.93	5.53	4.53
1945	3.67	5.24	5.09	2.86	4.68	4.70
1946	3.09	4.71	5.17	2.74	4.25	4.47
1947	2.78	4.46	4.82	2.74	4.22	4.77
1948	2.84	4.57	5.35	2.81	4.47	5.06
1949	2.96	4.16	5.28	2.88	4.13	5.22
1950	3.07	4.47	6.22	2.92	4.25	6.30
1951	2.94	4.50	8.63	2.94	4.23	6.32
1952	3.05	4.41	7.65	3.07	4.33	6.24
1953	3.11	4.36	7.38	3.16	4.32	6.37
1954	3.35	5.06	8.32	3.25	4.33	6.69
1955	3.29	4.94	10.02	3.27	4.31	6.96
1956	3.28	4.53	14.65	3.37	4.37	7.25
1957	3.37	4.33	10.80	3.45	4.32	7.12
1958	3.45	4.42	12.04	3.54	4.39	6.67
1959	3.64	5.73	10.81	3.70	4.38	6.36
<i>Wtd. Av.</i>						
1929-59	3.30	4.72	8.68	3.24	4.48	6.05

¹ Includes interest earnings (dividend earnings) plus net profits or losses on the disposal of securities.² Includes interest earnings (dividend earnings) only.

Note: Base is the average cost of the portfolios as of the beginning and end of the year. The bond portfolios include accrued interest.
Bond data from 1929 to 1944 are from a Yale University doctoral dissertation by Orson H. Hart, *Life Insurance Investments in Bonds and Stocks*.

and common stocks expressed as rates of return on the average investment.

All of the data are compiled from the annual statements of the companies to the state insurance departments. Interest earnings are computed by adding to interest receipts the year's increase in accrued interest (or deducting the decrease) and deducting paid for accrued interest on acquisitions. Similarly, dividend earnings are computed by deducting from dividend receipts any dividends paid for by the insurance companies on stocks acquired during the year.

The basis of valuation for both bonds and stocks is actual (not amortized) cost. Thus profits (or losses) are computed by subtracting from the consideration received the actual cost of the securities liquidated. The investment base for determining the rate of return is the average of bond or stock holdings at the beginning and end of the year, also valued at actual cost (plus accrued interest on bonds).

Table 8 is a summary by major security classes. In the underlying study bond data are segregated by governments, states and municipalities, railroads, utilities, and industrial and miscellaneous, and stock data by railroads, utilities, and industrial and miscellaneous.

DIRECT PLACEMENTS OF CORPORATE BONDS

For a number of years the economic research staff has compiled data on holdings and acquisitions of direct placements of railroad, public utility, and industrial and miscellaneous bonds. The series includes the same twenty-eight companies each year and, as shown in Tables 9 and 10, extends from 1946 through 1959 for acquisitions and from 1948 through 1959 with respect to holdings. In the original selection of companies for this series, it was decided to include the then eighteen largest companies and ten others which were active in the direct placement field. The purpose was to obtain figures that would include the bulk of the direct placements acquired and held by the industry. Because of the method of selection of companies, the proportion of acquisitions and holdings made through direct placement is undoubtedly larger for these companies than for the industry as a whole. At the end of 1959 these twenty-eight companies accounted for about 79 percent of the assets and 86 percent of the corporate bond holdings of all United States life insurance companies.

Direct placements in this series are broadly defined as virtually all securities not publicly offered. They include securities acquired

TABLE 9
OBLIGATIONS ACQUIRED BY 28 LIFE INSURANCE COMPANIES COMBINED
(In millions of dollars)

Year	Railroad			Public utility			Industrial and miscellaneous			Total	
	Direct	Non-direct	Total	Direct	Non-direct	Total	Direct	Non-direct	Total	Direct	Non-direct
1946	3.3	342.8	346.0	328.1	624.2	952.3	1,555.6	316.7	1,872.4	1,887.9	1,283.7
1947	2.0	241.3	243.3	509.5	1,186.1	1,695.6	1,747.3	262.0	2,009.3	2,258.9	1,689.4
1948	47.9	153.7	201.6	566.3	1,126.7	1,693.0	2,400.0	107.2	2,507.2	3,014.1	1,387.6
1949	23.0	80.6	103.7	592.6	588.2	1,180.8	1,801.0	261.9	2,062.8	2,416.6	930.6
1950	49.7	207.9	257.6	646.7	674.0	1,320.7	1,641.5	65.6	1,707.0	2,337.8	947.5
1951	183.0	65.6	248.6	600.9	277.5	878.3	2,687.7	179.5	2,867.2	3,471.5	522.5
1952	187.1	116.7	303.9	585.6	211.3	797.0	3,232.8	225.4	3,458.3	4,005.6	553.5
1953	73.7	92.4	166.2	672.4	230.3	902.7	2,768.3	174.2	2,942.5	3,514.5	496.9
1954	87.2	172.9	260.1	839.4	418.4	1,257.8	2,759.7	228.8	2,988.5	3,686.3	820.1
1955	48.4	265.6	313.9	511.4	156.2	667.6	2,943.5	188.2	3,131.7	3,503.3	609.9
1956	54.4	113.8	168.2	591.1	131.8	722.9	3,520.3	161.2	3,681.6	4,165.8	406.8
1957	42.1	17.5	59.6	458.5	181.5	640.0	4,192.5*	117.9	4,310.4	4,693.2	316.8
1958	6.1	24.0	30.1	453.0	216.7	669.7	3,789.5*	275.2	4,064.8	4,248.6	516.0
1959	46.6	7.6	54.2	731.0	90.4	821.4	4,688.2*	54.7	4,742.9	5,465.8	152.7

* Includes maturities of one year or less at issue of \$1,010.4 in 1957, \$1,227.1 in 1958, and \$1,695.1 in 1959. Short-term maturities were not segregated prior to 1957.

Note: Valuation is cost, not par. Because of rounding, components may not add to totals shown.

TABLE 10
OBLIGATIONS HELD AT END OF YEAR BY 28 LIFE INSURANCE COMPANIES COMBINED
(In millions of dollars)

End of Year	Railroad			Public utility			Industrial and miscellaneous			Total	
	Direct	Non-direct	Total	Direct	Non-direct	Total	Direct	Non-direct	Total	Direct	Non-direct
1948	258.3	2,496.1	2,754.5	3,011.0	4,621.3	7,632.3	5,978.4	915.1	6,893.4	9,247.7	8,032.5
1949	260.5	2,477.7	2,738.1	3,451.2	5,050.8	8,502.0	7,211.0	1,124.5	8,335.6	10,922.7	8,653.0
1950	282.5	2,557.5	2,839.9	3,849.3	5,308.9	9,158.2	8,061.5	1,098.2	9,159.7	12,193.3	8,964.5
1951	443.5	2,518.7	2,962.2	4,255.0	5,381.7	9,636.7	9,822.9	1,154.9	10,977.8	14,521.4	9,055.3
1952	609.4	2,511.6	3,120.9	4,623.2	5,481.2	10,104.4	11,727.8	1,297.2	13,025.0	16,960.4	9,290.0
1953	670.3	2,570.5	3,240.8	5,093.1	5,760.7	10,853.7	13,333.3	1,407.2	14,740.5	19,096.7	9,738.4
1954	703.3	2,620.7	3,324.0	5,443.7	5,890.9	11,334.6	14,520.9	1,469.8	15,990.7	20,667.8	9,981.5
1955	702.2	2,751.4	3,453.6	5,760.9	5,888.0	11,648.9	15,632.4	1,479.4	17,111.8	22,095.6	10,118.7
1956	701.1	2,715.4	3,416.4	6,137.7	5,891.5	12,029.1	17,021.4	1,370.0	18,391.4	23,860.2	9,976.8
1957	710.0	2,688.4	3,398.4	6,337.7	6,017.1	12,354.8	18,539.8	1,411.4	19,951.2	25,587.5	10,117.0
1958	672.5	2,686.9	3,359.4	6,568.1	6,157.6	12,725.7	19,701.3	1,583.4	21,284.7	26,941.9	10,427.9
1959	671.8	2,637.4	3,309.3	6,857.6	6,200.7	13,058.3	21,207.3	1,542.2	22,749.6	28,736.7	10,380.4

Note: Valuation basis is cost, not book value. Because of rounding, components may not add to totals shown.

directly from issuers, securities acquired from other investors who previously had acquired them from issuers, and securities acquired from underwriters or at competitive bidding when no public distribution was involved.

Inasmuch as these studies are made from the annual statements of the companies, the figures on acquisitions are gross and cannot be used as a measure of funds made available for long-term investment. They include the acquisition and rollover of short-term issues and non-cash transactions resulting from the renegotiation of direct placements and exchanges. Although an exact measure of short-term issues and non-cash transactions combined is not available, maturities of one year or less at the time of issue were segregated for recent years. As shown in Table 9, industrial and miscellaneous bond acquisitions of \$4.7 billion in 1959 included \$1.7 billion of short-term obligations, all of which are classified as direct placements.

MORTGAGE LOAN DELINQUENCY AND FORECLOSURE EXPERIENCE

For the past seven years the economic research staff has collected quarterly data on the mortgage loan delinquency and foreclosure experience of life insurance companies. These statistics indicate that

TABLE 11
DELINQUENCY AND FORECLOSURE EXPERIENCE OF
REPORTING LIFE INSURANCE COMPANIES

(In percent)

<i>End of Quarter</i>	<i>Farm and non-farm mortgages</i>				<i>Total non-farm</i>	<i>Total farm</i>	<i>Total mortgages</i>	
	<i>FHA</i>	<i>VA</i>	<i>Can.NHA</i>	<i>Conventional</i>				
Delinquent loans as percent of total amount outstanding								
1954	1st	.83	.94	na	.72	.73	na	.73
	2nd	.75	1.00	na	.67	.74	.84	.75
	3rd	.73	1.01	na	.52	.67	.67	.67
	4th	.76	.91	na	.36	.58	.33	.57
1955	1st	.82	.89	na	.43	.61	.73	.62
	2nd	.70	.72	na	.57	.63	.72	.63
	3rd	.72	.77	.93	.45	.59	.53	.59
	4th	.62	.83	.51	.45	.58	.48	.57
1956	1st	.62	.87	.68	.45	.57	.78	.59
	2nd	.57	.79	.59	.42	.53	.69	.54
	3rd	.65	.85	1.25	.40	.58	.52	.57
	4th	.49	.82	.64	.34	.50	.36	.49
1957	1st	.51	.90	.50	.40	.55	.54	.55
	2nd	.45	.73	.48	.43	.50	.57	.51
	3rd	.43	.63	.46	.38	.46	.37	.45
	4th	.56	.72	.20	.33	.49	.19	.47

TABLE 11—(Continued)

End of Quarter		Farm and non-farm mortgages				Total non-farm	Total farm	Total mortgages
		FHA	VA	Can. NHA	Conventional			
Delinquent loans as percent of total amount outstanding								
1958	1st	.46	.84	.31	.43	.54	.43	.53
	2nd	.62	.77	.33	.46	.56	.59	.57
	3rd	.60	.80	.32	.45	.58	.40	.56
	4th	.58	.85	.35	.37	.55	.17	.52
1959	1st	.50	.80	.32	.42	.54	.28	.52
	2nd	.54	.67	.29	.42	.50	.39	.50
	3rd	.45	.71	.38	.47	.54	.25	.52
	4th	.50	.77	.24	.32	.48	.13	.45
1960	1st	.52	.76	.35	.38	.50	.35	.49
	2nd	.56	.74	.40	.41	.51	.49	.51
	3rd	.59	.79	.48	.44	.55	.36	.54
Loans in foreclosure as percent of total amount outstanding								
1954	1st	.06	.07	na	.04	.05	.05	.05
	2nd	.06	.08	na	.04	.05	.09	.05
	3rd	.08	.07	na	.03	.05	.04	.05
	4th	.07	.06	na	.04	.05	.05	.05
1955	1st	.13	.08	na	.03	.07	.05	.06
	2nd	.11	.07	na	.03	.06	.05	.06
	3rd	.13	.07	.04	.03	.06	.06	.06
	4th	.05	.07	.06	.03	.04	.06	.04
1956	1st	.07	.08	.05	.03	.06	.04	.05
	2nd	.04	.08	.06	.03	.05	.04	.05
	3rd	.04	.08	.11	.03	.05	.05	.05
	4th	.05	.07	.10	.03	.04	.05	.04
1957	1st	.04	.09	.13	.04	.05	.07	.05
	2nd	.08	.09	.11	.04	.06	.06	.06
	3rd	.05	.08	.10	.04	.05	.06	.05
	4th	.08	.08	.09	.04	.06	.06	.06
1958	1st	.04	.11	.12	.04	.06	.06	.06
	2nd	.06	.11	.13	.04	.06	.04	.06
	3rd	.06	.11	.14	.04	.06	.04	.06
	4th	.06	.12	.15	.04	.06	.05	.06
1959	1st	.07	.11	.11	.05	.07	.04	.07
	2nd	.05	.11	.08	.04	.06	.04	.06
	3rd	.07	.09	.12	.05	.06	.04	.06
	4th	.06	.09	.17	.03	.05	.03	.05
1960	1st	.07	.10	.15	.05	.06	.07	.07
	2nd	.09	.11	.11	.04	.07	.05	.07
	3rd	.11	.12	.14	.04	.07	.06	.07

na—Not available.

Note: Data are for between 62 and 71 life insurance companies holding from 75 to 80 percent of the total assets of all United States life insurance companies.

A delinquent loan is a city mortgage with two or more monthly interest payments past due or a farm loan with interest in arrears more than 90 days.

Starting with the third quarter of 1957 delinquency ratios are slightly lower than comparable figures for earlier quarters because of improved reporting procedures on the part of several large companies.

total mortgage delinquencies have been at relatively low levels throughout the series, probably because the period covered has not included a prolonged recession. Table 11 shows that total mortgage delinquencies have never exceeded .75 percent of the total dollar volume of loans outstanding for the reporting companies combined. The rate for VA mortgages, however, has been above .75 percent in twenty of the twenty-seven quarters for which data have been available. The delinquency rate of FHA mortgages has consistently been below that of VA loans and usually has been well above that of conventional loans.

The proportion of total loans that was in foreclosure hovered around .05 percent during most of the period but this year the rate has held at the slightly higher level of .07 percent. Conventional mortgages invariably have shown a more favorable foreclosure rate than Government-insured and guaranteed loans.

VALUATION OF SECURITIES

At its meeting in early December the National Association of Insurance Commissioners adopted an important amendment in its *Valuation Procedures and Instructions for Bonds and Stocks*, for use in the preparation of annual statements by insurance companies for the year ending December 31, 1960. This amendment increased the common stock component of the maximum Mandatory Securities Valuation Reserve from 20 to 30 percent of the statement value of common stocks. In conjunction with this amendment, the NAIC Committee has eliminated the language of the 1959 report on valuation procedures and instructions permitting companies to make voluntary additions to the MSVR from net realized and unrealized gains on common stocks up to a limit of 10 percent of the statement value of common stocks.

The new language makes it clear that common stocks still remain in the 20 percent maximum reserve class with respect to the regular annual contribution of one percent of the statement value of common stocks. In other words, the additional 10 percent in the new 30 percent common stock component of the maximum MSVR will only involve the addition of net realized and unrealized capital gains on common stocks. Once the aggregate MSVR of a company reaches the original *stated maximum* of the sum of one percent of the statement value of bonds in the one percent maximum reserve class, plus 20 percent of the statement value of bonds in the 20 percent maxi-

mun reserve class, plus 20 percent of the statement value of preferred and common stocks, all of the regular formula increments to the MSVR would be suspended except that of net realized and unrealized capital gains (minus the amount of any U.S. Federal income taxes incurred on net long-term capital gains realized on bonds and stocks). However, if during 1960 a company incurred a sufficient amount of net realized and unrealized capital losses to reduce the reserve it had accumulated at the end of 1959 below the stated maximum, then the regular formula increments would come back into effect to rebuild the MSVR to the stated maximum.

The NAIC Committee indicated in its report that "the Mandatory Securities Valuation Reserve, its purposes, manner of accumulation and use, and the maximum limits imposed" will be reviewed in 1961 "in the light of its own further study of the subject, and such additional information and material as may be adduced by industry and other interested parties." It is hoped that the study being conducted at the University of Wisconsin under the direction of Dr. Harold Fraine will be helpful in this regard. This study was reviewed earlier in this report in the section reporting on the research program of the LIAA.

SOURCES AND USES OF FUNDS IN THE CAPITAL MARKET

The investment operations of life insurance companies are carried out within a broad market for capital funds, composed of many different investing groups and many types of borrowing entities. Life insurance companies are active in almost every segment including the markets for corporate stocks and bonds, state and local government securities, obligations of the United States Government and of Federal agencies, and mortgage loans on residential, commercial and farm properties. To place life insurance company investments within the broader framework of the capital market, the economic research staff has compiled for the past several years a statistical summary of the demand for funds by various types of borrowers and the supply of funds by institutional and other investors. These statistics have been obtained from a wide variety of governmental, business and trade association reports.

The purpose of this compilation is to record and analyze the flow of funds through the many channels of the capital market into various types of securities, mortgages and loans. The uses of funds are measured by the net increase or decrease in outstanding loans and

securities of the types specified; the sources of funds are measured by the net increase or decrease in the holdings of these loans and securities by the investor groups specified. As a result, the total uses of funds are equal to the total sources of funds for each year. It should be recognized, however, that there may exist in any year a certain amount of unsatisfied demand for which funds were not available, or an uninvested supply of funds which resulted in a rise in cash holdings of potential investors.

Estimates of the expected results for 1960, based on preliminary and incomplete data, are provided in Table 12, which traces through the flow of funds from each investor group into the various capital market outlets. This table facilitates comparison of the relative importance of each type of demand in the capital market, as well as the role of each investor group in providing funds for such uses as corporate and governmental securities, mortgages, and loans and credit. A similar statement for 1959 is provided in Table 13 and a summary of the years 1950-1960 is set forth in Table 14.

A tapering-off in the rate of growth in the economy during 1960 furnished the background for an easing of demand for credit and capital funds as compared with 1959. Gross national product, after registering a gain from the 1958 recession level of \$444 billion to \$482 billion in 1959, made a more moderate gain this year, rising to just over \$500 billion.

The levelling-off and then moderate slackening in business activity during 1960 was clearly reflected in reduced demands for funds in the capital market. As may be seen in Table 12, total uses of funds amounted to \$37.4 billion in 1960, down sharply from the \$57 billion total of 1959. The decline of about \$20 billion entailed a shift in the Federal budget from a large deficit toward balance, coupled with reduced credit demands by business for inventory financing and by consumers for housing and durable goods.

THE INVESTMENT OUTLOOK AND THE TREND OF LONG-TERM INTEREST RATES

This year the opinion is often advanced in financial discussions that we have come to the end of a postwar era in our national economy and that this has important implications for the investment outlook and the trend of long-term interest rates in the next several years. It will be useful, therefore, to view the movement of interest rates in a longer-range perspective than usual. Accordingly, this

TABLE 12
SOURCES AND USES OF FUNDS IN THE CAPITAL MARKET IN 1960

(In billions of dollars)

Sources of funds	Securities				Mortgages		Loans and credit		Total sources of funds		
	Corp. bonds	Corp. stocks	State & local Gov't	Fed. agency	1-4 family	Other	Business credit	Consumer credit		All other	
Savings institutions:	2.8	2.2	0.3	-0.9	0.4	9.2	2.4	—	—	0.7	17.1
Life insurance cos.	1.6	0.4	0.4	-0.4	*	1.6	1.0	—	—	0.7	5.3
Savings and loan ass'ns	—	—	—	*	0.1	6.1	0.8	—	—	—	7.0
Mutual savings banks	0.1	0.1	-0.1	-0.4	*	1.4	0.6	—	—	—	1.7
Corp. pension funds	1.1	1.7	—	-0.1	0.2	0.2	—	—	—	—	3.2
Banking system:	-0.1	—	*	3.0	-0.3	0.1	0.6	1.6	1.5	1.0	7.4
Commercial banks	-0.1	—	*	1.9	-0.3	0.1	0.6	1.6	1.5	1.0	6.3
Federal Reserve Banks	—	—	—	1.1	—	—	—	—	—	—	1.1
Government institutions:	1.2	—	0.7	1.7	0.1	0.9	0.7	—	—	—	5.4
State and local funds	1.2	—	0.5	0.1	0.1	0.2	0.2	—	—	—	2.3
U. S. investment accounts....	—	—	—	1.6	*	—	—	—	—	—	1.6
Federal loan agencies	—	—	0.2	*	*	0.7	0.5	—	—	—	1.5
All other investors:	0.5	0.1	4.2	-4.1	-0.3	0.8	1.1	2.5	2.7	—	7.5
Corporations	—	—	—	-2.0	-0.2	—	—	2.5	1.4	—	1.7
Fire & casualty cos.	*	0.3	0.9	-0.1	*	—	*	—	—	—	1.1
Foreigners	0.1	0.2	—	0.2	—	—	—	—	—	—	0.5
Individuals and others	0.4	-0.4	3.3	-2.2	-0.1	0.8	1.1	—	1.3	—	4.2
Total uses of funds	4.4	2.4	5.2	-0.3	-0.1	11.0	4.8	4.1	4.2	1.7	37.4

* Less than \$50 million.

Note: Because of rounding, components may not add to totals shown. Data are estimates made on the basis of preliminary and incomplete data.

TABLE 13
SOURCES AND USES OF FUNDS IN THE CAPITAL MARKET IN 1959
(In billions of dollars)

Sources of funds	Securities			Mortgages		Loans and Credit		Total sources of funds
	Corp. bonds	Corp. stocks	State & local Gov't	Fed. agency	1-4 family	Business credit	Consumer credit other	
Savings institutions:	2.9	1.8	0.5	0.2	0.4	9.3	2.3	17.9
Life insurance cos.	2.0	0.2	0.5	-0.3	*	1.2	0.9	4.9
Savings and loan ass'ns	—	—	—	0.7	0.2	6.6	0.9	8.3
Mutual savings banks	-0.1	*	*	-0.3	0.1	1.3	0.5	1.5
Corp. pension funds	1.1	1.7	—	0.2	0.1	0.2	—	3.2
Banking system:	-0.2	—	0.4	-7.4	-0.5	1.5	1.0	4.7
Commercial banks	-0.2	—	0.4	-7.7	-0.5	1.5	1.0	4.4
Federal Reserve Banks	—	—	—	0.3	—	—	—	0.3
Government institutions:	1.2	—	0.7	0.1	0.2	1.7	0.7	4.7
State and local funds	1.2	—	0.5	0.8	0.2	0.1	0.1	2.9
U.S. investment accounts	—	—	—	-0.7	*	—	—	-0.7
Federal loan agencies	—	—	0.2	*	*	1.6	0.6	2.5
All other investors:	0.4	0.5	3.7	15.1	2.1	0.6	2.0	29.8
Corporations	—	—	—	3.9	0.6	—	—	8.8
Fire & casualty cos.	*	0.3	1.0	0.2	0.1	—	*	1.5
Foreigners	0.1	0.4	—	4.1	—	—	—	4.5
Individuals and others	0.3	-0.2	2.8	6.9	1.4	0.6	2.0	14.9
Total uses of funds	4.3	2.3	5.4	7.9	2.2	13.2	6.0	57.0

* Less than \$50 million.

Note: Because of rounding, components may not add to totals shown.

TABLE 14
SOURCES AND USES OF FUNDS IN THE CAPITAL MARKET, 1950-1960
(In billions of dollars)

<i>Sources of funds</i>	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960 ^e
Life insurance companies	3.7	3.7	4.4	4.7	5.0	5.3	5.0	4.7	4.9	4.9	5.3
Savings and loan ass'ns	2.1	2.0	3.1	3.7	4.2	5.7	4.9	4.9	6.3	8.3	7.0
Mutual savings banks	1.0	0.8	1.7	1.8	2.0	2.1	2.0	1.8	2.4	1.5	1.7
Corporate pension funds	0.9	1.3	1.5	1.7	1.9	1.9	2.2	2.6	2.7	3.2	3.2
Commercial banks	6.6	6.1	9.1	4.1	10.3	5.1	4.5	5.1	15.2	4.4	6.3
Federal Reserve Banks	1.9	3.0	0.9	1.2	-1.0	-0.1	0.1	-0.7	2.1	0.3	1.1
State and local funds	1.5	1.5	2.2	2.5	2.9	1.8	2.3	2.6	1.6	2.9	2.3
U.S. investment accounts	-0.1	3.1	3.6	2.4	1.3	2.1	2.3	1.2	-0.9	-0.7	1.6
Federal loan agencies	0.4	0.9	0.9	0.1	-0.1	0.6	0.9	1.6	0.6	2.5	1.5
Corporations	7.9	3.0	2.5	2.4	0.1	10.5	-1.0	2.1	5.2	8.8	1.7
Fire and casualty cos.	0.8	0.7	1.2	1.3	1.2	0.9	0.5	0.8	0.9	1.5	1.1
Foreigners	1.5	*	1.0	0.6	0.6	1.3	0.5	*	*	4.5	0.5
Individuals and others	2.0	1.7	4.8	5.2	1.7	9.2	8.0	6.7	3.0	14.9	4.2
Total sources	30.0	27.9	36.9	31.9	30.1	46.5	32.3	33.5	44.0	57.0	37.4
<i>Uses of funds</i>											
Corporate bonds	2.0	3.6	4.9	4.8	3.8	4.2	4.7	7.1	5.9	4.3	4.4
Corporate stocks	1.5	2.3	2.4	1.9	1.8	1.9	2.5	2.7	2.1	2.3	2.4
State and local gov't issues	3.1	2.4	3.1	3.5	4.2	3.5	3.3	4.9	5.9	5.4	5.2
U.S. Government issues	-0.4	2.7	8.0	7.8	3.5	2.0	-4.1	-1.7	8.0	7.9	-0.3
Federal agency issues	0.4	0.2	*	*	*	1.5	0.6	2.1	-0.5	2.2	-0.1
Mortgages: 1-4 family	7.6	6.5	6.8	7.6	9.6	12.6	10.8	8.6	10.1	13.2	11.0
Other	2.6	2.9	2.3	2.3	2.8	3.6	3.8	3.5	5.2	6.0	4.8
Business credit	8.1	5.2	2.9	-1.8	1.4	9.5	7.4	3.0	4.4	6.8	4.1
Consumer credit	4.1	1.2	4.8	3.9	1.1	6.4	3.6	2.8	0.3	6.3	4.2
All other credit	1.1	0.7	1.6	1.9	2.0	1.3	-0.3	0.6	2.6	2.7	1.7
Total uses	30.0	27.9	36.9	31.9	30.1	46.5	32.3	33.5	44.0	57.0	37.4

* Less than \$50 million.

Note: Because of rounding, components may not add to totals shown.

e—Estimated.

analysis of the trend of interest rates will begin with consideration of the movement of interest rates from the end of World War II through 1959. Then we shall focus on the behavior of interest rates in 1960 and the forces behind this behavior. The discussion will conclude with an appraisal of the outlook for interest rates in 1961 and the longer-run outlook.

The Movement of Interest Rates Since World War II. During the period from the end of World War II through 1959 we experienced a prolonged upward swing of long-term interest rates. The rise was very moderate up to 1951, undoubtedly due in large measure to the support of Government securities prices (and thus the pegging of yields on Governments) by the Federal Reserve authorities, but it became more pronounced after 1951, especially during 1956-1959.

Some measure of the upward swing may be seen from the following yield figures. Moody's Aaa corporate bond index rose from 2.5 percent at the end of 1945 to 4.6 percent at the end of 1959. The average yield on long-term Government bonds increased from 2.4 percent at the end of 1945 to 4.4 percent at the end of 1959, while Moody's index of Aaa state and local bond yields moved up from 1.0 percent to 3.5 percent. There are no published yield indices for mortgages, but rough data that are available indicate a rise of similar magnitude. By 1959, after the long downward swing during the Thirties, long-term interest rates had returned to the level of the late Twenties.

The upward movement of interest rates since the war has not been smooth and uninterrupted. Despite the rising trend, interest rates have displayed a cyclical pattern. They rose to a peak in the late Spring of 1953, then declined abruptly through early 1954, levelled out to mid-1955, and then rose sharply. Rates peaked again late in 1957, then dropped abruptly to mid-1958, and then recovered up through the end of 1959. These cyclical movements of interest rates coincided, of course, with cyclical fluctuations in general business activity, which produced fluctuations in the demand for loanable funds. They were also to some extent the product of changes in Federal Reserve credit policy designed to aid in correcting the general business cycle and to encourage sustained economic growth.

It is interesting to observe how the upswing of interest rates affected the interest earnings of life insurance companies. As the general level of interest rates moved upward, the life insurance companies as a whole improved the average rate of return on their

invested assets every year from 2.88 percent in 1947 to 3.96 percent in 1959 (before Federal income taxes). It is likely that this year the average return will move upward again to about 4.12 percent. The improvement in their average rate of return was slower than the general rise of interest rates, of course, because of the effect of a large proportion of their assets acquired many years ago at low interest rates.

What were the forces underlying the upward swing of interest rates from the end of World War II through 1959? They were threefold. First and of basic importance, during much of the period the demands for capital funds to finance housing, business and industrial expansion, State and local government improvements, Federal deficits, and other uses, ran ahead of the available supplies. This was a period of huge demands for capital financing which placed great pressures on the funds supplied from national savings and whatever increase in the money supply that was permitted by the monetary authorities to accommodate the needs of a growing economy. In particular, in 1958 and 1959 the large borrowing by the U.S. Treasury was a potent factor. The tables presented elsewhere in this report on sources and uses of capital funds in the U.S. during the postwar years show the huge and increasing demands for capital funds. It should be kept in mind that these tables show only the demands that were satisfied and do not give any measure of the demands that exceeded the available supplies.

Secondly, after the "accord" between the Federal Reserve and the Treasury in March, 1951, the Federal Reserve abandoned the ruinous policy of buying Government securities in the open market at pegged prices—a policy which had turned the Federal Reserve into an "engine of inflation" because its purchases of Government securities at pegged (and artificially high) prices caused it to lose control over the reserves of the commercial banking system, and thus to lose its control of the supply of bank credit. After the accord the Federal Reserve authorities employed their credit control powers toward the objective of "sustainable growth" of the national economy. This meant that in periods of sharply rising general business activity, when strain was being exerted on the country's resources, the monetary authorities took action to restrict the availability of bank credit, or at least to prevent further expansion of credit, and this action reinforced the tendency for interest rates to rise as the result of mounting demands for capital funds. On the other hand, it meant

that in periods of declining general business activity the monetary authorities took action to ease the availability of bank credit, and such action reinforced the tendency for interest rates to decline as the result of slackening demands for capital funds. In other words, after the accord, Federal Reserve credit control measures became a factor in interest rate movements, but it was a prime objective of the authorities at the same time to permit market demand and supply forces to play the underlying role in determining the direction of interest rates.

The third, and not the least important, factor in the upswing of interest rates during the 1945-1959 period was the inflation that occurred, and the fear of inflation that developed. Inflation, and the expectation of inflation, breeds rising interest rates in the following ways: (1) it inflates the cost of capital goods and thus leads to rising demand for capital funds; and (2) it discourages the willingness of people to save and make their funds available at fixed interest. Thus inflation—and the buildup of an inflation psychology—acts to expand the demand for capital funds, while tending to reduce the supply. There is little doubt that, during much of the postwar period, inflation played an important role in the upswing of interest rates.

The Movement of Interest Rates in 1960. Let us turn now to the movement of interest rates in 1960. Contrary to the expectation of most analysts, longer-term rates softened in 1960, especially during the first three quarters of the year. Moody's index of yields on Aaa corporate bonds, for example, fell during the first quarter of the year, then levelled out during the second quarter, then declined again in the third quarter, with a moderate rise in the final quarter. The index reached a peak of 4.61 percent in early January and then declined to a low of 4.23 percent in early September; since then it has edged upward to 4.33 percent in early December. Tracing a generally similar pattern, the average yield on long-term Government bonds dropped from a high of 4.42 percent in early January to a low of 3.75 percent in early August; it had recovered to 3.97 percent in early December. Moody's Aaa state and local government bond yield index fell in two stages from a high of 3.53 percent in early January to a low of 2.99 percent in early September; it stood at 3.14 percent in early December. Another index of long-term interest rates which is commonly used is the offering yield on large issues of Aa-rated electric utility bonds. In mid-December, 1959 a large Aa-rated electric utility bond issue was brought out on a 5.30 percent

yield basis. After that issue there was a persistent decline culminating in an issue of an Aa-rated bond at 4.55 percent (5-year call protection) in late September, 1960. Thereupon the market tightened considerably, with a large Aa-rated issue being sold in early December on a 5.00 percent yield basis. This latter issue did not have the 5-year call protection, which accounted for some part of the higher offering yield.

Despite the softening during the year in yields on U.S. Government bonds, state and local government bonds, and publicly offered and traded corporate bonds, other long-term interest rates have remained comparatively firm. For example, the average yield on FHA mortgages (based on FHA field office opinions on the average bid price for new home mortgages, assuming a 25-year mortgage with an average life of 12 years) has declined only from 6.24 percent in January to 6.09 percent in October, with most of that decline coming in recent weeks. The interest rates on conventional home mortgages have been reduced $\frac{1}{4}$ of one percent in some sections of the country, but on the whole have remained pretty much at the levels reached at the close of 1959. Similarly, the interest rates on direct placements of corporate bonds, as well as on commercial and industrial mortgages and purchase-leasebacks have held comparatively steady. The prime rate of commercial banks remained at 5 percent until August, and was then cut to $4\frac{1}{2}$ percent, but this action seemed to be taken more to follow the cue given by the Federal Reserve authorities rather than as the result of competitive pressures.

What were the factors at play in 1960 which produced some softening of interest rates? One of the most important certainly was the dampening of inflation psychology on the part of the general public. During 1958 and 1959 there developed a pronounced public concern about the danger of inflation, but late in 1959 and early in 1960 this concern was allayed as the result of determined Federal fiscal and monetary policy, as well as by the successful efforts of industrial corporations to resist wage increases not justified by improvement in labor productivity. This dampening in the fear of continued inflation has doubtless reduced the urge on the part of business to build inventories, and it has likewise cooled the ardor of the public to buy durable consumer goods and housing. Business concerns and the general public, being less concerned about the prospect of rising prices, have been encouraged to be somewhat more deliberate and selective in exerting their demands. Moreover, as the fear of inflation

has been dampened, the willingness of the public to save and to make their funds available at fixed interest has increased. It is significant that personal saving has risen steadily from 6.7 percent of disposable income in the fourth quarter of 1959 to 8.1 percent in the third quarter of 1960. All of the savings institutions which invest the bulk of their funds at fixed interest in bonds and mortgages have been experiencing an improved flow of saving.

A second major factor in the softening of interest rates in 1960 has been the changed position of the Federal budget. During calendar 1959 there was a net increase of \$8 billion in the Federal debt, as Federal deficit financing needs contributed strongly to upward pressures on interest rates. This calendar year (1960), in contrast, it is expected that there will be little or no net increase in the Federal debt. This sharp swing from a Federal drain of \$8 billion on the money and capital markets in 1959 to virtually zero net demand this year has undoubtedly played a big role in the softening of interest rates. This is true both from the viewpoint of reduced capital demand and also from the psychological effect it had with the general public in allaying fears of inflation.

Thirdly, the change in Federal Reserve policy in 1960 has unquestionably been an important force toward lower rates. At the end of 1959 the commercial banking system was under considerable restraint with net borrowed reserves at a \$500 million level. During 1960 the monetary authorities have taken action through open market operations and changes in reserve requirements to ease the reserve position of the banks to the extent that by late November the banking system had net free reserves in the vicinity of \$400-500 million. The action permitting the banks to count their vault cash as part of their reserves has just raised net free reserves to the one billion dollar level, but it remains to be seen whether the reserve position of the banks will be reduced to a lower level after the Christmas season has passed. The discount rate has been cut in two steps in June and August from 4 to 3 percent, margin requirements have been reduced, and changes have been made in reserve requirements as the Federal Reserve authorities have sought to provide a stimulus to slackening general business activity. Through the credit easing effects of their actions, as well as the expectations such actions have created with investors, the changed monetary policy has played a role in softening interest rates, especially in the short-term rate area. At the same time, however, it is worth noting that the monetary authorities have

been affected by two limitations in their efforts to ease credit: (1) of foremost importance, they have had to weigh carefully the impact of reduced short-term interest rates in the U.S. on net balances of \$16 billion of funds that foreigners hold in the U.S. in the form of bank deposits and short-term Government securities; it is the shifting of these balances to other countries where interest rates are higher, in addition to the large current deficit (\$4.3 billion) in our international balance of payments, which has led to the troublesome outflow of gold; and (2) they have had to be concerned about contributing to excessive liquidity in the economy which would make more difficult the stemming of inflationary excesses in the next cyclical rise of general business activity. Because of the above limitations placed on the Federal Reserve, especially the gold outflow, the decline in short-term interest rates this year has not been as pronounced as in earlier periods of bank credit ease, and for this reason and the desire to repair their liquidity the commercial banks have not been so inclined to extend maturities, as was true in 1954 and 1958, in order to improve their yields. This year, as their free reserves have increased, the banks have been willing to remain in shorter-term securities so that their investment activities have not apparently been a very important factor in the softening of long-term interest rates.

Accordingly, three major forces have contributed to softening interest rates during 1960 (especially the first three quarters of the year): (1) the dampening of inflation psychology; (2) the changed position of the Federal budget; and (3) the movement of Federal Reserve policy toward easier availability of credit. As we noted earlier, however, the decline in long-term interest rates which occurred was largely in the rates on U.S. Government bonds, state and local government bonds, and publicly traded and publicly-offered corporate bonds. Long-term interest rates on conventional residential and business mortgages, FHA and VA mortgages, direct placements of corporate bonds, and other forms of long-term investments have held quite firm or have declined only to a comparatively minor degree. These rates characteristically tend to lag behind other long-term rates, but the lag appears to have been more prolonged in 1960 than in earlier periods. The reasons for this behavior seem to be as follows. Despite the levelling out and mild slackening of general business activity this year, the demands for capital funds have continued at a high level. For example, it is now estimated on the basis

of actual data through November, 1960 and the bond issues scheduled for December that long-term corporate security offerings for new capital will amount to \$9.7 billion in 1960, a little higher than the \$9.4 billion in 1959, but appreciably below the \$10.8 billion in 1958. Long-term state and local security offerings for new capital have also held up well this year, amounting to an estimated \$7.4 billion, compared with \$7.8 billion and \$7.7 billion, respectively, in 1959 and 1958. Moreover, despite the slower rate of housing starts this year, nonfarm residential construction expenditures (new construction) during the first three quarters of 1960 have run at an average annual rate of \$21.6 billion, not greatly below the \$22.3 billion in 1959. Furthermore, commercial and industrial construction expenditures in the first 10 months of this year, estimated at an annual rate of \$6.9 billion, are running ahead of the figure of \$6.0 billion in 1959.

It is apparent from these figures, therefore, that continuing large demands for capital funds have acted to restrain the softening of long-term interest rates in 1960. The outstanding forward investment commitments of life insurance companies illustrate this point. At the end of October, 1960 these outstanding commitments were slightly higher than a year earlier, and new commitments made during the first ten months ran considerably higher than during the same period of 1959. A very high percentage of the cash life insurance companies will have available for investment in the next several months is already committed for disbursement in that period. Accordingly, the life insurance companies seem to be finding a large volume of outlets for their investment funds.

Similarly, other long-term investors have not apparently so far been under serious competitive pressures to reduce interest rates to find outlets for their funds. The savings and loan associations have experienced a record inflow of savings in 1960, but the availability of home mortgages, plus the need to repay loans with the Federal Home Loan Banks and to rebuild liquidity, has enabled them pretty much to continue their lending with little change in interest rates. Mutual savings banks are now experiencing a better savings inflow, but thus far it does not seem to have placed them under strong competitive pressure to reduce rates in order to find investment outlets. The experience of uninsured corporate pension funds seems to be similar to that of the life companies. Likewise, the commercial banks have thus far appeared to be able to put their funds to work without any great downward pressure on the prime rate. As noted

earlier, they have been more inclined this year, as their free reserves increased, to remain in short-term securities.

The year 1960 has, therefore, been characterized by some softening of interest rates in the first nine months, with most of the declines taking place in the yields on publicly offered and traded corporate bonds, U.S. Government securities, and state and local securities. Other long-term rates have continued comparatively firm throughout the year due to well-maintained capital demands and such factors as backlogs of commitments. During the last several weeks there has been a firming of yields on U.S. Government securities, state and local government bonds, and publicly-offered and traded corporate bonds. This has probably been due to several forces such as: (1) a stepping up in the volume of corporate financing in the last quarter of the year; (2) the realization on the part of investors that the gold outflow problem places limits on the willingness of the monetary authorities to contribute to lower short-term interest rates through easing bank credit; and (3) the general expectation that the demands for capital funds will remain high in coming months and will probably increase by the Spring of next year.

The Outlook for Interest Rates in 1961. Turning now to the outlook for interest rates in 1961, the basic question, as always, is the prospect for general business activity. By and large, what happens to business as a whole will govern the relationship between demand and supply conditions in the capital markets and will thus determine interest rates. Moreover, the trend of general business activity in 1961 will exert a powerful influence on fiscal, monetary, and other Federal policies which affect interest rates.

This has been a baffling year for analysts of general business activity. During much of the year the general level of business activity has moved along on a record-high plateau, but there have been persistent signs of slack in the economy. The tendency for general business activity to soften somewhat has become more evident. Some of the indicators showing this are as follows. Gross national product, after rising from an annual rate (seasonally adjusted) of \$486.4 billion in the fourth quarter of 1959 to \$501.3 billion in the first quarter of 1960 and to \$505 billion in the second quarter, has declined moderately to a \$503.5 billion rate in the third quarter. Personal consumption expenditures, after rising to an annual rate of \$329 billion in the second quarter of 1960, have declined slightly to \$328.3 billion in the third quarter. Gross private

domestic investment expenditures, after increasing to an annual rate of \$79.3 billion in the first quarter of 1960, have fallen sharply to a rate of \$70.8 billion in the third quarter. The bulk of this drop was in business inventories, which were being accumulated at an annual rate of \$11.4 billion in the first quarter of 1960 after the steel strike, but the rate of accumulation declined almost to zero (\$0.3 billion) by the third quarter. The annual rate of plant and equipment spending by business and industry, also a component of gross private domestic investment, rose to an annual rate of \$36.9 billion in the third quarter of 1960, but various surveys made by public and private agencies of the capital plans of business and industry suggest that this figure will level off and then probably decline. On the other hand, two other major components of the gross national product are in a rising phase. Total government purchases of goods and services (Federal, state, and local) have increased steadily from an annual rate of \$96.4 billion in the fourth quarter of 1959 to \$100.7 billion in the third quarter of 1960, and net exports of goods and services have risen steadily from an annual rate of \$-0.4 billion (net imports) in the fourth quarter of 1959 to \$3.7 billion in the third quarter of 1960.

Among other signs of softening general business activity are the following. The Federal Reserve Board index of industrial production, after moving within a narrow range of 109-111 through July, declined to 108 in August and 107 in September and October. The decline in steel production has, of course, been a major factor. Moreover, the rate of private non-farm housing starts has not shown any marked tendency to rise in response to somewhat greater availability of mortgage credit.

Although the pause in the advance of general business activity this year has thus far been quite modest, it is hard to escape the conclusion that a mild softening process will continue into the first quarter of 1961. It is difficult to see any powerful sources of business strength on the horizon at this time which would give the economy a new upward thrust. As noted, the rise in the rate of plant and equipment spending by business and industry now seems to be topping out. In earlier business cycles, when this occurred, the country usually experienced a sharp upturn in residential construction as mortgage financing became easier to obtain. At this time, however, there are some signs that increased availability of mortgage credit is not acting with the usual speed to stimulate a sharp rise in residential

construction. These signs are the inventories of unsold houses in some areas of the country and the moderate rise in the vacancy rate for apartments (7.6 percent in September). At the same time, it can be argued that greater availability of credit arrived too late this year to provide much of a stimulus to this year's home-building. In a more favorable vein, general business activity should receive some stimulus from the action of Federal "built-in-stabilizers" such as rising unemployment insurance benefits and the automatic tendency of the Federal Government to spend more than its revenues as general business activity recedes. Moreover, the reduction in business inventories has probably run a good part of its course. The 2 percent increase in retail sales in October to a four-month high is encouraging in this connection as well as the most recent consumer survey by the National Industrial Conference Board which indicates a decided pickup in consumer spending plans.

The pattern of general business activity which probably lies ahead of us is a further moderate softening through the Spring of 1961 before a new rise in economic activity gets under way. The recovery will probably be sparked by a moderately rising rate of housing starts next Spring in response to more readily available mortgage credit, as well as by the Federal "built-in-stabilizers", well sustained consumer spending, and some rebuilding of business inventories. At the moment, however, it is difficult to foresee any factors which will give general business activity a strong upward push in the second half of next year. Rather, the recovery seems likely to be gradual and of modest proportions. Under the circumstances, we can anticipate that the new Administration will take prompt action to stimulate a renewed upward movement of general business activity.

What does the general business outlook suggest about the trend of long-term interest rates in 1961? It suggests that, through the Spring of 1961, the demand for long-term capital funds may recede a little and that interest rates may tend to move down somewhat from their present levels, especially the rates on Federal, state and local bonds, as well as those on publicly offered corporate bonds. However, as witnessed by the sizeable corporate bond calendar at present, as well as the record amount of municipal bond issues approved by voters, and the continuing huge demand for capital by commercial enterprises, the overall demands for capital funds seem likely to remain high, so that any downward pressure on rates from

reduced demand should not be strong. If we are correct about the general business situation, the U.S. Treasury will be back in the market in the second half of next year as a borrower to add to the demand for capital funds. With the increase in the rate of saving in mortgage lending institutions which is now taking place, interest rates on residential mortgages seem likely to move somewhat lower through the Spring of next year, although the increased ease in residential mortgage lending may occur primarily in other terms than interest rate, e.g., easier down payment and amortization terms. The extent of any softening of interest rates on residential mortgages will depend on the elasticity of demand for mortgage loans as they become readily available. In earlier periods mortgage demand has been exceedingly elastic, but this high degree of elasticity may have been lessened by the great additions to the stock of housing throughout the country during the past decade. Nevertheless, if the level of personal income remains high during the next several months, there undoubtedly will be a reasonably high degree of elasticity of demand for home mortgage loans as credit becomes more available.

If the trend of general business activity follows the pattern suggested here, we are likely to see additional steps by the Federal Reserve authorities in the next few months to ease the availability of credit. However, the monetary authorities will continue to be required to pay close attention to the consequences of their actions with respect to the large deficit in our international balance of payments position and the outflow of gold, as well as with regard to avoiding the creation of excessive liquidity in the economy which would retard the effectiveness of monetary policy measures in the next expansion phase of the business cycle.

By the end of the Spring of 1961, assuming that a general business recovery gets under way, interest rates should begin to edge upward again depending upon the vigor of the recovery and the extent to which monetary ease is reversed. The conditions which seem to be ahead of us in the capital markets suggest, therefore, that interest rates will decline moderately into the Spring of 1961 and during the second half of the year turn up gradually to recover the ground lost during the downturn.

The Longer-run Outlook for Interest Rates. In concluding these observations on the trend of interest rates, let us take a brief look at the longer-run outlook for interest rates in the decade of the Sixties. Some capital market analysts are asking the question: Has the long

upswing of interest rates during the past fifteen years just about run its course, and are we now entering a period in which both capital market forces and Federal policies will produce a prolonged decline of interest rates? My answer is in the negative because I believe that total capital demands during the Sixties will continue to press against available supplies and interest rates will generally tend to be firm at around the levels reached in late 1959.

This view is based upon several basic economic forces which seem likely to be operating in the Sixties, as follows:

1. Recent events in the General Assembly of the United Nations confirm that the cold war will remain with us, and probably intensify, for the foreseeable future. This makes it virtually certain that Federal expenditures for military preparedness and foreign economic aid are likely to rise further in the next several years. We are just beginning the task of trying to win or maintain the friendship of the new African nations against the ruthless infiltration of the Communist bloc. Similarly, our task in Latin American countries seems more difficult. Our efforts to overcome the lead of the Russians in space are bound to mean accelerated Federal spending. Moreover, it is likely that Federal policies aimed at stimulating a faster rate of economic growth of the country, to keep ahead of the Communist countries and to demonstrate that our free economic system is better than theirs, will lead to rising Federal spending. There are serious dangers involved in this trend toward rising Federal expenditures, but it seems likely to occur.

2. During the Sixties we have the prospect of a significant stepping up in the rate of household formations which should contribute to an increasing volume of consumer expenditures and home building. According to the latest projections of the Bureau of the Census, the annual rate of household formations will increase for the next 20 years. Under the most favorable assumptions for increase, the Bureau of the Census projects that the annual rate of household formations will rise from about 883,000 in the last two years of the Fifties to an annual rate of about 1,018,000 in the first five years of the Sixties, and to a slightly higher annual rate of 1,083,000 in the second half of the decade. During the Seventies the projections show a more pronounced rise to an annual rate of 1,338,000 in the second half of that decade. Accordingly, the expanding markets for consumer goods and housing occasioned by the higher rate of household formations should enhance the general economic prospects of the Sixties. However, the

impact of a rising rate of household formations this decade should not be exaggerated. The average annual rate of 1,083,000 in the second half of the Sixties is still considerably below the annual rate of 1,525,000 in the three-year period from April, 1947 to March, 1950.

3. With the expansion of household formations in the Sixties, a continued substantial rise in expenditures by state and local government units seems to be indicated. This is an area in which there is still a large backlog of demand. State and local expenditures (in real terms) increased persistently from \$26.5 billion in 1949 to \$44.3 billion in 1959, and it would not be surprising if they showed a comparable increase in this decade, which would carry them to the neighborhood of \$75 billion by 1970. Here would be a powerful force toward a rising level of general business activity and high capital demands.

4. It seems likely that with the other three forces mentioned at play, the rate of business and industrial plant and equipment expenditures should continue to move upward from the level of the Fifties. Spurred by keen competition in our industrial system, foreign as well as domestic, and still further increases in the funds devoted to industrial research, plant and equipment expenditures by business and industry should trend upward during the decade.

5. In a more pessimistic vein about the economic outlook, the reservoir of demand for consumer goods and housing which was dammed-up during the Thirties and World War II may finally be in the process of running dry. There is some evidence of this. For example, the huge postwar demand on the part of veterans for housing under the VA home loan guaranty program probably has largely been met. The failure of home-building as a whole to respond in the latter part of this year to somewhat greater availability of mortgage financing, and the increasing reports of pockets of unsold homes and rising vacancy rates in apartment buildings, may also signal in part that the days of big backlog demand for housing are reaching an end. In a way, we may be witnessing the same thing in the sale of automobiles today as the public is becoming more selective and more interested in the compact cars. The huge backlog of demand which was evident in the first decade and a half after World War II was fed by liquid assets accumulated by the public during the war, and even more so by the easier and easier credit in the consumer loan and home loan fields. The consuming public has used up a good part of

these liquid assets, or they have been drained by the rising price level, and we have apparently gotten to the end of the line in making consumer or home mortgage terms easier. This is not to say that the level of consumer expenditures will not continue to rise in the Sixties. It undoubtedly will. Nevertheless, consumer spending in the Sixties will not be fortified by the great backlog of wants and desires which characterized most of the Fifties. Markets should become much more competitive as consumers become more selective. We are probably moving into a decade of the "hard sell."

Accordingly, taking into account the five forces outlined above, during the Sixties our national economy is likely to grow at as fast a rate as in the Fifties and in the process to require enormous amounts of capital funds. This does not mean that the growth rate will be uniform each year because fluctuations in general business activity and in capital expansion are inherent in a dynamic free market economy such as ours. However, despite fluctuations in general business activity and in interest rates, on the average in the Sixties the great demands for capital funds will press against the supply of funds from savings sources and from the increase in the money supply permitted to accommodate sustainable growth without inflation. Consequently, in the Sixties long-term interest rates seem likely to remain at the levels reached in 1959.

As we move into the Sixties, it becomes more and more evident that domestic policy measures of the Federal Government will have to be examined carefully with respect to the consequences that they may have on the international balance of payments position of the U. S. This is especially true of policies in the credit field. As a result of persistent deficits in our international balance of payments, foreigners and foreign central banks have built up large liquid assets in this country. The threat of having these assets liquidated and the funds moved out of the U. S. to take advantage of higher interest rates elsewhere, or because of reduced confidence in the value of the dollar, with a resultant drain upon our gold reserves, imposes limits on the freedom of the monetary authorities to control the availability of credit and thus to influence interest rates. Thus, in coming years it seems certain that, even more than in the past, Federal policy measures in the credit and capital funds areas will be subject to the discipline of market demand and supply forces.

*INVESTMENTS OF 49 UNITED STATES LEGAL RESERVE LIFE INSURANCE COMPANIES

TABLE I—INVESTMENTS—BY CLASSES

Dec. 31	U. S. Government Bonds	State, County and Municipal Bonds	*Canadian Government Bonds	*Other Foreign Government Bonds
1906	\$ 3,155,000 (.1%)	\$ 114,148,000 (4.0%)	\$ 12,230,000 (.4%)	\$ 65,051,000 (2.3%)
1911	886,000 (.0)	170,692,000 (4.2)	22,440,000 (.6)	81,028,000 (2.0)
1916	1,460,000 (.0)	242,218,000 (4.6)	69,711,000 (1.3)	139,302,000 (2.6)
1921	802,923,000 (10.7)	347,661,000 (4.7)	157,349,000 (2.1)	110,648,000 (1.5)
1926	493,526,000 (4.2)	344,282,000 (2.9)	265,231,000 (2.2)	30,224,000 (.3)
1931	355,532,000 (1.9)	696,868,000 (3.8)	442,577,000 (2.4)	31,519,000 (.2)
1932	422,697,000 (2.2)	742,125,000 (3.9)	449,683,000 (2.4)	24,712,000 (.1)
1933	810,133,000 (4.2)	811,955,000 (4.2)	440,394,000 (2.3)	17,029,000 (.1)
1934	1,747,126,000 (8.6)	1,018,594,000 (5.0)	440,269,000 (2.2)	14,980,000 (.1)
1935	2,739,189,000 (12.7)	1,173,252,000 (5.4)	469,564,000 (2.2)	13,392,000 (.1)
1936	3,713,082,000 (16.1)	1,304,069,000 (5.7)	476,939,000 (2.1)	10,628,000 (.0)
1937	4,384,064,000 (18.1)	1,407,407,000 (5.8)	483,615,000 (2.0)	6,379,000 (.0)
1938	4,666,984,000 (18.2)	1,503,969,000 (5.9)	499,473,000 (2.0)	7,019,000 (.0)
1939	5,080,885,000 (18.8)	1,658,480,000 (6.2)	533,549,000 (2.0)	6,183,000 (.0)
1940	5,510,313,000 (19.4)	1,786,288,000 (6.3)	562,627,000 (2.0)	5,892,000 (.0)
1941	6,438,968,000 (21.4)	1,703,207,000 (5.7)	664,563,000 (2.2)	5,428,000 (.0)
1942	8,772,657,000 (27.3)	1,479,098,000 (4.6)	758,635,000 (2.4)	5,290,000 (.0)
1943	11,738,890,000 (33.9)	1,216,881,000 (3.5)	936,481,000 (2.7)	5,578,000 (.0)
1944	15,329,396,000 (40.9)	903,001,000 (2.4)	1,047,902,000 (2.8)	5,913,000 (.0)
1945	19,015,084,000 (46.7)	574,154,000 (1.4)	1,178,803,000 (2.9)	6,103,000 (.0)
1946	19,984,602,000 (45.8)	460,021,000 (1.1)	1,264,360,000 (2.9)	8,928,000 (.0)
1947	18,354,797,000 (39.4)	445,410,000 (1.0)	1,280,280,000 (2.7)	17,516,000 (.0)
1948	15,277,135,000 (30.7)	641,486,000 (1.3)	1,378,127,000 (2.8)	18,344,000 (.0)
1949	13,838,345,000 (26.0)	757,101,000 (1.4)	1,372,803,000 (2.6)	17,704,000 (.0)
1950	12,066,994,000 (21.2)	823,342,000 (1.5)	1,361,072,000 (2.4)	20,636,000 (.0)
1951	9,682,946,000 (16.0)	830,438,000 (1.4)	1,370,462,000 (2.3)	21,012,000 (.0)
1952	8,867,069,000 (13.8)	779,069,000 (1.2)	1,244,187,000 (1.9)	21,162,000 (.0)
1953	8,426,850,000 (12.3)	845,412,000 (1.2)	1,142,264,000 (1.7)	20,827,000 (.0)
1954	7,687,247,000 (10.5)	1,244,601,000 (1.7)	1,041,445,000 (1.4)	25,989,000 (.0)
1955	7,185,521,000 (9.2)	1,341,064,000 (1.7)	914,587,000 (1.2)	36,112,000 (.0)
1956	6,180,947,000 (7.5)	1,487,696,000 (1.8)	920,312,000 (1.1)	35,794,000 (.1)
1957	5,668,979,000 (6.6)	1,512,037,000 (1.7)	919,396,000 (1.1)	39,942,000 (.0)
1958	5,801,313,000 (6.4)	1,634,168,000 (1.8)	912,581,000 (1.0)	49,465,000 (.1)
1959	5,433,745,000 (5.7)	1,910,700,000 (2.0)	994,735,000 (1.0)	70,385,000 (.1)
†1960	5,150,000,000 (5.1)	2,100,000,000 (2.1)	1,075,000,000 (1.1)	75,000,000 (.1)

Dec. 31	Railroad Bonds	Public Utility Bonds	Other Bonds	Total Bonds
1906	\$ 958,607,000 (33.5%)	\$ 117,922,000 (4.1%)	\$ 33,873,000 (1.2%)	\$ 1,304,986,000 (45.6%)
1911	1,313,422,000 (32.6)	149,829,000 (3.7)	48,856,000 (1.2)	1,787,153,000 (44.3)
1916	1,637,686,000 (30.7)	203,567,000 (3.8)	47,858,000 (.9)	2,341,802,000 (43.9)
1921	1,694,190,000 (22.6)	212,499,000 (2.8)	74,088,000 (1.0)	3,399,358,000 (45.4)
1926	2,403,903,000 (20.2)	808,429,000 (6.8)	118,959,000 (1.0)	4,464,554,000 (37.6)
1931	2,922,868,000 (15.8)	1,664,528,000 (9.0)	342,695,000 (1.8)	6,456,587,000 (34.9)
1932	2,869,357,000 (15.0)	1,657,359,000 (8.7)	340,024,000 (1.8)	6,505,957,000 (34.1)
1933	2,818,432,000 (14.6)	1,676,090,000 (8.6)	337,889,000 (1.7)	6,911,922,000 (35.7)
1934	2,843,890,000 (14.1)	1,773,001,000 (8.8)	414,232,000 (2.0)	8,252,092,000 (40.8)
1935	2,805,661,000 (13.0)	2,008,605,000 (9.4)	529,643,000 (2.5)	9,739,306,000 (45.3)
1936	2,867,323,000 (12.5)	2,401,365,000 (10.4)	672,775,000 (2.9)	11,446,181,000 (49.7)
1937	2,971,619,000 (12.2)	2,669,653,000 (11.0)	952,873,000 (3.9)	12,875,610,000 (53.0)
1938	2,915,405,000 (11.4)	3,129,544,000 (12.2)	1,238,214,000 (4.8)	13,960,608,000 (54.5)
1939	2,897,761,000 (10.7)	3,643,432,000 (13.5)	1,294,611,000 (4.8)	15,114,901,000 (56.0)
1940	2,945,459,000 (10.4)	4,077,005,000 (14.3)	1,494,147,000 (5.3)	16,381,731,000 (57.7)
1941	2,904,934,000 (9.6)	4,653,692,000 (15.5)	1,784,189,000 (5.9)	18,154,981,000 (60.3)
1942	2,727,743,000 (8.5)	4,927,435,000 (15.4)	1,761,891,000 (5.5)	20,432,749,000 (63.7)
1943	2,649,044,000 (7.7)	4,946,628,000 (14.3)	1,813,578,000 (5.2)	23,307,080,000 (67.3)
1944	2,597,020,000 (6.9)	4,992,649,000 (13.3)	1,806,452,000 (4.8)	26,682,333,000 (71.1)
1945	2,710,709,000 (6.7)	4,810,844,000 (11.8)	1,813,804,000 (4.5)	30,109,501,000 (74.0)
1946	2,662,368,000 (6.1)	5,161,745,000 (11.8)	3,219,168,000 (7.4)	32,761,192,000 (75.1)
1947	2,684,636,000 (5.8)	6,404,350,000 (13.7)	4,841,387,000 (10.4)	34,028,376,000 (73.0)
1948	2,809,262,000 (5.6)	8,050,229,000 (16.2)	7,000,436,000 (14.0)	35,175,019,000 (70.6)
1949	2,805,979,000 (5.3)	8,970,871,000 (16.9)	8,487,538,000 (16.0)	36,250,341,000 (68.2)
1950	2,930,906,000 (5.2)	9,718,339,000 (17.1)	9,328,301,000 (16.4)	36,249,590,000 (63.8)
1951	3,064,399,000 (5.1)	10,265,209,000 (17.0)	11,194,076,000 (18.6)	36,428,542,000 (60.4)
1952	3,254,008,000 (5.1)	10,822,508,000 (16.8)	13,327,250,000 (20.7)	38,315,253,000 (59.5)
1953	3,364,699,000 (4.9)	11,513,655,000 (16.8)	15,037,228,000 (21.9)	40,350,935,000 (58.8)
1954	3,457,480,000 (4.7)	12,024,021,000 (16.4)	16,345,696,000 (22.3)	41,826,479,000 (57.0)
1955	3,595,249,000 (4.6)	12,369,441,000 (15.9)	17,530,981,000 (22.5)	42,972,955,000 (55.1)
1956	3,573,292,000 (4.3)	12,810,884,000 (15.6)	18,981,114,000 (23.0)	43,990,039,000 (53.4)
1957	3,555,146,000 (4.1)	13,233,112,000 (15.3)	20,643,102,000 (23.9)	45,571,714,000 (52.7)
1958	3,517,145,000 (3.9)	13,681,169,000 (15.0)	22,109,873,000 (24.2)	47,705,714,000 (52.3)
1959	3,461,239,000 (3.6)	14,045,576,000 (14.7)	23,617,266,000 (24.6)	49,533,646,000 (51.7)
†1960	3,400,000,000 (3.4)	14,200,000,000 (14.2)	24,900,000,000 (24.9)	50,900,000,000 (50.9)

TABLE I—INVESTMENTS—BY CLASSES (Continued)

Dec. 31	Railroad Stocks	Public Utility Stocks	Other Stocks	Total Stocks
1906	\$ 43,095,000 (1.5%)	\$ 16,572,000 (.6%)	\$ 70,906,000 (2.5%)	\$ 130,573,000 (4.6%)
1911	37,617,000 (1.0)	16,738,000 (.4)	28,901,000 (.7)	83,256,000 (2.1)
1916	33,264,000 (.6)	14,100,000 (.3)	30,665,000 (.6)	78,029,000 (1.5)
1921	28,750,000 (.4)	11,670,000 (.1)	28,327,000 (.4)	68,747,000 (.9)
1926	27,671,000 (.2)	9,357,000 (.1)	52,551,000 (.5)	89,579,000 (.8)
1931	93,883,000 (.5)	165,165,000 (.9)	257,065,000 (1.4)	516,113,000 (2.8)
1932	91,054,000 (.5)	165,993,000 (.9)	256,758,000 (1.3)	513,805,000 (2.7)
1933	89,876,000 (.4)	167,815,000 (.9)	248,846,000 (1.3)	506,537,000 (2.6)
1934	88,782,000 (.4)	169,436,000 (.8)	251,390,000 (1.3)	509,608,000 (2.5)
1935	88,246,000 (.4)	178,850,000 (.8)	263,635,000 (1.2)	530,731,000 (2.4)
1936	86,720,000 (.4)	182,340,000 (.8)	254,654,000 (1.1)	523,714,000 (2.3)
1937	82,440,000 (.4)	179,213,000 (.7)	271,081,000 (1.1)	532,734,000 (2.2)
1938	78,818,000 (.3)	178,813,000 (.7)	267,341,000 (1.0)	524,972,000 (2.0)
1939	72,427,000 (.3)	167,682,000 (.6)	277,624,000 (1.0)	517,733,000 (1.9)
1940	71,459,000 (.2)	165,113,000 (.6)	287,121,000 (1.0)	523,693,000 (1.8)
1941	68,438,000 (.2)	170,101,000 (.5)	295,386,000 (1.0)	533,925,000 (1.7)
1942	65,967,000 (.2)	168,840,000 (.5)	308,848,000 (1.0)	543,655,000 (1.7)
1943	64,908,000 (.2)	166,536,000 (.5)	316,571,000 (.9)	548,015,000 (1.6)
1944	74,359,000 (.2)	169,708,000 (.5)	351,162,000 (.9)	595,229,000 (1.6)
1945	87,376,000 (.2)	199,425,000 (.5)	454,674,000 (1.1)	741,475,000 (1.8)
1946	88,938,000 (.2)	271,587,000 (.6)	586,584,000 (1.4)	947,109,000 (2.2)
1947	92,911,000 (.2)	317,449,000 (.7)	721,149,000 (1.5)	1,131,509,000 (2.4)
1948	101,041,000 (.2)	325,196,000 (.6)	773,342,000 (1.6)	1,199,579,000 (2.4)
1949	102,343,000 (.2)	426,455,000 (.8)	846,403,000 (1.6)	1,375,201,000 (2.6)
1950	108,680,000 (.2)	573,893,000 (1.0)	968,582,000 (1.7)	1,651,155,000 (2.9)
1951	106,260,000 (.2)	623,153,000 (1.0)	1,018,446,000 (1.7)	1,747,859,000 (2.9)
1952	116,263,000 (.2)	689,175,000 (1.0)	1,036,147,000 (1.6)	1,841,585,000 (2.8)
1953	119,627,000 (.2)	781,552,000 (1.1)	1,063,085,000 (1.6)	1,964,264,000 (2.9)
1954	122,935,000 (.2)	991,322,000 (1.3)	1,171,376,000 (1.6)	2,285,633,000 (3.1)
1955	109,058,000 (.1)	1,112,786,000 (1.4)	1,218,914,000 (1.6)	2,440,758,000 (3.1)
1956	97,684,000 (.1)	1,104,613,000 (1.4)	1,181,550,000 (1.4)	2,383,847,000 (2.9)
1957	93,465,000 (.1)	1,119,950,000 (1.3)	1,199,582,000 (1.4)	2,412,997,000 (2.8)
1958	92,962,000 (.1)	1,219,708,000 (1.4)	1,395,037,000 (1.5)	2,707,707,000 (3.0)
1959	83,679,000 (.1)	1,301,618,000 (1.4)	1,539,352,000 (1.6)	2,924,649,000 (3.1)
†1960	70,000,000 (.1)	1,480,000,000 (1.5)	1,500,000,000 (1.5)	3,050,000,000 (3.1)

Dec. 31	Farm Mortgages	Other Mortgages	Total Mortgages	Real Estate
1906	\$ 262,488,000 (9.2%)	\$ 547,537,000 (19.1%)	\$ 810,025,000 (28.3%)	\$ 155,794,000 (5.5%)
1911	483,549,000 (12.0)	814,724,000 (20.2)	1,298,273,000 (32.2)	157,759,000 (3.9)
1916	789,978,000 (14.8)	984,763,000 (18.5)	1,774,741,000 (33.3)	143,782,000 (2.7)
1921	1,322,596,000 (17.7)	1,244,176,000 (16.6)	2,566,772,000 (34.3)	148,732,000 (2.0)
1926	1,954,038,000 (16.4)	3,136,038,000 (26.4)	5,090,076,000 (42.8)	214,995,000 (1.8)
1931	1,835,246,000 (9.9)	5,245,106,000 (28.3)	7,080,352,000 (38.2)	516,228,000 (2.8)
1932	1,709,488,000 (8.9)	5,090,283,000 (26.7)	6,799,771,000 (35.6)	750,493,000 (3.9)
1933	1,508,783,000 (7.8)	4,749,987,000 (24.5)	6,258,770,000 (32.3)	1,106,728,000 (5.7)
1934	1,193,537,000 (5.9)	4,316,068,000 (21.3)	5,509,605,000 (27.2)	1,491,737,000 (7.4)
1935	991,293,000 (4.6)	3,969,625,000 (18.5)	4,960,918,000 (23.1)	1,755,792,000 (8.2)
1936	870,135,000 (3.8)	3,843,451,000 (16.7)	4,713,586,000 (20.5)	1,897,023,000 (8.2)
1937	815,603,000 (3.3)	3,950,859,000 (16.3)	4,766,462,000 (19.6)	1,935,515,000 (8.0)
1938	802,018,000 (3.1)	4,144,992,000 (16.2)	4,947,010,000 (19.3)	1,934,335,000 (7.5)
1939	792,009,000 (2.9)	4,339,222,000 (16.1)	5,131,231,000 (19.0)	1,905,254,000 (7.1)
1940	790,958,000 (2.8)	4,558,911,000 (16.0)	5,349,869,000 (18.8)	1,834,900,000 (6.5)
1941	804,224,000 (2.7)	4,914,021,000 (16.3)	5,718,245,000 (19.0)	1,650,968,000 (5.5)
1942	790,060,000 (2.4)	5,159,551,000 (16.1)	5,949,611,000 (18.5)	1,455,066,000 (4.5)
1943	743,682,000 (2.2)	5,163,140,000 (14.9)	5,906,822,000 (17.1)	1,175,965,000 (3.4)
1944	701,825,000 (1.9)	5,148,286,000 (13.7)	5,850,111,000 (15.6)	926,416,000 (2.5)
1945	669,391,000 (1.6)	5,046,764,000 (12.4)	5,716,155,000 (14.0)	731,373,000 (1.8)
1946	677,619,000 (1.5)	5,346,317,000 (12.3)	6,023,936,000 (13.8)	659,437,000 (1.5)
1947	731,930,000 (1.6)	6,476,360,000 (13.9)	7,208,290,000 (15.5)	749,605,000 (1.6)
1948	840,849,000 (1.7)	8,099,501,000 (16.3)	8,940,350,000 (18.0)	931,948,000 (1.9)
1949	978,268,000 (1.8)	9,619,742,000 (18.1)	10,598,010,000 (19.9)	1,102,846,000 (2.1)
1950	1,155,816,000 (2.0)	12,151,516,000 (21.4)	13,307,332,000 (23.4)	1,278,945,000 (2.2)
1951	1,350,477,000 (2.2)	14,734,967,000 (24.5)	16,085,444,000 (26.7)	1,427,702,000 (2.3)
1952	1,502,742,000 (2.3)	16,144,083,000 (25.1)	17,646,825,000 (27.4)	1,655,987,000 (2.6)
1953	1,665,794,000 (2.4)	17,654,024,000 (25.8)	19,319,818,000 (28.2)	1,740,693,000 (2.5)
1954	1,806,493,000 (2.4)	19,703,505,000 (26.9)	21,509,998,000 (29.3)	1,971,909,000 (2.7)
1955	2,009,278,000 (2.6)	22,295,555,000 (28.5)	24,304,833,000 (31.1)	2,184,929,000 (2.8)
1956	2,213,577,000 (2.6)	25,034,529,000 (30.4)	27,248,106,000 (33.0)	2,362,383,000 (2.9)
1957	2,325,425,000 (2.7)	26,783,884,000 (31.0)	29,109,309,000 (33.7)	2,598,321,000 (3.0)
1958	2,448,741,000 (2.7)	28,111,716,000 (30.8)	30,560,457,000 (33.5)	2,810,742,000 (3.1)
1959	2,611,674,000 (2.7)	29,646,977,000 (31.0)	32,258,651,000 (33.7)	3,019,133,000 (3.1)
†1960	2,750,000,000 (2.7)	31,550,000,000 (31.5)	34,300,000,000 (34.2)	3,150,000,000 (3.1)

TABLE I—INVESTMENTS—BY CLASSES (Continued)

Dec. 31	Policy Loans and Premium Notes	Cash	Other Assets
1906	\$ 252,735,000 (8.8%)	\$ 64,806,000 (2.3%)	141,018,000 (4.9%)
1911	521,008,000 (12.9)	64,003,000 (1.6)	119,169,000 (3.0)
1916	747,024,000 (14.0)	95,704,000 (1.8)	147,260,000 (2.8)
1921	975,262,000 (13.0)	88,242,000 (1.2)	237,862,000 (3.2)
1926	1,430,538,000 (12.0)	91,682,000 (.8)	502,203,000 (4.2)
1931	3,028,444,000 (16.4)	150,886,000 (.8)	756,916,000 (4.1)
1932	3,438,384,000 (18.0)	292,287,000 (1.6)	786,356,000 (4.1)
1933	3,452,011,000 (17.8)	419,202,000 (2.2)	704,563,000 (3.7)
1934	3,332,171,000 (16.5)	561,858,000 (2.8)	557,939,000 (2.8)
1935	3,218,582,000 (15.0)	766,783,000 (3.6)	525,081,000 (2.4)
1936	3,087,965,000 (13.4)	787,659,000 (3.4)	564,971,000 (2.5)
1937	3,074,514,000 (12.7)	669,973,000 (2.8)	418,029,000 (1.7)
1938	3,069,415,000 (12.0)	706,919,000 (2.8)	497,097,000 (1.9)
1939	2,930,752,000 (10.9)	848,775,000 (3.1)	553,101,000 (2.0)
1940	2,779,774,000 (9.8)	947,949,000 (3.3)	597,180,000 (2.1)
1941	2,612,907,000 (8.7)	785,140,000 (2.6)	658,257,000 (2.2)
1942	2,393,173,000 (7.5)	640,123,000 (2.0)	669,125,000 (2.1)
1943	2,112,194,000 (6.1)	749,446,000 (2.2)	798,326,000 (2.3)
1944	1,895,497,000 (5.1)	603,212,000 (1.6)	942,239,000 (2.5)
1945	1,737,970,000 (4.3)	623,307,000 (1.5)	1,048,516,000 (2.6)
1946	1,672,754,000 (3.9)	574,112,000 (1.3)	965,938,000 (2.2)
1947	1,706,806,000 (3.7)	831,591,000 (1.8)	923,526,000 (2.0)
1948	1,812,575,000 (3.6)	735,635,000 (1.5)	1,019,488,000 (2.0)
1949	1,950,871,000 (3.7)	706,418,000 (1.3)	1,171,618,000 (2.2)
1950	2,082,484,000 (3.7)	790,131,000 (1.4)	1,453,557,000 (2.6)
1951	2,213,175,000 (3.7)	854,128,000 (1.4)	1,561,103,000 (2.6)
1952	2,305,679,000 (3.6)	876,238,000 (1.3)	1,793,977,000 (2.8)
1953	2,435,878,000 (3.6)	911,257,000 (1.3)	1,864,185,000 (2.7)
1954	2,586,584,000 (3.5)	911,717,000 (1.3)	2,258,497,000 (3.1)
1955	2,709,285,000 (3.5)	926,419,000 (1.2)	2,529,622,000 (3.2)
1956	2,893,118,000 (3.5)	916,500,000 (1.1)	2,623,275,000 (3.2)
1957	3,168,992,000 (3.7)	908,285,000 (1.0)	2,682,488,000 (3.1)
1958	3,407,819,000 (3.7)	942,542,000 (1.0)	3,084,923,000 (3.4)
1959	3,740,188,000 (3.9)	897,368,000 (.9)	3,468,981,000 (3.6)
†1960	4,300,000,000 (4.3)	900,000,000 (.9)	3,500,000,000 (3.5)

TOTAL ASSETS

Dec. 31	Of the 49 United States Companies	Of all United States Companies	Ratio of 49 Companies to All Companies
1906	\$ 2,859,937,000	\$ 2,924,254,000	97.8%
1911	4,030,621,000	4,164,492,000	96.8
1916	5,328,342,000	5,536,607,000	96.2
1921	7,484,975,000	7,936,497,000	94.3
1926	11,883,627,000	12,939,807,000	91.8
1931	18,505,526,000	20,159,940,000	91.8
1932	19,087,053,000	20,754,112,000	92.0
1933	19,359,733,000	20,895,726,000	92.6
1934	20,215,010,000	21,843,794,000	92.5
1935	21,497,193,000	23,216,496,000	92.6
1936	23,021,099,000	24,874,316,000	92.5
1937	24,272,837,000	26,249,049,000	92.5
1938	25,640,356,000	27,754,661,000	92.4
1939	27,001,747,000	29,243,411,000	92.3
1940	28,415,096,000	30,802,155,000	92.3
1941	30,114,423,000	32,730,965,000	92.0
1942	32,083,502,000	34,931,411,000	91.8
1943	34,597,848,000	37,766,396,000	91.6
1944	37,495,037,000	41,053,974,000	91.3
1945	40,708,297,000	44,797,041,000	90.9
1946	43,604,478,000	48,190,736,000	90.5
1947	46,579,703,000	51,742,987,000	90.0
1948	49,814,594,000	55,511,882,000	89.7
1949	53,155,305,000	59,629,541,000	89.1
1950	56,813,194,000	64,019,686,000	88.7
1951	60,317,953,000	68,278,226,000	88.3
1952	64,435,544,000	73,374,895,000	87.8
1953	68,587,030,000	78,533,217,000	87.3
1954	73,350,817,000	84,486,326,000	86.8
1955	78,068,801,000	90,431,638,000	86.3
1956	82,417,268,000	96,010,967,000	85.8
1957	86,452,106,000	101,308,595,000	85.3
1958	91,219,904,000	107,580,180,000	84.8
1959	95,842,616,000	113,650,030,000	84.3
†1960	100,100,000,000	119,450,000,000	83.8

* Book values, except for "Other Assets" and "Total Assets."

† Estimated from actual data as of October 31.

() Ratio of investments in class to total investments.

a Including securities of all political subdivisions.

b See TABLE IA for breakdown between Preferred and Common Stocks.

c Data for 1906-1951 from The Spectator Life Insurance Year Books. Data for 1952-1959 compiled by Institute of Life Insurance.

TABLE IA—STOCKS
PREFERRED AND GUARANTEED

Dec. 31	Railroad	Public Utility	Other	Total
1906	\$13,563,000	\$ 1,678,000	\$ 2,196,000	\$ 17,437,000
1911	8,396,000	912,000	1,942,000	11,250,000
1916	9,365,000	953,000	1,236,000	11,554,000
1921	11,372,000	1,176,000	1,119,000	13,667,000
1926	9,901,000	3,022,000	1,543,000	14,466,000
1931	67,500,000	152,386,000	195,222,000	415,108,000
1932	66,996,000	153,764,000	194,640,000	415,400,000
1933	66,150,000	155,481,000	185,951,000	407,582,000
1934	66,301,000	157,198,000	188,538,000	412,037,000
1935	65,693,000	164,232,000	201,597,000	431,522,000
1936	66,538,000	163,078,000	188,187,000	417,803,000
1937	63,087,000	158,197,000	209,529,000	430,813,000
1938	55,265,000	156,354,000	199,226,000	410,845,000
1939	49,761,000	142,993,000	203,302,000	396,056,000
1940	48,347,000	139,972,000	206,196,000	394,515,000
1941	51,739,000	143,269,000	214,583,000	409,591,000
1942	46,148,000	142,090,000	224,642,000	412,880,000
1943	45,722,000	141,012,000	231,468,000	418,202,000
1944	55,621,000	140,443,000	260,558,000	456,622,000
1945	68,074,000	169,964,000	350,826,000	588,864,000
1946	65,590,000	213,286,000	457,433,000	736,309,000
1947	69,818,000	256,498,000	573,632,000	899,948,000
1948	72,784,000	259,924,000	617,650,000	950,358,000
1949	74,584,000	353,988,000	668,941,000	1,097,513,000
1950	80,347,000	465,492,000	716,711,000	1,262,550,000
1951	80,661,000	483,235,000	701,727,000	1,265,623,000
1952	89,778,000	528,096,000	686,464,000	1,304,338,000
1953	92,176,000	602,197,000	676,113,000	1,370,486,000
1954	86,059,000	760,624,000	647,752,000	1,494,435,000
1955	88,753,000	840,528,000	602,361,000	1,511,642,000
1956	62,566,000	827,984,000	528,611,000	1,419,161,000
1957	62,317,000	834,514,000	511,432,000	1,408,263,000
1958	59,554,000	876,552,000	482,823,000	1,418,929,000
1959	58,340,000	932,547,000	465,880,000	1,456,767,000
†1960	50,000,000	1,050,000,000	450,000,000	1,550,000,000

COMMON

Dec. 31	Railroad	Public Utility	Other	Total
1906	\$29,532,000	\$ 14,894,000	\$ 68,710,000	\$ 113,136,000
1911	29,221,000	15,826,000	26,959,000	72,006,000
1916	23,899,000	13,147,000	29,429,000	66,475,000
1921	17,378,000	10,494,000	27,208,000	55,080,000
1926	17,770,000	6,335,000	51,008,000	75,113,000
1931	26,383,000	12,779,000	61,843,000	101,005,000
1932	24,058,000	12,229,000	62,118,000	98,405,000
1933	23,726,000	12,334,000	62,895,000	98,955,000
1934	22,481,000	12,238,000	62,852,000	97,571,000
1935	22,553,000	14,618,000	62,038,000	99,209,000
1936	20,182,000	19,262,000	66,467,000	105,911,000
1937	19,353,000	21,016,000	61,552,000	101,921,000
1938	23,553,000	22,459,000	68,115,000	114,127,000
1939	22,666,000	24,689,000	74,322,000	121,677,000
1940	23,112,000	25,141,000	80,925,000	129,178,000
1941	16,699,000	26,832,000	80,803,000	124,334,000
1942	19,819,000	26,750,000	84,206,000	130,775,000
1943	19,186,000	25,524,000	85,103,000	129,813,000
1944	18,738,000	29,265,000	90,604,000	138,607,000
1945	19,302,000	29,461,000	103,848,000	152,611,000
1946	23,348,000	58,301,000	129,151,000	210,800,000
1947	23,093,000	60,951,000	147,517,000	231,561,000
1948	28,257,000	65,272,000	155,692,000	249,221,000
1949	27,759,000	72,467,000	177,462,000	277,688,000
1950	28,333,000	108,401,000	251,871,000	388,605,000
1951	25,599,000	139,918,000	316,719,000	482,236,000
1952	26,485,000	161,079,000	349,683,000	537,247,000
1953	27,451,000	179,355,000	386,972,000	593,778,000
1954	36,876,000	230,698,000	523,624,000	791,198,000
1955	40,305,000	272,258,000	616,553,000	929,116,000
1956	35,118,000	276,629,000	652,939,000	964,686,000
1957	31,148,000	285,436,000	688,150,000	1,004,734,000
1958	33,408,000	343,156,000	912,214,000	1,288,778,000
1959	25,339,000	369,071,000	1,073,472,000	1,467,882,000
†1960	20,000,000	430,000,000	1,050,000,000	1,500,000,000

TABLE II—INVESTMENTS—BY DIVISIONS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 3,315,077,000	\$ 3,423,658,000	\$ 108,581,000	3.3%
Middle Atlantic	15,293,483,000	15,915,783,000	622,300,000	4.1
East North Central	16,370,502,000	17,045,878,000	675,376,000	4.1
West North Central	6,492,235,000	6,737,119,000	244,884,000	3.8
South Atlantic	10,084,172,000	10,690,284,000	606,112,000	6.0
East South Central	4,398,328,000	4,527,826,000	129,498,000	2.9
West South Central	9,682,304,000	9,963,435,000	281,131,000	2.9
Mountain	3,533,507,000	3,861,980,000	328,473,000	9.3
Pacific	10,609,337,000	11,182,167,000	572,830,000	5.4
Alaska, Hawaii & Puerto Rico..	352,118,000	390,432,000	38,314,000	10.9
United States	80,131,063,000	83,738,562,000	3,607,499,000	4.5
Canada	3,497,774,000	3,709,839,000	212,065,000	6.1
Other Foreign	507,802,000	555,617,000	47,815,000	9.4
Misc.—Allocated by Classes...	4,422,670,000	4,929,013,000	506,343,000	11.4
Misc.—Not Allocated by Classes	2,660,595,000	2,909,585,000	248,990,000	9.4
Total	91,219,904,000	95,842,616,000	4,622,712,000	5.1

TABLE III—*U. S. GOVERNMENT BONDS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 327,194,000	\$ 307,550,000	\$ -19,644,000	-6.0%
Middle Atlantic	1,095,868,000	1,030,238,000	-65,630,000	-6.0
East North Central	1,180,567,000	1,115,004,000	-65,563,000	-5.6
West North Central	508,775,000	467,302,000	-41,473,000	-8.2
South Atlantic	824,947,000	774,852,000	-50,095,000	-6.1
East South Central	393,909,000	364,061,000	-29,848,000	-7.6
West South Central	541,263,000	504,252,000	-37,011,000	-6.8
Mountain	212,328,000	198,875,000	-13,453,000	-6.3
Pacific	614,939,000	576,520,000	-38,419,000	-6.2
Alaska, Hawaii & Puerto Rico..	101,523,000	95,091,000	-6,432,000	-6.3
Total	5,801,313,000	5,433,745,000	-367,568,000	-6.3

* Allocated among divisions in accordance with the distribution of the civilian population of the United States.

TABLE IV—STATE, COUNTY, MUNICIPAL AND FOREIGN GOVERNMENT BONDS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 91,928,000	\$ 115,753,000	\$ 23,825,000	25.9%
Middle Atlantic	285,441,000	350,439,000	64,998,000	22.8
East North Central	435,076,000	504,343,000	69,267,000	15.9
West North Central	76,879,000	80,983,000	4,104,000	5.3
South Atlantic	229,814,000	251,046,000	21,232,000	9.2
East South Central	94,581,000	107,704,000	13,123,000	13.9
West South Central	201,460,000	199,287,000	-2,173,000	-1.1
Mountain	53,196,000	54,563,000	1,367,000	2.6
Pacific	135,914,000	207,382,000	71,468,000	52.6
Alaska, Hawaii & Puerto Rico..	29,879,000	39,200,000	9,321,000	31.2
United States	1,634,168,000	1,910,700,000	276,532,000	16.9
Canada	912,581,000	994,735,000	82,154,000	9.0
Other Foreign	49,465,000	70,385,000	20,920,000	42.3
Total	2,596,214,000	2,975,820,000	379,606,000	14.6

The geographic divisions used throughout this paper correspond with those used by the U. S. Bureau of the Census and are as follows:

New England:—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
 Middle Atlantic:—New York, New Jersey, Pennsylvania.
 East North Central:—Ohio, Indiana, Illinois, Michigan, Wisconsin.
 West North Central:—Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas.
 South Atlantic:—Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida.
 East South Central:—Kentucky, Tennessee, Alabama, Mississippi.
 West South Central:—Arkansas, Louisiana, Oklahoma, Texas.
 Mountain:—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada.
 Pacific:—Washington, Oregon, California.

TABLE V—*RAILROAD BONDS AND STOCKS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 62,781,000	\$ 60,742,000	\$ — 2,039,000	—3.2%
Middle Atlantic	600,816,000	588,537,000	—12,279,000	—2.0
East North Central	911,540,000	894,249,000	—17,291,000	—1.9
West North Central	474,803,000	470,900,000	—3,903,000	— .8
South Atlantic	468,456,000	456,040,000	—12,416,000	—2.7
East South Central	241,608,000	235,174,000	—6,434,000	—2.7
West South Central	312,540,000	309,190,000	—3,350,000	—1.1
Mountain	237,462,000	233,713,000	—3,749,000	—1.6
Pacific	203,583,000	198,408,000	—5,175,000	—2.5
United States	3,513,589,000	3,446,953,000	—66,636,000	—1.9
Canada	54,502,000	50,460,000	—4,042,000	—7.4
Other Foreign	50,000	50,000	0	
Misc.	41,966,000	47,457,000	5,491,000	13.1
Total	3,610,107,000	3,544,920,000	—65,187,000	—1.8

* Each bond and stock is allocated among divisions in accordance with the geographical distribution of the mileage securing the investment.

TABLE VI—**PUBLIC UTILITY BONDS AND STOCKS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 748,738,000	\$ 768,128,000	\$ 19,390,000	2.6%
Middle Atlantic	2,689,097,000	2,747,412,000	58,315,000	2.2
East North Central	2,825,018,000	2,882,719,000	57,701,000	2.0
West North Central	1,032,433,000	1,043,572,000	11,139,000	1.1
South Atlantic	1,476,693,000	1,595,744,000	119,051,000	8.1
East South Central	837,924,000	810,925,000	—26,999,000	—3.2
West South Central	1,917,032,000	1,970,607,000	53,575,000	2.8
Mountain	949,496,000	1,079,628,000	130,132,000	13.7
Pacific	1,517,935,000	1,541,782,000	23,847,000	1.6
Alaska, Hawaii & Puerto Rico..	50,587,000	53,010,000	2,423,000	4.8
United States	14,044,953,000	14,493,527,000	448,574,000	3.2
Canada	675,201,000	701,933,000	26,732,000	4.0
Other Foreign	44,313,000	43,736,000	—577,000	—1.3
Misc.	136,410,000	107,997,000	—28,413,000	—20.8
Total	14,900,877,000	15,347,193,000	446,316,000	3.0

** Each bond and stock is allocated among divisions in accordance with the geographical distribution of the property securing the investment.

TABLE VII—**OTHER BONDS AND STOCKS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 822,564,000	\$ 868,294,000	\$ 45,730,000	5.6%
Middle Atlantic	3,795,865,000	4,103,460,000	307,595,000	8.1
East North Central	4,234,107,000	4,486,584,000	252,477,000	6.0
West North Central	1,301,736,000	1,356,401,000	54,665,000	4.2
South Atlantic	2,027,690,000	2,209,356,000	181,666,000	9.0
East South Central	956,478,000	1,001,501,000	45,023,000	4.7
West South Central	2,402,581,000	2,433,340,000	30,759,000	1.3
Mountain	466,203,000	519,755,000	53,552,000	11.5
Pacific	1,939,422,000	2,091,067,000	151,645,000	7.8
Alaska, Hawaii & Puerto Rico..	88,005,000	103,894,000	15,889,000	18.1
United States	18,034,651,000	19,173,652,000	1,139,001,000	6.3
Canada	1,179,325,000	1,240,742,000	61,417,000	5.2
Other Foreign	350,962,000	379,425,000	28,463,000	8.1
Misc.	3,939,972,000	4,362,799,000	422,827,000	10.7
Total	23,504,910,000	25,156,618,000	1,651,708,000	7.0

** Each bond and stock is allocated among divisions in accordance with the geographical distribution of the property securing the investment.

TABLE VIII—TOTAL BONDS AND STOCKS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 2,053,205,000	\$ 2,120,467,000	\$ 67,262,000	3.3%
Middle Atlantic	8,467,087,000	8,820,086,000	352,999,000	4.2
East North Central	9,586,308,000	9,882,899,000	296,591,000	3.1
West North Central	3,394,626,000	3,419,158,000	24,532,000	.7
South Atlantic	5,027,600,000	5,287,038,000	259,438,000	5.2
East South Central	2,524,500,000	2,519,365,000	-5,135,000	—2
West South Central	5,374,876,000	5,416,676,000	41,800,000	.8
Mountain	1,918,685,000	2,086,534,000	167,849,000	8.7
Pacific	4,411,793,000	4,615,159,000	203,366,000	4.6
Alaska, Hawaii & Puerto Rico..	269,994,000	291,195,000	21,201,000	7.9
United States	43,028,674,000	44,458,577,000	1,429,903,000	3.3
Canada	2,821,609,000	2,987,870,000	166,261,000	5.9
Other Foreign	444,790,000	493,596,000	48,806,000	11.0
Misc.	4,118,348,000	4,518,253,000	399,905,000	9.7
Total	50,413,421,000	52,458,296,000	2,044,875,000	4.1

TABLE IX—FARM MORTGAGES

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 4,583,000	\$ 4,726,000	\$ 143,000	3.1%
Middle Atlantic	36,888,000	36,677,000	-211,000	—6
East North Central	414,616,000	450,750,000	36,134,000	8.7
West North Central	806,950,000	852,788,000	45,838,000	5.7
South Atlantic	160,989,000	173,520,000	12,531,000	7.8
East South Central	144,149,000	154,448,000	10,299,000	7.1
West South Central	404,020,000	416,196,000	12,176,000	3.0
Mountain	247,939,000	268,741,000	20,802,000	8.4
Pacific	217,367,000	242,576,000	25,209,000	11.6
United States	2,437,501,000	2,600,422,000	162,921,000	6.7
Canada	11,240,000	11,132,000	-108,000	—1.0
Other Foreign	0	50,000	50,000	....
Misc.	0	71,000	71,000	....
Total	2,448,741,000	2,611,675,000	162,934,000	6.7

TABLE X—OTHER MORTGAGES

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 640,694,000	\$ 641,880,000	\$ 1,186,000	.2%
Middle Atlantic	4,301,111,000	4,415,990,000	114,879,000	2.7
East North Central	5,102,612,000	5,362,295,000	259,683,000	5.1
West North Central	1,851,436,000	2,000,167,000	148,731,000	8.0
South Atlantic	4,209,785,000	4,498,907,000	289,122,000	6.9
East South Central	1,549,626,000	1,662,309,000	112,683,000	7.3
West South Central	3,640,784,000	3,845,290,000	204,506,000	5.6
Mountain	1,208,808,000	1,326,233,000	117,425,000	9.7
Pacific	4,965,743,000	5,194,365,000	228,622,000	4.6
Alaska, Hawaii & Puerto Rico..	66,449,000	81,976,000	15,527,000	23.4
United States	27,537,048,000	29,029,412,000	1,492,364,000	5.4
Canada	540,157,000	581,889,000	41,732,000	7.7
Other Foreign	34,210,000	35,118,000	908,000	2.7
Misc.	301,000	558,000	257,000	85.4
Total	28,111,716,000	29,646,977,000	1,535,261,000	5.5

TABLE XI—TOTAL MORTGAGES

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 645,277,000	\$ 646,606,000	\$ 1,329,000	.2%
Middle Atlantic	4,337,999,000	4,452,667,000	114,668,000	2.6
East North Central	5,517,228,000	5,813,045,000	295,817,000	5.4
West North Central	2,658,386,000	2,852,955,000	194,569,000	7.3
South Atlantic	4,370,774,000	4,672,427,000	301,653,000	6.9
East South Central	1,693,775,000	1,816,757,000	122,982,000	7.3
West South Central	4,044,804,000	4,261,486,000	216,682,000	5.4
Mountain	1,456,747,000	1,594,974,000	138,227,000	9.5
Pacific	5,183,110,000	5,436,941,000	253,831,000	4.9
Alaska, Hawaii & Puerto Rico..	66,449,000	81,976,000	15,527,000	23.4
United States	29,974,549,000	31,629,834,000	1,655,285,000	5.5
Canada	551,397,000	593,021,000	41,624,000	7.5
Other Foreign	34,210,000	35,168,000	958,000	2.8
Misc.	301,000	629,000	328,000	9.0
Total	30,560,457,000	32,258,652,000	1,698,195,000	5.6

TABLE XII—REAL ESTATE

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 256,688,000	\$ 272,505,000	\$ 15,817,000	6.2%
Middle Atlantic	1,111,043,000	1,209,225,000	98,182,000	8.8
East North Central	429,058,000	450,530,000	21,472,000	5.0
West North Central	115,591,000	125,010,000	9,419,000	8.1
South Atlantic	235,525,000	244,118,000	8,593,000	3.6
East South Central	33,808,000	36,888,000	3,080,000	9.1
West South Central	51,468,000	53,578,000	2,110,000	4.1
Mountain	36,782,000	39,350,000	2,568,000	7.0
Pacific	509,904,000	550,691,000	40,787,000	8.0
Alaska, Hawaii & Puerto Rico..	54,000	52,000	-2,000	-3.7
United States	2,779,921,000	2,981,947,000	202,026,000	7.3
Canada	30,663,000	37,068,000	6,405,000	20.9
Other Foreign	158,000	119,000	-39,000	-24.7
Total	2,810,742,000	3,019,134,000	208,392,000	7.4

TABLE XIII—POLICY LOANS AND PREMIUM NOTES

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 245,297,000	\$ 267,291,000	\$ 21,994,000	9.0%
Middle Atlantic	908,552,000	988,982,000	80,430,000	8.9
East North Central	652,503,000	719,592,000	67,089,000	10.3
West North Central	266,911,000	290,224,000	23,313,000	8.7
South Atlantic	372,494,000	412,269,000	39,775,000	10.7
East South Central	122,626,000	133,309,000	10,683,000	8.7
West South Central	175,547,000	198,064,000	22,517,000	12.8
Mountain	111,919,000	126,504,000	14,585,000	13.0
Pacific	441,036,000	492,392,000	51,356,000	11.6
Alaska, Hawaii & Puerto Rico..	13,809,000	15,149,000	1,340,000	9.7
United States	3,310,694,000	3,643,776,000	333,082,000	10.1
Canada	66,005,000	69,007,000	3,002,000	4.5
Other Foreign	23,789,000	22,768,000	-1,021,000	-4.3
Misc.	7,331,000	4,637,000	-2,694,000	-36.7
Total	3,407,819,000	3,740,188,000	332,369,000	9.8

TABLE XIV—CASH

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 109,584,000	\$ 112,090,000	\$ 2,506,000	2.3%
Middle Atlantic	434,428,000	415,359,000	-19,069,000	-4.4
East North Central	136,902,000	135,497,000	-1,405,000	-1.0
West North Central	54,253,000	46,618,000	-7,635,000	-14.1
South Atlantic	45,468,000	40,827,000	-4,641,000	-10.2
East South Central	18,128,000	16,545,000	-1,583,000	-8.7
West South Central	30,852,000	26,445,000	-4,407,000	-14.3
Mountain	8,247,000	8,125,000	-122,000	-1.5
Pacific	59,960,000	56,484,000	-3,476,000	-5.8
Alaska, Hawaii & Puerto Rico..	1,563,000	1,635,000	72,000	4.6
United States	899,385,000	859,625,000	-39,760,000	-4.4
Canada	27,560,000	22,360,000	-5,200,000	-18.9
Other Foreign	3,243,000	2,295,000	-948,000	-29.2
Misc.	12,354,000	13,088,000	734,000	5.9
Total	942,542,000	897,368,000	-45,174,000	-4.8

TABLE XV—OTHER LEDGER ASSETS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 5,026,000	\$ 4,699,000	\$ -327,000	-6.5%
Middle Atlantic	34,374,000	29,464,000	-4,910,000	-14.3
East North Central	48,503,000	44,315,000	-4,188,000	-8.6
West North Central	2,468,000	3,154,000	686,000	27.8
South Atlantic	32,311,000	33,605,000	1,294,000	4.0
East South Central	5,491,000	4,962,000	-529,000	-9.6
West South Central	4,757,000	7,186,000	2,429,000	51.1
Mountain	1,127,000	6,493,000	5,366,000	476.1
Pacific	3,534,000	30,500,000	26,966,000	763.0
Alaska, Hawaii & Puerto Rico..	249,000	425,000	176,000	70.7
United States	137,840,000	164,803,000	26,963,000	19.6
Canada	540,000	513,000	-27,000	-5.0
Other Foreign	1,612,000	1,671,000	59,000	3.7
Misc.	284,336,000	392,406,000	108,070,000	38.0
Total	424,328,000	559,393,000	135,065,000	31.8

TABLE XVI—INCREASE IN INVESTMENTS—1959 OVER 1958

By CLASSES				
Class	Amount		Ratio to Total Increase	
Bonds and Stocks:				
United States Government....	\$ 367,568,000		8.0%	
State, County and Municipal...	276,532,000		6.0	
Canadian Government	82,154,000		1.8	
Other Foreign	20,920,000		.5	
Railroad	65,187,000		1.4	
Public Utility	446,316,000		9.7	
Other	1,651,708,000	\$2,044,875,000	35.7	44.3%
Mortgage Loans:				
Farm	162,934,000		3.5	
Other	1,535,261,000	1,698,195,000	33.2	36.7
Real Estate		208,392,000		4.5
Policy Loans		332,369,000		7.2
Cash		45,174,000		1.0
Miscellaneous		384,055,000		8.3
Total		4,622,712,000		100.0

By DIVISIONS				
Division	Amount		Ratio to Total Increase	
New England	\$ 108,581,000		2.3%	
Middle Atlantic	622,300,000		13.5	
East North Central	675,376,000		14.6	
West North Central	244,884,000		5.3	
South Atlantic	606,112,000		13.1	
East South Central	129,498,000		2.8	
West South Central	281,131,000		6.1	
Mountain	328,473,000		7.1	
Pacific	572,830,000		12.4	
Alaska, Hawaii, and Puerto Rico.....	38,314,000		.8	
United States	3,607,499,000		78.0	
Canada	212,065,000		4.6	
Other Foreign	47,815,000		1.0	
Miscellaneous	755,333,000		16.4	
Total	4,622,712,000		100.0	

TABLE XVII—RESERVES BY DIVISIONS

Division	Dec. 31, 1958	Dec. 31, 1959	Increase 1959 over 1958	
New England	\$ 6,194,606,000	\$ 6,511,872,000	\$ 317,266,000	5.1%
Middle Atlantic	22,996,491,000	24,003,907,000	1,007,416,000	4.4
East North Central	17,492,065,000	18,338,739,000	846,674,000	4.8
West North Central	6,047,685,000	6,308,780,000	261,095,000	4.3
South Atlantic	7,059,660,000	7,519,506,000	459,846,000	6.5
East South Central	2,329,717,000	2,433,825,000	104,108,000	4.5
West South Central	3,568,182,000	3,842,464,000	274,282,000	7.7
Mountain	1,827,074,000	1,980,115,000	153,041,000	8.4
Pacific	7,289,467,000	7,813,014,000	523,547,000	7.2
Alaska, Hawaii & Puerto Rico..	270,138,000	308,884,000	38,746,000	14.3
United States	75,075,085,000	79,061,106,000	3,986,021,000	5.3
Canada	1,301,131,000	1,374,370,000	73,239,000	5.6
Other Foreign	197,825,000	205,639,000	7,814,000	3.9
Misc.	423,935,000	447,603,000	23,668,000	5.6
Total	76,997,976,000	81,088,718,000	4,090,742,000	5.3

TABLE XVIII—RATIO OF INVESTMENTS TO RESERVE

(United States Divisions in Order of 1959 Rank)

Division	1958	1959
West South Central.....	271.4	259.3
Mountain	193.4	195.0
East South Central.....	188.8	186.0
Pacific	145.5	143.1
South Atlantic	142.8	142.2
Alaska, Hawaii, and Puerto Rico	130.3	126.4
West North Central	107.4	106.8
East North Central	93.6	93.0
Middle Atlantic	66.5	66.3
New England	53.5	52.6
United States	106.7	105.9
Canada	268.8	269.9
Other Foreign	256.7	270.2
Total	118.5	118.2

TABLE XIX—RATIO OF EACH CLASS OF INVESTMENTS IN DIVISION TO TOTAL INVESTMENTS IN DIVISION

Division	U. S. Government Bonds		State, County, Municipal and Foreign Government Bonds		Railroad Bonds and Stocks		Public Utility Bonds and Stocks		Other Bonds and Stocks	
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
N. E.	9.8%	9.0%	2.8%	3.4%	1.9%	1.8%	22.6%	22.4%	24.8%	25.3%
M. A.	7.2	6.5	1.9	2.2	3.9	3.7	17.6	17.2	24.8	25.8
E. N. C.	7.2	6.5	2.7	3.0	5.6	5.3	17.2	16.9	25.9	26.3
W. N. C.	7.8	7.0	1.2	1.2	7.3	7.0	15.9	15.5	20.1	20.1
S. A.	8.2	7.2	2.3	2.3	4.7	4.3	14.6	14.9	20.1	20.7
E. S. C.	9.0	8.0	2.1	2.4	5.5	5.2	19.1	17.9	21.7	22.1
W. S. C.	5.6	5.1	2.1	2.0	3.2	3.1	19.8	19.8	24.8	24.4
M't'n	6.0	5.1	1.5	1.4	6.7	6.0	26.9	28.0	13.2	13.5
Pac.	5.8	5.1	1.3	1.9	1.9	1.8	14.3	13.8	18.3	18.7
A., H. & P. R.	28.8	24.4	8.5	10.0	..	..	14.4	13.6	25.0	26.6
U. S.	7.3	6.5	2.0	2.3	4.4	4.1	17.5	17.3	22.5	22.9
Can. ....	..	..	26.1	26.8	1.6	1.4	19.3	18.9	33.7	33.4
O. For. ....	..	..	9.8	12.7	.0	.0	8.7	7.9	69.1	68.3
Total	6.6	5.8	2.9	3.2	4.1	3.8	16.8	16.5	26.5	27.1

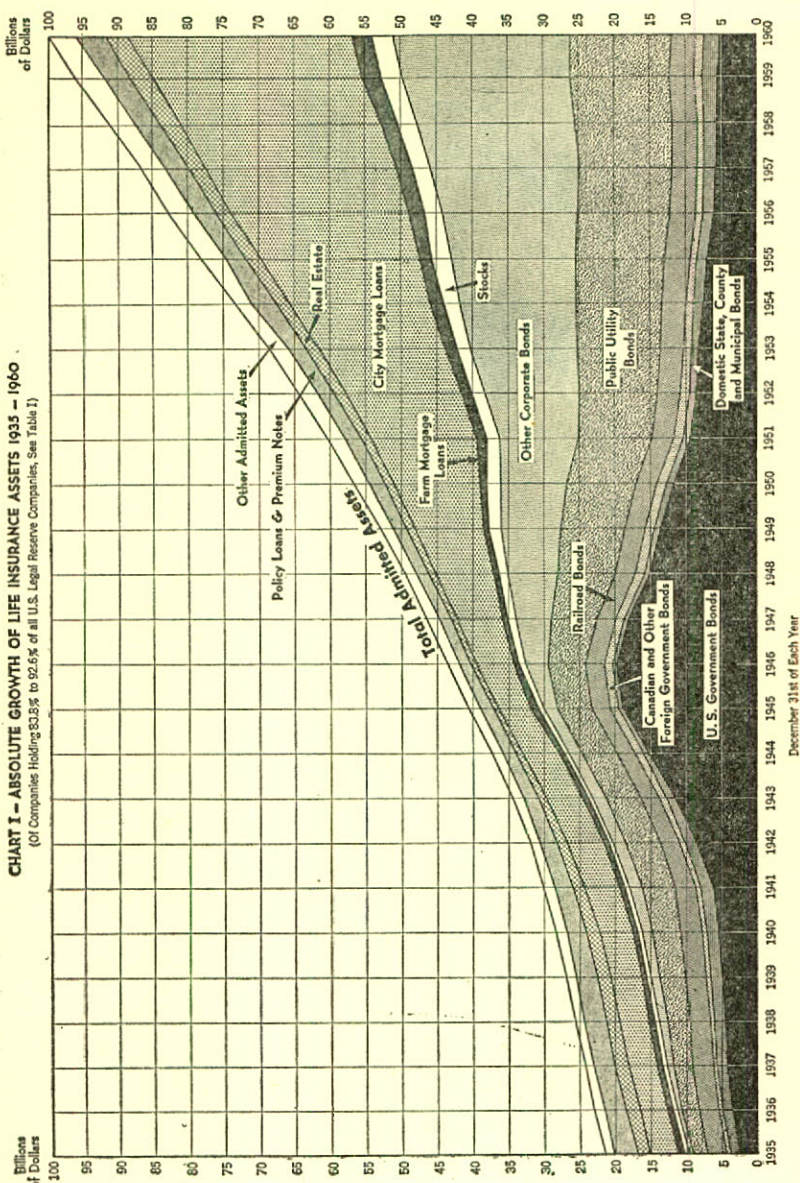
Division	Total Bonds and Stocks		Farm Mortgages		Other Mortgages		Total Mortgages		Real Estate	
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
N. E.	61.9%	61.9%	.2%	.1%	19.3%	18.8%	19.5%	18.9%	7.7%	8.0%
M. A.	55.4	55.4	.3	.2	28.1	27.8	28.4	28.0	7.3	7.6
E. N. C.	58.6	58.0	2.5	2.6	31.2	31.5	33.7	34.1	2.6	2.6
W. N. C.	52.3	50.8	12.4	12.6	28.5	29.7	40.9	42.3	1.8	1.9
S. A.	49.9	49.4	1.6	1.6	41.7	42.1	43.3	43.7	2.3	2.3
E. S. C.	57.4	55.6	3.3	3.4	35.2	36.7	38.5	40.1	.8	.8
W. S. C.	55.5	54.4	4.2	4.2	37.6	38.6	41.8	42.8	.5	.5
M't'n	54.3	54.0	7.0	7.0	34.2	34.3	41.2	41.3	1.1	1.0
Pac.	41.6	41.3	2.0	2.2	46.8	46.4	48.8	48.6	4.8	4.9
A., H. & P. R.	76.7	74.6	..	..	18.9	21.0	18.9	21.0	.0	.0
U. S.	53.7	53.1	3.0	3.1	34.4	34.7	37.4	37.8	3.5	3.6
Can.	80.7	80.5	.3	.3	15.4	15.7	15.7	16.0	.9	1.0
O. For.	87.6	88.9	..	.0	6.7	6.3	6.7	6.3	.0	.0
Total	56.9	56.4	2.8	2.8	31.7	31.9	34.5	34.7	3.2	3.3

Division	Policy Loans and Premium Notes		Cash		Other Ledger Assets		Total Investments	
	1958	1959	1958	1959	1958	1959	1958	1959
N. E.	7.4%	7.8%	3.3%	3.3%	.2%	.1%	100.0%	100.0%
M. A.	5.9	6.2	2.8	2.6	.2	.2	100.0	100.0
E. N. C.	4.0	4.2	.8	.8	.3	.3	100.0	100.0
W. N. C.	4.1	4.3	.8	.7	.1	.0	100.0	100.0
S. A.	3.7	3.9	.5	.4	.3	.3	100.0	100.0
E. S. C.	2.8	3.0	.4	.4	.1	.1	100.0	100.0
W. S. C.	1.8	2.0	.3	.2	.1	.1	100.0	100.0
M't'n	3.2	3.3	.2	.2	.0	.2	100.0	100.0
Pac.	4.2	4.4	.6	.5	.0	.3	100.0	100.0
A., H. & P. R.	3.9	3.9	.4	.4	.1	.1	100.0	100.0
U. S.	4.1	4.3	1.1	1.0	.2	.2	100.0	100.0
Can.	1.9	1.9	.8	.6	.0	.0	100.0	100.0
O. For.	4.7	4.1	.7	.4	.3	.3	100.0	100.0
Total	3.8	4.0	1.1	1.0	.5	.6	100.0	100.0

TABLE XX—RATIO OF EACH CLASS OF INVESTMENTS IN DIVISION TO TOTAL INVESTMENTS IN CLASS

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CHART I - ABSOLUTE GROWTH OF LIFE INSURANCE ASSETS 1935 - 1960
(Of Companies Holding \$3.5% to 12.6% of all U.S. Legal Reserve Companies, See Table I)



December 31st of Each Year

CHART II - RELATIVE GROWTH OF LIFE INSURANCE ASSETS - 1935 - 1960

(Of Companies Holding 83.8% to 92.6% of all U.S. Legal Reserve Companies, See Table I)

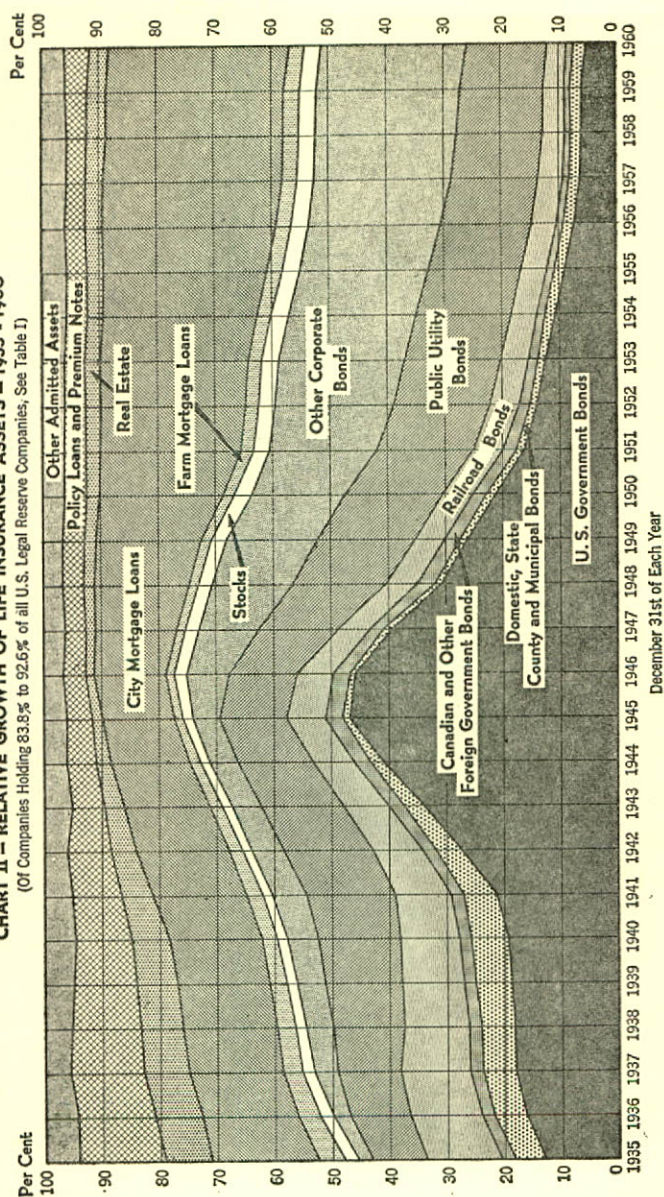
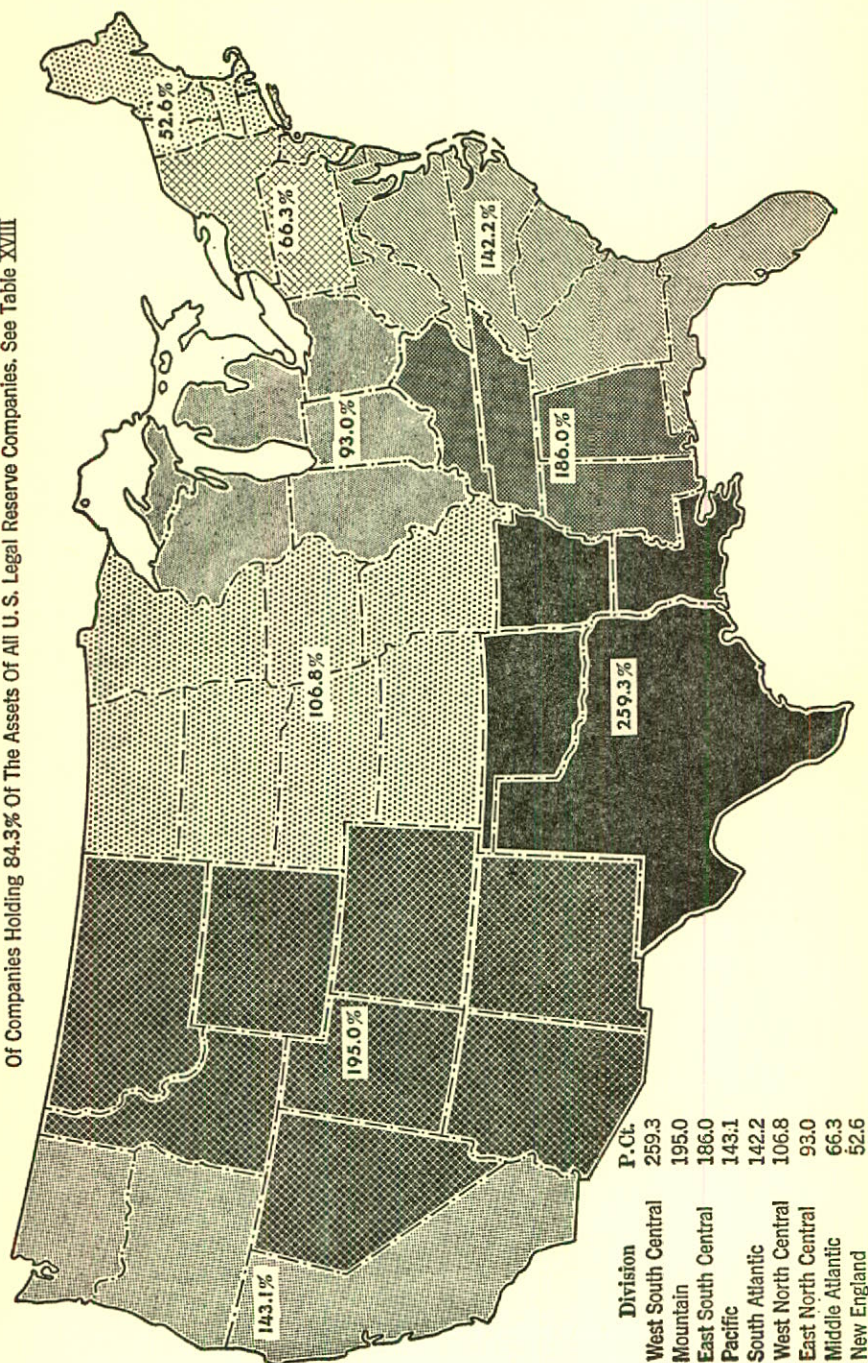


CHART III - RATIO OF INVESTMENTS TO RESERVES - DECEMBER 31, 1959
Of Companies Holding 84.3% Of The Assets Of All U. S. Legal Reserve Companies. See Table XVIII



The meeting then considered various items of Association business.

PRESIDENT DAVIS: Now we come to the real meaty part of this morning's session. It is a great pleasure for me—not introduce, but to present Mr. Eugene M. Thoré. Of course, any idea of introducing Gene to this audience would be ridiculous. It reminds me of a situation that existed in our town in connection with the town fool—now, Gene, don't get excited.

The town fool in Barre, Vermont, was named Benny Roberts. The poor man died recently, but everybody knew him. When they used to introduce people to him on the street—his answer always was: "Oh, everybody knows me." And that is the case with Gene Thoré. Now the reason I told that wasn't to reflect in any way on Gene, but to give me a chance to tell you a story about Benny which happened a couple of years ago.

Because he was the town fool, all of his friends became very much concerned when he wanted to go into business for himself. He wanted to go into the antique business. They all tried to dissuade him, but without success. He saved a few pennies here and there, got a lot of junk together, got a place where the rent was practically free, and he did all right. He made a little money here and there for a couple of years, and then one day representatives of a Boston antique firm came up into Vermont, as they do, to make the rounds and see if they could find anything of outstanding quality which they could buy and take to a larger market.

They had the name of Benny Roberts' place, too. So they came in and looked it all over and didn't see anything that was worth trying to buy until just as she was leaving a woman who was a representative saw a black cat lapping the last remains of a little milk in a saucer. And she recognized this saucer as being a very outstanding piece of china. To make sure, she lifted it and found, by looking on the bottom side, that it was. So she figured: "Now, how can I get this away from him without his realizing its intrinsic worth? Oh, I'll buy the cat."

So she stepped up and asked him if he had ever thought of selling the cat.

"Oh, yes," he said. He would sell the cat.

"Well, how much?"

"Well, I guess about \$10."

She said, "That's a very fair price"; and she pulled \$10 from her

bag, paid him and picked up the cat and said, "I'll take the saucer along, too."

He said, "Well, you just bought the cat."

"Yes, I know, but this cat is going to a new home and it's going to be lonesome and it would be nice to have something that it had in its original home."

"No," he says, "you only bought the cat."

"Well," she said, "why can't I have the saucer if you are going to let me have the cat?"

"Well," he said to her, "if you want to know the truth, this saucer has already sold me thirty-six cats."

I now present to you a man whom I have come to admire who has sold me more than thirty-six cats during the last two or three years—a man for whom I am sure your admiration is as deep as mine. He certainly is one of the great assets of this Association. Gene, without further ado, will you come up now and tell us about "Personal Insurance and the New Frontier." Gene Thoré!

PERSONAL INSURANCE AND THE NEW FRONTIER

Mr. Eugene M. Thoré then spoke as follows:

MR. PRESIDENT, LADIES AND GENTLEMEN:

That was some introduction!

Your Program Committee has requested me to appraise the November election results from the standpoint of the personal insurance business and to attempt to forecast what may be in store for us. This is a bewildering assignment which has haunted me night and day since the election. At first I was tempted to employ the "often wrong never in doubt" technique in the hope that my conclusions would be forgotten long before events might contradict them. But experience has taught me that insurance men have good memories. So I have decided that, if I must attempt to forecast the political mysteries of the future, I shall do so only with a cautious uncertain confidence. In defense of my timidity may I point out that even the most venturesome regard political prognostication as something less than an exact science.

It is self-evident that any speculating we do here today must be based upon the issues of the recent campaign and the announced views of the successful candidate taken together with reactions of

key Congressional leaders insofar as they have been made public. However, there is an additional ingredient which is most essential to the alchemy of prediction. That ingredient is past experience. So I propose first to take a quick look back over the years in the hope that we will better understand where we are today as well as what we may expect in the future.

During the last decade Federal developments of interest to the personal insurance business have been manifold. We have observed constant change in the Social Security System, such as the rapid and sometimes excessive liberalization of benefits, the addition of total and permanent disability benefits, and more recently pressures for medical care coverage for the aged. There has been a veritable avalanche of problems in the field of corporate and personal income and estate taxation which has occupied much of our time and energies. Federal action in the regulatory field has also expanded, involving such matters as insurance advertising, disclosure of insurance details with respect to pension and welfare plans, Securities and Exchange Commission regulation of the new variable annuity, and the Congressional investigation of state regulation and practices in the fire and casualty and other insurance fields. There was substantial improvement in the inflation picture. Nevertheless, the specter of creeping inflation continued to threaten us and created an inflation psychology throughout the country.

We cannot go into greater detail here today and mention all of our Federal experiences during the last decade. But as I reviewed this record in its entirety I came to the conclusion that we have been through a period of considerable progress at the Federal level; one in which an unusual number of problems peculiar to our business have been resolved in one way or another; one in which answers have been given to questions of great concern; one from which personal insurance has emerged with a better understanding of its relationship to the Federal government; one in which the attitude of the Federal government toward our business has shown some improvement. It is against this background that we view the political future.

First let us take a look at the campaign promises of particular interest to us. Mr. Kennedy has said he would try to add medical care to the Social Security program for those retired on Social Security pensions and also make some improvements in the old age and survivor insurance system. In the economic field he has promised to lower interest rates, to expand the economy at the rate of 4 or 5

percent a year and to accelerate activity in home building and public housing. In the field of taxation he has promised to concentrate on tax loopholes.

Additionally, of course, he has promised to support the Democratic platform. I cannot pass over that platform without commenting on the distortion of the word "right." For example, the platform mentions the right of every worker to a useful and remunerative job; the right of every farmer to a decent living; the right of every family to a decent home; the right of every child to a good education; the right of aged persons to adequate medical care.

Are these rights? Certainly not. They are no more than targets on which a society sets its sights. All too frequently we try to achieve them through direct government guarantees rather than through individual initiative and enterprise stimulated by sound government leadership.

The platform seems to say that every individual is entitled to the best of everything as a matter of right. Birth is the only qualifying condition. This is a dangerous philosophy. A nation is bound to deteriorate if the industrious, the strong, the creative and the self-reliant are forced, to the point of discouragement, to provide ideal living conditions for those who are not.

We can take some comfort, however, in realizing that the Convention platform is one of our most exaggerated forms of political hokum. It often employs license beyond the bounds of honesty. Moreover, the distortion of political principles is not a unique characteristic of the 1960 platforms. This form of political folklore has been with us for a long time. Many political observers believe that it should be abandoned because it leads to cynicism, distrust and cruel disappointment.

Likewise, during the transition of national leadership, forecasts as to what the political parties will do in the forthcoming session of Congress are, in my opinion, not very meaningful. The boasts of some Republicans that they will block various legislative programs seems to be largely a carryover from the election campaign. Similarly the boasts of some Democratic spokesmen that the Kennedy program will have easy going tends to ignore the realities that will confront Congress in 1961.

In some quarters reliance is placed on the fact that Congress will be slightly more conservative as a result of the election. Whether the change in its membership will be significant in terms of legislative

results remains to be seen. In my opinion, too much emphasis can be placed on the conventional liberal and conservative labels. They have lost some of their original meaning from a political point of view. Today there are at least two schools of thought included in the traditional concept of conservatism and there are also two distinct views of liberal thought. These divisions cut across party lines.

Within the definition of conservatives there are those who resist change out of an almost doctrinaire conviction that the public interest is best served by strong opposition to practically every proposal to expand government activities. At the same time there are those conservatives who recognize the need for a reasonable amount of government participation in the solution of the vexatious social and economic problems of our industrialized economy. This brand of conservatism nevertheless emphasizes and relies heavily upon the enterprise system and individual initiative for ultimate solutions.

The two schools of liberal thought that have developed with growing intensity in recent years are, first, those who favor personal initiative and the enterprise system, but who have little hesitancy about employing direct government participation once a so-called need is established. Second, there are those liberals who want the government to do almost everything on the theory that it can do a better job. They look forward to a vista of endless material progress in which the state will play a larger and larger role and a general equality of condition will be enforced. Underlying the thinking of a few liberals of both types is a certain basic mistrust of the enterprise system and its ability to contribute materially to solving the issues.

Another viewpoint frequently expressed is that minority groups in the large cities swung the election. If this is a correct conclusion the large city politicians will exert a greater influence on legislative action. Many of them belong to the "we want government to do more" wing of the liberal group. Consequently, it is argued that the pressing welfare problems of the congested areas will be more vigorously pursued and may receive more sympathetic attention from the new administration than in the past.

It is also contended in some quarters that the waning prestige argument advanced in the great debates generated considerable concern for our future security. As a result we may expect pressures for more defense spending and increased assistance to underdeveloped countries.

As everyone realizes, this combination of demands for additional outlays could add up to serious budget deficits and more inflation. Moreover, if the recession continues there will be pump priming. This implies little hope for holding spending in check.

On the other hand, President-elect Kennedy promised that every effort would be made to achieve a balanced budget. And the Eisenhower Administration budget for fiscal 1962 probably will be tight, which means a budget in the neighborhood of \$80 billion for fiscal 1962. This could act as a psychological yardstick to stiffen resistance to over-spending. The economic situation alone may make it necessary to delay acting on some of these election spending promises. It is unreasonable to assume that the new administration will pursue every announced objective with equal vigor and without evaluation in terms of overall budget capacity. Undoubtedly, we will see these promises divided into short and long-range objectives.

Most observers seem to agree that President-elect Kennedy will use the powers of the presidency in a manner reminiscent of Franklin D. Roosevelt. He reportedly has given much thought to the question of presidential powers. He views them not as confined to those expressly granted under the Constitution and the various statutes, but rather as constituting a broad power to control by influence.

Indications are that Mr. Kennedy will do away with the presidential staff or team concept which has been one of the outstanding features of the Eisenhower Administration. This means less delegation and more direct contact with Congress and the various governmental agencies. In the case of Congress this type of aggressive leadership could lead to a greater degree of submission, or if the Kennedy forces are not tactful could result in more determined resistance to some of his objectives.

I have the impression that there has been a basic post-election shift in the grand strategy enunciated during the campaign. The alleged need for mapping a new economic frontier through a greater utilization of governmental power is presently being re-evaluated. It now appears that the invasion will be less extensive and the pace more leisurely. Many reasons are being advanced for this revision of plans. The underlying cause, I suspect, is that following an election campaign promises must be reconsidered in the light of many factors, difficulties and realities. And in this particular instance the specter of a depression and the gold loss to other nations are major factors which undoubtedly are diverting attention from the new frontier.

Possibly there also has been a change in attitude toward the Republican-Democratic coalition. The Kennedy forces do not seem to attach very much importance to their failure to gain a majority of the popular vote. They reject the "no mandate" argument. Mr. Kennedy cannot help but realize, however, that the southern electoral votes were decisive, and therefore an attempt to exert disciplinary pressure on the southern wing of the coalition is not anticipated. To the contrary I believe that the Kennedy team will avoid open attack on the coalition and will concentrate on persuasion in getting domestic bills enacted. Along with persuasion will be coupled the use of patronage and the pork barrel.

On the basis of this type of reappraisal we may not see extensive legislative innovations during 1961. This does not rule out, however, the reconsideration of old legislative business such as the four programs frequently mentioned in the campaign—minimum wage, aid to education, relief for depressed areas and medical care for the aged. Except for such items as these and housing legislation, 1961 may well be a year devoted to reorganizing the executive branch and strengthening the President's position with Congress. Both of these jobs are looking more difficult than they were made to appear during the campaign.

Of the four domestic measures just referred to, we are most directly concerned with the proposal to provide medical care for the aged as a matter of right under the Social Security Act. A careful examination of the legislative record on this subject indicates that during the last session we experienced great difficulty in convincing the Senate that an additional Federal medical plan was unnecessary. A number of the Senators who participated in the debate on this subject seemed to take it for granted that the Mills-Kerr program was not enough. The disagreement among them arose mainly with respect to the method to be adopted. Thus the method Mr. Nixon supported was defeated 67 to 28. The Social Security approach Mr. Kennedy advocated was defeated 51 to 44. In evaluating this latter vote record, it should be borne in mind that the action transpired under the threat of a presidential veto, which will not be the situation next year.

In the House a vote was not taken on a compulsory medical care plan. The Ways and Means Committee, however, gave protracted consideration to the Forand bill and rejected it. There were hopeful indications that the House Rules Committee would not have granted

a rule on this type of legislation had Ways and Means voted it out. Under the circumstances, we do not know how the House would vote on a Forand-type bill. It is apparent that the administration will face real hurdles in advancing its proposal in either body, and particularly in the House.

This past year, the American Medical Association spearheaded the groups opposing the Forand-type bill. In the health insurance business leadership was provided mainly through the Health Insurance Association of America. I pay particular tribute to that association for the effective way in which it presented the viewpoint of the personal insurance business.

I believe we can conclude that the political situation with respect to the medical care issue is too fluid to offer a basis for either optimism or pessimism. In a controversial question of this kind no one can predict results with certainty until the votes are counted. The personal insurance business must continue to press its position with vigor and conviction, bearing in mind that medical care for the aged is an emotional issue and is extremely sensitive from a public relations standpoint.

Now let's take a look at the old age and survivor section of the Social Security Act. What can we expect—overliberalization of benefits? There will be a tendency in that direction, but I doubt whether extreme action will be proposed. The new administration's announced policy gives no indication that the role of Social Security in providing a basic floor of protection should be drastically changed.

Perhaps the most important change in the Social Security System during the past decade has been the end of what might be called the "easy financing" era. In 1950, Social Security seemed almost free to the American people; it hardly seems so today. In 1950 the law could be liberalized almost painlessly. Today's scheduled tax increases elicit pained yelps from many taxpayers. In view of the now established Congressional policy of maintaining Social Security on a self-supporting basis, it will be more difficult to liberalize benefits in the future than in the past. The dangerous period of "actuarial immaturity" in Social Security has drawn to a close.

To put this general idea in figures, in 1950 the wage taxes collected exceeded Social Security disbursements by about \$1.6 billion, which was erroneously looked upon as money that could be used to finance more generous benefits. In 1960, by contrast, the wage taxes collected came to \$11.4 billion which was insufficient to cover the

disbursements of \$11.7 billion. At long last we are in effect on a pay-as-you-go basis and under current Congressional policy new revenue must be raised if benefits are to be increased. Moreover the tax rates have reached such high levels that proposals for tax increases are politically unpopular. This situation was reflected in Congressional action this year, when Congress refused for the first time in any election year since 1950 to raise benefit levels.

Now I turn to the housing field. Campaign statements, the current rate of housing starts, unemployment, and pronouncements by Congressional leaders make early activity in housing a certainty. This is one area in which innovations will be pushed and more direct government participation will be advocated. There will be the usual proposals for liberalizing and supporting existing Federal programs as well as new proposals for a central mortgage bank facility, a "middle income" housing program, the sale of debentures to finance veteran's housing, etc. There will be a sharpening of the conflict between sound economic goals and social objectives.

In the field of Federal taxation we will see a shift in emphasis. There will be less attention to life insurance company income taxation. The problems in this area will be mainly regulatory. Amendments to clarify or perfect the new company tax law will be advanced from time to time as experience is gained. Broad legislative action regarding corporate taxation will focus, however, on other types of institutions, for example mutual fire and casualty companies, mutual savings banks and cooperatives.

Nevertheless, we will find plenty to keep us busy in the tax field. As general revisions of the personal income and estate tax sections of the tax code get underway, we will see pressure develop for less favorable treatment of personal insurance. The Keogh-Smathers self-employed retirement bill may eventually be passed, but with substantial variations from its current form. The tax treatment of corporate pensions will be reexamined. The withholding of income taxes by companies on interest payments to their policyholders and beneficiaries will be urged. In general, as the demands for more and more revenue intensify, so will the efforts to plug loopholes, to cut down on various tax exemptions and to limit the deferment of taxable income.

What Federal action may we expect in the field of regulation? To me it seems reasonable to anticipate that our problems in this area will increase. The Chairman of the Senate Subcommittee on Anti-

trust and Monopoly has stated, although thus far only informally, that the insurance study will be continued next year. An investigation of health insurance has been mentioned. Rumbblings of a possible life insurance investigation have been heard on the House side. Other suggestions of studies and regulation are almost certain to come.

Ours is a business affected with a public interest. Our product intimately touches the lives of almost all of our nation's 182,000,000 people. Our investments are of fundamental importance to the national economy. These and other factors suggest an increasing interest in the regulatory aspects of our business on the part of the national government, perhaps not so much in connection with our dealings with our policyholders as with our investments and their relation to the national economy.

Finally let's take a look at Mr. Kennedy's economic views. During the campaign he stressed three main objectives—(1) a faster rate of economic growth, (2) full employment of labor and other resources, (3) "reasonable stability" in the price level. Few would quarrel with these objectives. Our chief concern is whether the first two objectives will be pushed so hard that price stability cannot be maintained. Moreover Mr. Kennedy's use of the term "reasonable stability" in price levels suggests some support for the objectionable thesis that creeping inflation may be necessary to assure growth and full employment.

Mr. Kennedy's views on monetary policy are also somewhat disturbing. He would not reject monetary stringency as a potential method of curbing extravagant booms, but he seems to believe that general credit control powers should be used to push interest rates as low as possible without causing runaway inflation. Apparently he would supplement credit control with "other tools" in managing our monetary problems. What is meant by "other tools"? Would the new administration urge the use of selective credit controls? Would it contemplate that the Federal Reserve conduct open market operations throughout the entire maturity range of U. S. Government securities? The latter could mean that the Federal Reserve at times would buy long-term government bonds to drive up their prices and hence depress their yields and interest rates generally.

Also unanswered is the underlying question of whether Mr. Kennedy will actually seek to impose his economic views on the Federal Reserve authorities. In his published statement to the business community he agreed that the day-to-day operations of the Federal Re-

serve Board should be removed from political pressures. But in the same statement it was suggested that the Federal Reserve Board should "cooperate" with the President in the long-range coordination and direction of economic policies. Business and financial circles have viewed the word "cooperate" with considerable apprehension.

The foregoing highly condensed view of the future, when coupled with our past experience, leads to the conclusion that we are approaching a new era which will be dominated by relatively new problems, and which will focus increasing attention on the relationship of our business to a complex of national objectives. The numerous issues of national and international significance with which this country must deal reach deeply into the social and economic life of the American people. Not one of them can be effectively considered in isolation. Many of them grow out of this country's struggle with the Communist world. More and more it appears that action in the domestic field will involve these international considerations.

In the decade that lies ahead our nation will be forced to adjust to many new conditions, new problems, and new responsibilities. The personal insurance business will likewise have to accommodate itself to new circumstances fraught with political implications. I suggest to you that we will necessarily be more active in the political field than in the past. This will require more careful planning, better communication within the business and more time devoted to a better understanding of developments as they unfold. I believe that your minds will be challenged by constant innovation. In many companies a senior officer will devote almost full time to Federal developments.

As in the past the primary job will be to protect the rights of policyholders, but more and more we will be called upon to balance this objective with the national interest. As an example, only recently we spent a day with the White House staff discussing the need for prenuclear attack planning. It was pointed out that if the destruction resulting from a nuclear attack should consume more than one-third of our economy little could be done. Within the range of a one-third loss, however, survival might depend on planning in advance how the undestroyed remainder of our economy would function. Obviously non-fatal attack planning designed to cope with a problem of this magnitude would necessitate imposing in the central government unusual powers on a stand-by basis. Thus our traditional views regarding Federal power would have to be reevaluated in terms of the national goal of self-preservation.

In meeting the challenges of this modern world, our nation must conserve its energies and resources. It cannot afford to expend its substance on programs to provide services which can be made available through private initiative. More and more the personal insurance business will be required to demonstrate the role which it can play in solving the problems of our society. This will entail more emphasis on research and statistical studies which can be utilized to prove what we can do and to challenge unsound proposals for government intervention.

As an example of this need, one of the claims we often hear in Washington is that many of the aged face large medical bills which are beyond their ability to pay. Now what are the available facts? We know that the annual medical costs of the average individual over age 65 are in the neighborhood of \$177.00 for all of his health care expenditures. We also have figures which show that about 1 out of 5 of these aged individuals have annual medical costs in excess of this figure. However, we do not know the circumstances of that 1 person out of 5 who encounters these higher costs—whether he is indigent, insured, living alone, retired, in an institution, etc. This information is essential to any objective consideration of whether aged individuals with these higher-than-average medical expenses can or cannot pay their medical bills or buy health insurance to cover the risk. There is a real need to expand further our research efforts to include problems arising in the political field and to devote more attention to the coordination of the research activities of the various organizations within our business.

During the era ahead issues which involve honest differences of opinion within our business will tend to increase in number. Disagreement will be one of the by-products of innovation and national tension. We will be challenged on every side to take positions on controversial questions. And our influence may well depend upon our ability to reconcile our differences and to present a united position, not only in opposing unsound legislation but in seeking solutions to new problems.

If we have learned anything during the past decade, it is the high cost of disunity of purpose within the business. I need not rely entirely on the company income tax legislative experience to support this statement. Only recently another division occurred with respect to the interpretation of our new tax law. Without going into detail the divergent viewpoints were separately and vigorously pressed

before the Treasury Department. The result of this split action was a tentative tax regulation extremely unfavorable to both sides; one that also established a bad precedent in unrelated areas. It was at this point that bold and intelligent leadership within both groups decided to unite and pursue the matter through industry channels. As a result Treasury reversed itself and adopted a favorable regulation.

One of the greatest contributions each of us can make to the political future of the personal insurance business will be to devote greater effort and objectivity in consolidating viewpoints on controversial issues. It is difficult enough to succeed in Washington with a policy declaration that has the full support of the business. It is almost hopeless to pursue one that must be presented with an admission that we do not agree among ourselves that the position is sound.

Finally, in the turbulent era ahead steadfastness of purpose will be required in defending the personal insurance business against big government. We must challenge, with even greater vigor, those who contend that government can do a better job than we can. We must continue to emphasize individual responsibility and opportunity and the widest possible distribution of political and economic power. We face a new frontier only in the sense that ahead of us lie many unknowns to be explored—many opportunities to capture—many battles to wage.

As we enter this new age it would be well to keep before us the words of Abraham Lincoln at the beginning of another new age one hundred years ago. He said,

“* * * the dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulties, and we must arise with the occasion. As our cause is new, so must we think and act anew.”

PRESIDENT DAVIS: Gene, thank you very much on behalf of everyone here for that very analytical discourse on our problems ahead. I must comment, however, that as Gene was cataloguing all of the various areas into which the Federal government is being urged to move, all of the forces which support the thesis of those who would move into those areas, and all the political difficulties that we as an industry face, I am reminded of a hired man on my farm up in Vermont during the war.

Like a lot of Vermonters, he was independent of mind and spirit. He hadn't been in the Army very long before he had got into a fist-fight with a senior officer, which landed him in the hoosegow. When he came back at the end of his service he called on me and I was asking about it. He said, "You know, Mr. Davis, it was awful. The man needed hittin', and I hit him. And they put me in the jail and they didn't give me anything to eat except bread, and I had water. On the third day they brought in a great, long piece of typewriting. It was written on both sides of the paper, single-spaced. It took me two hours to read it, and they called it an indictment."

And he said, "I looked on the front after I had read it, and it said in great big letters, 'United States of America vs. Carroll Foster.' I said to myself, when I thought of all the great strength of the United States, all of its armies and its navies and its weapons, and all of its great power, and you know, Mr. Davis, I says to myself, 'What a hell of an unequal contest this is gonna be'."

We have a few minutes—five minutes, to be exact—and if any of you would like to interrogate Gene specifically on any of the points which he has covered, or raise any new questions that have to do with the national scene, I am sure that he would be willing to answer them.

Well, it takes a genius to cover a subject so thoroughly that nobody can think of a question to ask, but that seems to be the situation.

The luncheon will begin at 12:30 promptly, and we will be ready to come back here to resume this afternoon's session promptly at 2:00 o'clock.

If there is no other business, we will stand adjourned until 2:00 o'clock this afternoon.

The session adjourned at 12:00 o'clock noon.

LUNCHEON SESSION

Wednesday, December 14, 1960

MR. DEANE C. DAVIS PRESIDING

The meeting was called to order at 1:30 P.M.

PRESIDENT DAVIS: When the Program Committee went into action this year the agreement was that I would run these meetings on time, and I want to set sort of an example for the incoming President in that respect. We are going to start this session right now, but you are, of course, expected to continue with your dessert and coffee—as quietly as possible, but nevertheless to continue.

I should like to introduce to you the members of the panel for this afternoon's meeting who are seated here at the head table on my right. The first is a man who is well-known to most of you, I am sure, Mr. David E. Kilgour, President of The Great-West Life Assurance Company. Will you rise, Dave, please! The second member of the panel is Mr. Abram T. Collier, who is known to many people also. He is Vice President and General Counsel of the John Hancock Mutual Life Insurance Company. The third member is John A. Mayer, who is President of the Mellon National Bank, Pittsburgh.

Also I should like to introduce at this time Mr. Roger Hull, who is President of The Mutual Life Insurance Company of New York, and who is a former business associate of our speaker of today, Mr. Thomas J. Watson, Jr. He has assisted in attending him today. Would you rise, please, Roger!

On my left are the members of the Program Committee to whom I would like to express deep appreciation—as I am sure all of you do—for the program which they have arranged for this two-day meeting.

(Mr. Davis then introduced members of the Program Committee who also were seated at the head table.)

PRESIDENT DAVIS: We are going to move on very rapidly in order not to take any more of Mr. Watson's time than is necessary. I am sure he has been introduced so many times that it doesn't matter much to him as long as you don't say anything bad about him. We are not proposing to do that this noon, Mr. Watson.

Mr. Watson comes from Connecticut. I think, however, he should be introduced as a Vermonter because he has a nice home at Stowe,

Vermont, which is a business community where the International Business Machines Corporation has considerable interests.

He was, as you probably know, educated at Brown University, from which institution he was graduated in 1937. He had a distinguished career in military service in the Air Corps, and retired, I believe, as a Lieutenant Colonel. He was with International Business Machines Corporation from 1937 to '40, then was out during the war, and back in in 1946, and in 1952 he became President and a Director.

IBM is a great organization. Everybody in this room knows about it. Almost everybody in the world, I guess, has heard about it. Mr. Watson is the real working head of that institution and has been a great factor in its growth and success. But in addition to that he also has other business connections. He has been on the Board of Time, Inc.; he has been on the Board of the Bankers Trust Company; and for several years he was a Board member of The Mutual Life Insurance Company of New York.

Mr. Watson, you are very welcome, and we are glad to have you here!

ADDRESS BY MR. THOMAS J. WATSON, JR.

Mr. Thomas J. Watson, Jr., then spoke as follows:

MR. DAVIS, LADIES AND GENTLEMEN:

Thank you very much. That is as nice an introduction as I have ever gotten.

I particularly appreciate the part of that introduction that represented Stowe, Vermont, as a business community. I am trying to get that philosophy across throughout the IBM Company in New York because I like to go up to Stowe and ski in winter time; and the more that philosophy gets across the more skiing I can do.

I can't tell you how pleased I am to be with you here today. I see a lot of old friends. Ed Faulkner, your Program Committee Chairman, and I made a military orientation trip together some years ago on battleships and airplanes and various other things. I know a great many of you.

I am particularly glad to be here at the invitation of Roger Hull. I started working at the Mutual Life in the days of Alexander E.

Patterson, whom many of you will remember, and at that time came to know Roger Hull. Since then he has become a great friend of mine, and I admire him as much as I do any businessman I know in the whole world. So this is an exceedingly happy occasion for me.

Since you have had some intensive deliberations this morning and will have more this afternoon, I have been searching very hard for a business story to tell you that might be a little funny and might furnish some break in the proceedings.

I had lunch the other day with a fine old gentleman called Captain Paul Hammond, whom some of you may know, and I think he gave me what I will use as that story. He said that not long ago he had a captain on his boat who had been with him for many years. Twenty-two years ago, cruising in the Adriatic off the coast of Yugoslavia, this captain met a very attractive Yugoslavian woman, and he married this woman and had a son by her. Then, twenty-one years ago, he left Yugoslavia with the Hammonds and never returned. But he always sent money back to Yugoslavia and corresponded. Quite recently the Hammonds met a very attractive young French woman, a mademoiselle who was not married. They concluded, "Here is this poor lonely captain, and here is this attractive French woman, and they seem to be getting along very well." So one day Captain Hammond said to his captain, "Susy and I have been talking and we think it would be an awfully nice thing if perhaps you and mademoiselle were to get married." The captain gave him a penetrating glance and said, "Why, Captain Hammond, I can't imagine why you should make such a suggestion. I've been married happily for twenty-two years." [Laughter]

If it were appropriate here, today, I would talk about the relationship between the IBM Company and the life insurance industry. I think we owe your industry a tremendous amount. As a matter of fact, because of your industry and the railroad industry, IBM was founded back in 1911; and for many years railroads and insurance companies were the only customers we had in the world. You had to be awfully patient to be an IBM customer back in those days. Some of you may remember it. And because you were patient and urged us on, we have been able to have a modicum of success; and a good deal of that success is due to you.

It would be ridiculous not to say that, in spite of this wonderful introduction, a good deal of the rest of our success has been due to the Watson far greater than I who unfortunately is no longer with

us. But he gave IBM a lot of momentum, and we have been able to push it along in the last few years.

I have been asked to talk about morality in business. I think, today, in the business world, we hear a great deal about immorality in business, and not very much about morality in business. But, for my money, there isn't very much immorality in business, and there is a great deal of morality in business. I suspect all of you know that as well as I do. So, I want to talk on another subject.

Just as all of you are specializing in the job of causing people to look ahead to protect their families' future, I believe the United States is going to have to concentrate a great deal more on looking ahead to protect our country's future. In the past our international decisions have sometimes been successful on a basis of solving problems as they arise, but more often in the modern world by the time an international situation becomes an obvious problem, it has become so complex and so vast that the solution to it is often extremely difficult, if not impossible.

While I don't want to be pessimistic today, I think we must be realistic.

Realistically we must conclude that never before has there been as great a necessity for the United States to anticipate and provide for her safety in the future.

Never has she been faced with so many uncertainties—

Never has she been faced with a single rival as strong as the Soviet Union—

Never has she been faced with an idea as appealing to so many areas of the world as Communism—

And, never in the world have we been challenged on such a wide front—

on an ideological front,
on a scientific front,
on an armament front,
on a territorial front,
on an educational front—

and one could go on and on.

It seems to me the most critical resources of the United States right at this very moment are foresight and time. Either we make adequate provision today for the kind of world we want tomorrow, or time will run out and we may find history running against us.

For the last year all of us have been shocked by the increasing belligerency of the Castro regime in Cuba, and I suppose we have been disillusioned by what appears to us to be the turning away of former friends—the Cuban people. Perhaps we are surprised that Fidel Castro and his ideas have become a symbol throughout all of Latin America. Indeed he may well be the most popular leader in that whole vast area.

The United States can't possibly afford to let the Cuban situation become general throughout South America. Therefore, I want to talk for a few minutes today about what the situation is in Cuba—and in the rest of Latin America—and then exchange a view or two with you as to what some of the possible solutions might be.

I am sure that none of us could really believe that Fidel Castro was orienting himself toward the Communists when first he took over many months ago. Yet, it is not at all unusual that he did so. The Communist formula and Fidel's formula are nearly identical and the prospects and customers for each are nearly identical. So it is quite logical that we find the two shadows merging.

Castro took a group of hungry and illiterate Cubans—most of the population—and offered them something better than was being produced by the 5% of the population who were governing Cuba under Batista. This 5%, who should have been spending part of their time trying to find ways and means of making the lives of the people broader and more fruitful, were actually involved in rigidly controlling the wealth of the country and serving their own selfish interests.

Many of the conditions and philosophies that exist all over Latin America are not conducive to the rapid development of a democratic, industrialized society . . . but they certainly are hospitable to the introduction of Communism. And so, if we analyze the Cuban situation . . . and the situation throughout Latin America . . . we must realize that a good deal of the area is on the brink of revolution.

Now just a word on how we got to this precarious position. Our policy toward Cuba (since we helped the country free itself from Spain) has been a stagnant policy of doing very little and hoping to have a government there oriented in a friendly way toward the United States. We weren't particularly concerned about how that government handled the people of Cuba or whether or not these people were making any progress toward a better life.

In the past we have leaned over backwards so as not to interfere

in the internal affairs of any nation with whom we had relations. We may have even used this policy as an excuse for doing nothing when we should have moved. Through our own success in helping all our people up economically, the citizens of many underdeveloped nations—if they are friendly to us—look to us to help them make similar progress.

And so, I think we simply must find a formula in the future to insure that governments that we assist are also trying their best to assist their people toward better lives and more opportunity. This is the big thing that we forgot to do with Cuba. The idea of the better life, the redistribution of land, the adequate taxing of the rich and privileged class—all have tremendous appeal to those poor and hungry people who represent the majority of the Cuban citizens.

I think we have a duty wherever we are assisting an ally or friend, to assure ourselves that the government of that ally is dedicated to improving the lot of the average citizen. The government should represent the will of all of the people and should be chosen, wherever feasible, by popular and secret ballot. If we do not work towards these things, we are not playing fairly with the concept of freedom upon which our country was founded.

So Fidel Castro has used a simple formula, older, of course, than Robin Hood—of proposing to take from the rich and give to the poor—giving the unfortunate, poorly fed people of Cuba an opportunity to hope, at least, for a better existence, and I suspect nobody has been able to give Cubans these kinds of hopes for decades, if ever.

We can gain one great lesson from the Cuban situation. Unless we are able to better forecast situations as they develop and before they reach unmanageable proportions, we will certainly experience increased difficulties in all of South America.

Taking Cuba, for an example, we can see most of the things that are causing or will cause problems in the other Latin American Republics.

Problem No. 1—A vast majority of poor people who long for a better life. Now they hear Communist propaganda stating that their system can provide that better life. The Communists have sent a few technicians and a few rubles of aid. Neither compares with our aid over the years . . . but the Reds put their money where it does the most good—into the stomachs and into the heads of the very poor. We, on the other hand, too often find it difficult to use new and

creative channels, and this diminishes the amount and the effect of the aid.

Problem No. 2—Illiteracy and the lack of an effective educational system further adds to our problems and simplifies the problem of the Communists. Hungry, uneducated people are always the best prospects the Reds have. Further, their doctrine holds immediate promise for better days. We have built our great country in 190 years. The Communist Revolution occurred in 1917.

Problem No. 3—We have no well thought out system lending itself to immediate adoption by an underdeveloped area which gives all of its people the possibility of immediate improvement in their way of life. We can't wait for capital to develop, for a middle class, for a better education. The problem is here now and unless we get a very quick solution, the Communists will solve the problem in their own way.

Problem No. 4—The Social Order. It goes back to 700 A.D. in Spain. The Moors conquered Spain at that time and for the next 800 years, the land was one giant battleground. In 1500, the last Moor was pushed out, but what was left was a nation of brave warriors . . . the result of an 800 year battle. The country was organized on a military plan and most of the thinking was from a military point of view. There was no concept of freedom for the people, no move towards popular government, few careers, except in the Army or Navy. The attitude of rule or be ruled had become a fundamental part of the Spanish attitude and too much of it remains today in Latin America.

Changing this attitude to one of enlightened liberalism is going to require the best of American salesmanship. It's an attitude which is 1300 years old.

These four general problems have produced a Latin America today which has 20 countries, approximately 200 million people, and $2\frac{1}{2}$ times the land area of the United States. 50% of the population is illiterate. The highest per capita national income in the area is a third of the U. S. average, and the lowest is about on a par with China. A post-war study showed that half the people were undernourished, that half had some infectious or dietary disease, that half were working under semi-feudal conditions of land tenancy with little hope for the future.

I think that any of us who happened to have been born 20 to 40 years ago in South America would feel that our government and the

educated class for whom we are working had not given us a very square shake.

We would be resentful of the government under which we lived, and most anxious to overthrow it and put in any other kind of government that offered us any promise for the future.

Further, I think that we would resent the United States because we would feel that since the United States has created a good life for most of her citizens, she somehow has a responsibility for seeing that some of the same progress is made by her neighbors to the south.

In the days and months ahead, we must find many ways to help the South Americans improve the pace at which their reforms come about. In large measure, the issue now is substantially one of time. Castro has advanced the clock. The basic problems remain . . . they haven't been overcome.

The situation can be improved in time but only by the boldest and most vigorous kind of action. President Eisenhower took the first step when he signed the Bogota Treaty three months ago. This provided for \$500 million of aid to governments in South America for social development. The funds are to be administered by the new Inter-American Bank under the direction of the Organization of American States.

But don't take too much comfort from this initial step. It's only one step on quite a long and perilous route. In the first place, government-to-government aid—without regard to whether all the people are being helped—just can't be applied to a successful solution to this problem.

All aid of any type should be tied to some local or national index to insure that real dollar value is being received by the average citizen, and that no aid money is straying into the hands of those who don't desperately need it.

The O.A.S.—Inter-American Bank aid should be available to all countries on a per capita basis, pro-rated according to educational and economic need. Most important of all, it should be made contingent upon an immediate move to popularize the government and initiate or continue land reform.

To administer this program will require a new and bold type of foreign diplomat. We must have people able to understand local problems and dedicate themselves to their solutions.

We must be able to influence local governments to move toward a more liberal point of view. We must work for popular and stable gov-

ernments not necessarily patterned upon our own. New and very underdeveloped nations need more government ownership of basic facilities than do more developed countries, and we shouldn't fool ourselves into thinking that countries can be rapidly industrialized and people made less poor by foreign investment alone. We've been making foreign investments in Latin America for years and the average income of the area is less than \$275 per person.

In addition to general aid through O.A.S. to all Latin American countries, we should pick two or three countries susceptible to rapid and enlightened change and decide that we will make these countries living examples of the very best that U. S. advice, counsel and technical assistance can produce.

These countries we might call "target countries" and on them we might target the very best we are capable of in money—ideas—creativity—and leadership. Why two or three? Because we just don't have money enough to do everything everywhere.

In the countries we choose we must try to build, in a very short time, the sort of government and administration that the area needs. I am not suggesting that the form of government need be a democracy as long as it is stable and as long as it is popular and represents the wishes of the people . . . but I am suggesting that we should back up and strengthen in two or three logical places countries that can be shining examples for others.

The Soviet Union has done this in several places, notably Egypt. Here the technicians from Russia not only speak the language, but are picked for acceptable personalities and dedication. Not only do they believe in Communism, but they are articulate and persuasive salesmen for their way of life.

Two years ago, I saw about a hundred university students in Moscow doing the most persuasive selling job for their way of life that I have ever seen anywhere. The place was the American Exhibition in Moscow and the students were girls and boys from the U.S.A. explaining how democracy works and what it produces for the average American. They were dedicated and convincing, certainly as dedicated as any Communist I have ever seen. It was a moving scene and proof positive that if we put our minds and hearts to the task, it can be done.

We must find more of these people and back them with training, equipment and dollars so they can go to the "target countries" we pick and in a space of 3-5 years create such spirit and progress that

all of South America will see that western oriented progress for their country is not only possible, but much more realistic and fundamental than that which the Communists provide.

Our President-elect has suggested that the 1960's will not be an easy decade. I agree with him. It will be a time when America makes her choice. Will she continue as a world leader? If she does, it will mean belt-tightening at all levels. We have many other pressing problems outside of Latin America and each one will take effort and creativity and dollars to solve.

We can't expect to meet our commitments and solve our problems on a "business as usual" basis. All of us are going to have to make sacrifices—in our jobs and in our homes.

But all of this sacrifice will be leading us to another era of great progress for the Western World and our country. We can achieve a great new level of human dignity and peace. We want to win and win we will.

PRESIDENT DAVIS: Mr. Watson, we certainly appreciate that splendid address, and we also appreciate the skill with which you delivered it in twenty-eight minutes. I think it was an excellent talk, packed full of ideas, and we express our deep appreciation to you.

Now we will adjourn to the Jade Room where we will go on with our panel, this afternoon. I hope everybody will find it convenient to be there because it is going to be one of the very best parts of our entire two-day program.

We are adjourned. Thank you.

The luncheon session adjourned at 2:10 o'clock.

AFTERNOON SESSION

Wednesday, December 14, 1960

MR. DEANE C. DAVIS IN THE CHAIR

The meeting reassembled at 2:20 P.M.

PRESIDENT DAVIS: May we come to order, please.

While we're waiting for the meeting to start, I'm going to ask Ed Faulkner to come to the podium, please, to introduce a distinguished friend of his who is in the audience at this time.

MR. E. J. FAULKNER: Mr. Chairman and gentlemen, it would be immodest of me in my capacity as a member of your Program Committee to suggest that the caliber of our speakers is such that our program has great attraction beyond the confines of the insurance fraternity. But not being burdened by modesty, I will make that assertion and, to prove it, I'm delighted to have the privilege of telling you that in the audience this afternoon there is a distinguished gentleman who has served our country as Deputy Under Secretary of State for Economic Affairs and who is currently contributing to the welfare of us all as President of the Export-Import Bank of Washington. This gentleman, just one year ago, received from the National Foreign Trade Council the Robert Dollar Gold Medal for having contributed the most to upbuilding America's export trade. Heretofore, he has been interested primarily in fire insurance, but I learned this morning that his interest in all manner of insurance took a new turn as he was elected Director of the General Reinsurance Corporation.

I'm very pleased indeed to have the privilege of presenting to you a fine Nebraskan, Mr. Samuel C. Waugh!

PRESIDENT DAVIS: It's certainly a pleasure, Mr. Waugh, to have you here.

COMPETITION FOR MANPOWER

PRESIDENT DAVIS: I think we will start our symposium. We have two life insurance executives and a banker, but I hasten to assure you that the banker is a reformed life insurance man. He's the only man I know who sold his company so he could sell himself out of a job. As President of Reliance Life, that's exactly what he did.

And in that respect, he's like one of our characters in Montpelier who came into a restaurant one night—last New Year's Eve—in a somewhat inebriated condition and wanted to know where the Alcoholics Anonymous clubroom was. We have one there, but it is in a rather obscure spot.

They tried to tell him where it was and he didn't quite get it and so he said, "Would'ja repeat that, please."

They repeated it and he still didn't get it, and they repeated it two or three times more but he still didn't get it. Finally, the chef came in from outside to help and he said, "Well, look, I'm going to be through here in about twenty minutes and I'm going right by that place. I'll show you where to go."

He said, "Thank you," and sat down.

The chef started to go out to the kitchen; he turned around and stuck his head back through the door and said, "By the way, why do you want to know where the Alcoholics Anonymous clubroom is? Do you want to join?"

"Hell, no," he said, "I want to resign!" [Laughter]

It is a pleasure to introduce Mr. John Mayer, who is now President of the Mellon National Bank and Trust Company in Pittsburgh, and has been connected with a group of organizations there which has done an excellent job on manpower. We're going to ask him to speak first. The method we're going to use today is to introduce separately each of the speakers on the panel. They will address you and then at the end of their remarks there will be an opportunity to address specific questions to any one of them. On your chair there is a little card on which you can jot down questions as they occur to you while the men are speaking, and then they'll be collected following the third speaker.

I think there are many in this room who had the pleasure of hearing John Mayer when we had our meeting at Virginia Beach. I've forgotten what year that was; I think it was in '51. You will remember what a wonderful introduction he made for Admiral Fechteler. There are some in this room who are old enough to remember the unenlightened days when this Association had two meetings a year instead of one. Mr. Mayer was Chairman of our Program Committee which planned both the spring and fall meetings of that year.

Mr. Mayer, I'm sure all of your friends here will be very glad to hear from you. Will you take over at this point. Mr. Mayer!

REMARKS BY JOHN A. MAYER

MR. MAYER: Thank you very much, Deane.

I would like to set the record straight on two things. I didn't resign from the life insurance business because of alcohol—you might have drawn that conclusion—and I think that the only reason that the bank took me on was that it didn't look very good to have me out on the street, having sold the company for them. As you know, the bank owned 52% of the company.

Competition for manpower is a problem that we all face, and I'm going to go on the theory today that the real answer to competition for manpower is that you've got to make your own.

Today I'd like to talk to you about three things: First, the shortage of executives as it applies to all industry and to insurance and banking specifically. Second, the use of management development techniques as I have observed them in industry. Third, I'll cover our management development program at Mellon Bank. I don't hold it to be a model of excellence; but it may provide a useful comparison for your own program. In fact, it may encourage you because you will see that someone else who has worried about this problem hasn't done as well as you have.

This spring the American Management Association said that 99% of the companies they survey think that there is better than an even chance that they will have to bring in outside executives within the next couple of years. And it's a fact that 70% of these companies will use executive search consultants—despite the cost. But you know the tough thing about hiring each other's best people isn't the cost. The tough part is the serious risk you take when you bring in a new man. You've heard about all his good points, but what are his limitations? And what about the morale of your present employees? They can understand an occasional specialist being brought in over them. But to bring in many general managers from the outside is self-defeating. Your most capable people will figure there's no use to stay—so they'll leave. The less capable will sit and smolder. We could have minimized a lot of this risk we face today if we had made some plans for the future ten or fifteen years ago.

All of you feel this executive pinch one way or another. Your businesses have grown bigger and more complex. You need more highly paid people per ordinary workers. According to a study by Booz, Allen and Hamilton, we have 44% more upper level manpower

than we did ten years ago. Not all this increase is due to the need for more specialists. Among other things, decentralization and increased complexity of business demand more and more highly trained people. Booz, Allen and Hamilton, after looking at 14,000 executive jobs in 600 big companies, found that we're in for additional manpower problems—especially if business grows about 50% by 1970 as the projections made by economists show that it should grow.

I think we all know, too, that two wars and the great depression have played hob with the *average* age of our corporate presidents. They are getting older. In 1929 the average was 53. In 1959 it was nearly 60. By 1970, chances are that 60% of the presidents in this room will be replaced. And industry knows that we have fewer people in the 35-45 age group coming along behind us because of population trends.

And what about the retirement of our older people? How many will we lose each year? *Fortune* magazine says we are poor guessers. In general industry, a great many more people than we anticipate will resign, die or just quit early and go fishin'. This figure may be less in banks and insurance companies, but the trend is the same.

Although our population is supposed to grow perhaps 25 to 30 million in the next ten years, our prime age group of 35 to 45 will shrink by about half a million in ten years. This is a bad age group in which to have a shortage, because most of our managers for the next ten or fifteen years will come from this group.

Well, what do we do about it? How do we lick this shortage? Where are we going to get the executives we need for tomorrow's jobs? Obviously we are going to have to grow our own executives. First—we are going to have to get young people right out of college and push them hard. We'll have to make the able and willing ones grow. Second—we'll have to scour our own companies and find every last person who has the ability to take responsibility and give him all the training he can handle. We can't be fussy about whether he's got a college degree after his name, or if he comes from the right side of the tracks. Every talented individual has to be pumped up to pressure and kept pumped up.

Now you can call this executive training, management development, or anything you like. In my view, it is the *only* answer to stealing each other's people. It is the *only* answer to our expansion needs. It's the *practical* answer to the dry and dusty reputation that

banks and insurance companies seem to share . . . the reputation that we provide slow, safe, unimaginative careers.

Let's look first at the young college graduate, and the young non-college man, too. These people represent the solution to our long range problem of the 1970's. Later, I will return to our problem of the 1960's—the department managers and supervisors who have already climbed halfway up the ladder. We know they need a lot of help, too. First, let's talk about developing the young people in an active and all-inclusive sense. I mean more than job skills, principles of banking or insurance or business, more than facts of technical proficiency. I mean to include training in the emotional situations and the philosophical and ethical considerations that are an inseparable part of business. I mean to include the realistic point of view that hard work pays off. I want to talk to you about the kind of management development programs that encompass *all* of these because they stress real work in real, everyday situations. These young people must be allowed to see the results of their successful actions and to study them—perhaps even more than studying their mistakes. For I believe that you learn more from success than from failure. It doesn't take long for a *new* man in a *new* job to make a couple of mistakes. It takes longer for him to get a few stars on his chart. It takes longer for him to gain some confidence. So we've got to let these trainees have a free hand—a free hand and enough *time* to learn for themselves. We believe the old saw that you can't develop executives, you help them develop themselves.

The 1956 survey conducted by your Life Insurance Institute showed that about half you folks did not have any kind of management training for your non-actuarial home office group. You can point to some successful manufacturing companies which have no such programs. And I know some of the real big outfits that have tried management development in one form or another and wound up saying, "Nuts, it doesn't work."

But most of industry apparently feels that it cannot afford to ignore management development. Notice the trend.

Back in 1953, *Fortune* magazine surveyed some of our larger companies to find that over 50% of these have active management development programs. Nearly all others surveyed were planning to do so—many with the help of management consultants.

Now, more and more companies are offering training and development programs as the competition gets tougher and tougher. Re-

cent studies among the 500 largest companies show that now 70% of all companies have some form of management development programs. And among the top 50 companies in this survey, the ratio jumps to 80%.

Another good way to look at management development is from the trainee's point of view. Frank Endicott, who is Director of Placement for Northwestern University, deals with 200 companies every year. His studies show that the graduates of Northwestern expect training—they expect a full-sized opportunity to learn and grow.

Surveys made by the Association of Reserve City Bankers tell us clearly the same thing: Opportunity to learn and grow—to participate in training programs is three times as important as salary to these young people. Ten times more important than security.

Well, so much for the need for executive development. If the expansion of your own businesses hasn't convinced you that some kind of a program is needed—if your competitors aren't pushing you into it—if the young people you are recruiting don't demand it—no 30 minute talk of mine will convince you that having a training program is less expensive than not having one.

So let's now examine the state of the art. What do the critics and the professionals in the business have to say about it?

Unfortunately, few company presidents have a very clear idea of how training should be done. There are lots of experts . . . company personnel men and industrial psychologists, management consultants and college professors. They all have favorite theories and techniques and philosophies about executive training. There is certainly no shortage of people who are willing to make a buck in the business of telling you *how* to train your future executive.

The result has been confusion in many management circles, and in some instances, complete disgust with the whole subject. We may have oversold ourselves on the values that can be gained from this training. And we may have oversold the trainees on their rate of progress; and in so doing may have ruined some good people. Sure, there have been quacks who have taken some pretty big companies through some pretty silly programs.

But in spite of these growing pains, alert companies realize that they must plan for the future. A recent Dun's Review study among presidents of 100 of our top companies shows considerable optimism about management development. They plan to spend more money on it. They will place more emphasis on on-the-job-training.

These companies plan a selection of candidates from a wider academic range. They will bring their candidates not only from colleges, but also from within their own ranks. There will be fewer lectures, fewer classroom type activities, and more emphasis on training on the job. And through all of this two good things are emerging.

First, the smart people in business now know that executive training is a matter of *individual* development and not *group* effort. They also realize that executive training not only deserves but demands the attention of the very top people in the organization. Second, knowledgeable companies in this field know that the development specialists on their staff must not be buried under a pile of organizational bureaucracy. They must have freedom to report and to consult with top level management.

My business friends agree that if you are just going to hire some experts to set up a program and then expect it to run itself, you are asking for trouble. They point to a few companies who have started programs just to keep up with the Jones's. But most companies are serious in their programs. And they are smart enough to hire someone to help them rather than try to put together a program of their own.

There's a lot of new theory and experimentation being tried in management development. These lean heavily on psychological techniques and new teaching methods. If you are like me, you'll rely on your staff experts to carefully weigh these new methods and tell you if they fit your particular needs. You will also use your staff experts to help your line supervisors, who will be the coaches and leaders to your trainees.

We at Mellon Bank have established the office of Director of Management Development and staffed it with a very able man, reporting directly to me through the Personnel Vice President. You might be interested to know his background. He is 35 years old, a mechanical engineer by training; for ten years was a star technical salesman for Westinghouse Electric Corporation, and immediately before joining us to fill this job, was their Director of Sales Training. I cannot stress too strongly the value of getting the best men you can find for this job. For this man is the key to success, not only in the organization of your training program, but also in many other areas—such as counseling trainees, creating ways to measure your people and establishing reportings systems, to name a few.

So much for the need for and the theory of management develop-

ment. Now, I will spend a few minutes on the specifics of our program at Mellon Bank and the details of how we are anticipating our executive needs of the '70's.

At Mellon Bank we have a management development committee, picked from out of top management people—generally our younger men. For example—the chairman is top man in the commercial banking end of our business. Our Trust Department, which is equally important in our sphere of things because it is responsible for managing several billion dollars, is represented by the senior investment vice president and the senior legal vice president. Other functions of the bank are similarly represented. This committee sets the pace for recruiting, based upon estimates of needs in various functions of the bank after considering factors of growth, retirements, deaths, etc. They themselves do some recruiting. They approve the trainees and the training program. An obvious advantage of having top management people on this committee is that they have an abiding interest in seeing the program done right. There is an important by-product that accrues to members of this committee. Each becomes more aware of the other's needs and the workings of other departments. Each member stretches beyond his own specialty and thinks more constructively of the bank as a whole.

In our recruiting program, each candidate must be screened by our management development committee and our Director of Management Development. We select only those who have at least the potential for middle management. We expect a goodly percent to rise considerably higher.

How do we recognize the right kind of young man when we're on campus? We use the same yardstick we do for those already in our bank. We want the hungry ones—we want the ones who look for responsibility and leadership jobs. We look for the ones who will push themselves, over-commit themselves and then come through in the pinch.

To get this kind of man we look at more than grades. What has the man done on campus—in the summers. What jobs has he held. What school organizations has he led. And in our own company, we look to see what our people have done in the community, in professional societies, and in self-education.

Many businesses look just for the cream of the academic crop when they go recruiting. This elite group is OK for our top specialists. But we don't mind looking outside the top academic 10-20%.

Sometimes this group is less apt to be *prima donnas*—more apt to want to work with other people.

Each year we process about 15 to 20 young men into our program. Some from within our organization, the majority fresh from college or graduate school. The total program takes a minimum of eighteen months to complete. This length of time seems to form a good background of knowledge, yet isn't so long that our trainees get restless.

We believe that we need to provide a general banking background for the trainees rather than training them in a specific job. Therefore, in our plan, each trainee spends six months in each of three basic bank areas: Auditing, Operations and Branches, and a combination of Credit and Investment Research.

This on-the-job exposure to the vital functions of banking forms the backbone for our management training activities. Some may criticize because of the interruption to everyday work that occurs, due to orienting and instructing a newly arrived trainee. The cost is not low. But there is no effective alternative to letting a man have first-hand participation in the important parts of the bank for himself.

As part of this first-hand participation, he must feel a climate of loyalty. We believe loyalty is a two-way street. The Company must show loyalty to the trainee before it expects his loyalty in return. The spirit is necessary for the success of our development program. It is the force that creates the faith so necessary for any young executive to have. It allows him to place all his energies to the job at hand rather than worrying about his future.

During each six-month period, the trainee works at actual jobs. Instead of having him *watch* a teller operate for several weeks, we give him a day's intensive briefing and put him in a cage. He works between a couple of experienced bull elephants who keep him from going too wrong. The same procedure is used when the trainee tries his hand at making installment loans. Now some of you may question the value of actual working experience as a teller or as an installment loan man, but notice what the experience gives him. He is forced by his job to make judgments, unfortunately sometimes without having all the facts. His mistakes can be costly, so he learns to work under pressure. He is the bank's first line of public relations and often the only personal link between a customer and his money. He can make lifelong friends or lifelong enemies for the bank. He

gets dozens of questions daily that force him to learn all of the bank's services. Working at these personal contact jobs broadens these trainees and serves them well for the rest of their banking careers. And when they become officers, they *understand* the problems of a teller and an installment loan man. What more can you ask of training?

When a trainee is assigned to auditing, he becomes a part of the traveling road crews that are continually auditing our branches. At this point, I should say that our audit programs cover not only whether the books are in balance, but also whether prescribed procedures are being followed. For six months the trainee learns by doing increasingly more difficult and responsible phases of the audit himself. In the latter part of this period, the trainee also breaks in another new trainee who will be his replacement. At the end of the first three months, the trainee is apt to feel pretty sophisticated about auditing. But when he starts to train the new man, he realizes how little he knows. So, we're sure that the sooner we get our young men plugged in and working at a real job, the better off they are.

I suggest there may be a parallel to our experience in the insurance business. Do you see value in having your young actuaries and general insurance people spending six or eight months selling? Would the direct customer contact make him a better manager? Would it broaden him in his understanding of your whole organization? How would it be if he worked as a cashier in one of your branch or general agency offices?

In addition to stressing real work in real, everyday situations, we have class room sessions where specific knowledge of job skills are taught. Also, at the discretion of our Development Director, the trainees are urged to attend night school classes at local universities. I guess the banking business has been fortunate in the extent of formal classroom type courses we've developed over the years. In addition to courses offered by the American Institute of Banking and the American Bankers Association, we have more than eighty others.

The use of regular ratings of each trainee's performance is an important part of our program. The trainee is rated by the department heads under whom he is on assignment and by our Director of Management Development. At all times, his ratings are reviewed with him, and he knows that these ratings are a basis for merit raises.

Contrary to some popular concepts, our *trainees* like the idea of being rated. They like the counseling that follows. Generally, we find

that our counseling doesn't tell trainees anything that they don't know, but it serves to focus their attention on the need for correction. At times, the trainees may not like the rating they have received—they may not even accept the ratings as being valid. But if the ratings continue to be critical, sooner or later they will get the message and straighten out. They know they are not forgotten men. They know the heat is on them. If they have the ability, they know it will be recognized.

One thing we know for sure; we can't hang on to our trainees who do not perform well. It is not good for the organization to delay taking corrective action. A bad trainee may be worse than some old timer who isn't worth his salt—at least everyone usually tolerates him. But the bad trainee isn't even worth saving for some other job outside our program. Usually we do him and ourselves a favor by getting rid of him fast.

We have come to appreciate the value of feedback from the trainees. We plan frequent luncheon sessions where two management committee members, four trainees and our Development Director have a no-holds-barred discussion.

We have come to respect the opinions of these trainees. They are thoughtful, mature and quite frank in their comments. Most important, we try to act promptly on their suggestions if we think they have merit. If we don't think they have merit, we tell them why.

I have been asked if we get much griping in these sessions, just because the trainee knows he is expected to gripe. We get some, but not as much as you might expect. And fortunately for us, our Development Director and committee members are skillful enough to recognize this kind of comment and deal with it effectively. Of course, we know, too, that these sessions let the trainee blow off some steam without damaging his reputation with his immediate supervisor. Our Director of Management Development also serves as a safety valve for these men on a daily basis.

For us, our job rotation program effectively orients the trainee toward operating problems. They talk banking, not management. The work they do in training is fairly productive. They brush against the realities of business life, and they know our way of working when they are assigned.

Is it costly? Yes, we figure about \$12,000 per year per man, including salaries. From what I hear, this figure is close to many other banks and industrial concerns for similar activities.

Perhaps the key to our entire program is our firm conviction that we must stretch our trainees way beyond the capabilities they *think* they have. We find they stay stretched! Experts tell us that we work to about 20% of our capabilities.

Perhaps you read about the new developments in programmed teaching. Using new techniques and new teaching methods, two months of abstract algebra can be taught in weeks. An entire year of work can be finished in a semester.

Who knows how capable, or smart, or effective your trainees can be until you push them to the limit? We push ours, and it seems to work.

Now, let me mention some of the dangers as we see them. For instance, what happens to the morale of others in the organization? Well, if we have chosen our trainees wisely, their general attitude, their desire to learn, and the fact that they are kept so all-fired busy, create an impression among other bank employees that is remarkably free of resentment. Perhaps another reason is that we pick *other* bank employees, talented people who are *not* college graduates, to go through the program as trainees. Anyway, we find very little evidence of a "Crown Prince" attitude and practically no instances of big heads and inflated egos among our trainees. However, we know this could happen, and we keep an eye out for it.

Our policy of opening the program to any of our promising people also solves our problem of the employee who shows ability in later years. In fact, one of our newly appointed officers was just such a case—a late blossomer. We never thought this guy would catch fire.

As I have mentioned, the basic philosophy of our training program is to provide a well-rounded, general banking background. We do not differentiate in the training for a man going into the branches, which calls for a very general background, over one headed for our Investment Research Department, which calls for a highly specialized, sophisticated background. We feel both men will perform better in their specific area if they have had experience at credit work, at auditing, at branch banking and all the rest. We know that some of the trainees will develop more of an interest in a technical specialty such as Investment Research, whereas others will develop more general interest.

We are almighty careful to keep track of our people *after* they have completed our program. And surprisingly, this may be the most important part of our Development Director's job. We try to build into our trainees a fair amount of introspection about their future.

We want them soon to ask themselves, "Am I going to be a specialist—or am I going to be a general manager?"

Those who have talent and desire along specialty lines, we encourage. The others, we try to broaden and develop by diversity of training and range of interests. We try to draw the distinction between the specialist, who would rather do the job by himself, and the generalist, who would prefer to have the job develop through the organization. It is always tough to get these youngsters to see that the whole of our organization is greater than the sum of its parts. But when they see it, we notice a boost in morale—a deeper pride in the organization and in their part *in* the organization.

Up to now, I have spent most of the time talking about what we are doing to meet our needs in the seventies.

How about the sixties? Let's go back to the department managers and supervisors who have already climbed halfway up the ladder. What can be done to stretch these people—since they are the ones that will take over, as retirements and other losses occur.

We feel that a large factor in developing our middle management people is in having a good yardstick to measure their performances. A work program is our yardstick. It is the product of several people's work. Each man's work program should be developed by the man himself and his superior. You will note that I do not call this a job description, because I think this is a bad word, connoting inflexibility and lack of evolution—in upper level jobs both the man and the job do change.

This work program has to be put down in clear, understandable language. You've got to be thorough. The results you expect from this job should be spelled out. There should be a timetable for these results, if possible. And you've got to be flexible enough to change the work program and the timetable when people or conditions require it. Inflexibility here is the sure road to chaos. Nothing is worse than a set of work programs that bind and curb your people so tightly that they feel resentful. And nothing is worse than a job so neatly defined that the weak sisters in your organization can hide behind the outline of jobs to be done. For these reasons, we prefer to use work programs in our bank as a communications tool—a device, on paper, that helps several people make sure that they are all talking about the same thing.

The more enterprising people will use the work program as the basis for a curricula—for their personal educational program.

About this time each year, I ask the department heads to give me a list of the important things they expect to get done in the succeeding year. This forces changes in a lot of work programs.

Sooner or later you've got to appraise your present management team against the work programs and the organizational functions that you've laid down. We look at these people in two ways. We look at them in terms of how well they measure up to the yardsticks we've established, and we look at them in terms of how much further they can grow. And perhaps most difficult of all, we feel we have to plan a replacement timetable for each of our management jobs. And this again must be done in an orderly fashion by charting the most likely candidates and the routes by which we hope to bring them into position.

These things cannot be done overnight, and no one guy can do them all. Nor must they be done in exactly the sequence that I have outlined them here. But this much is sure—that they are the only way to prevent a sloppy management development program—one that is just hanging together by a thread.

The success of such a program sure depends on line managers and their enthusiasm in developing their subordinates. Each man must be recognized for his individual strengths. He must be urged to grow at a rate that suits him. This requires skill on the part of the line manager. In fact, we feel that the line manager regulates his own advancement by the rate at which he trains his subordinates. This requires that the line executive be the type of boss that gives the subordinate enough leeway for advancement. An important job of our Director of Management Development is to help these line executives to become effective in allowing their subordinates to develop and stretch and grow. This is one of the ways we evaluate our line supervisors—and they know it.

There are other ways that we encourage the process of stretching. Both the trainees that have left the formal training program, as well as our middle management, are encouraged to broaden themselves outside the bank. We want them to mix with non-bankers. We want them to work in the many community affairs. We know that many problems that face bankers are the same problems that face industrialists and insurance men and retailers. If we become too ingrown, if we spend all our time with bankers, we will limit our imaginations and our abilities to deal with problems.

Formal education is another broadening experience that we encourage. We help those men who show a leaning towards graduate study. We select and send men to the Stonier Graduate School of Banking at Rutgers, the Graduate Schools of Banking at Wisconsin and other places. We will be sending men to certain of the advanced management programs that are offered by so many universities. We underwrite and encourage participation in round tables, seminars, and conferences on the many appropriate subjects that are offered. We encourage men to take night courses in public speaking and other communications skills.

For broadening experience within the bank, we arrange job transfers for men that show real promise as future general managers. We know full well that after we have encouraged these people to expand their views and interest and abilities, we can't run the risk of letting them stagnate.

We are building our present and future management on a formula of training plus responsibility plus experience. We hope and believe that this formula is the right one. We are a long way from our own goals in Mellon Bank's whole management development program.

If I've made you a little more enthusiastic about your own training programs, I'm happy.

Thank you very much.

PRESIDENT DAVIS: Thank you very much, John, for that contribution to our symposium.

Our second member of the panel is Abe Collier, whom I think most everybody here knows as Vice President and General Counsel of John Hancock of Boston. Those of us who have had the good fortune to hear Abe Collier at the meetings of the Association of Life Insurance Counsel recall his many contributions there with great interest and enjoyment. He has a series of contributions which he makes which he calls "The Eating Habits of Life Insurance Lawyers." Those are always listened to with close attention by the members of the Life Counsel Association. His invariable conclusion, I have noticed, is that insurance lawyers eat regularly but not well. I'll repeat that for the benefit of presidents—life insurance lawyers eat regularly but not well. The reason I mentioned that is not what it would appear to be on the surface; it's merely typical of some of those nicely balanced conclusions of which he is capable. What he really seems to say is that lawyers do not want to complain. They

just want to be sure that you don't get the idea they're satisfied. [Laughter]

I first knew Abe as a lawyer when he was really working hard at it, so it was something of a surprise to me when I read in the insurance press that he'd gone into the personnel business by becoming Personnel Vice President of his great company in Boston. I thought: well, now let's see, lawyers can do most everything better than anybody else, including actuaries, but this personnel business, this is a little new, we'll watch this with interest. And pretty soon I was reading his articles in the various magazines with tremendous interest and I'm sure that all of you have. He seems to me to be a real student of psychology and he has dropped many a bit of wisdom to me, probably not even knowing that he was doing it when he was doing it.

Most of you, I think, have seen his most recent article which has had a lot of circulation, which took the form of a short play or debate that was printed in the May issue of the *Harvard Business Review*. Though a sequel appeared this fall, the original article posed the question of selecting a company objective and a president—not just a president—but a company objective and a president at the same time for a New England textile corporation which was a family-owned corporation. Over thirty-five hundred ballots have been received from readers as a result of that article already who registered their own views after reading the debate.

The only thing I hold against him, as a Boston University Law School graduate, is that he is a graduate of Harvard College and of Harvard Law School. I give you Mr. Collier!

REMARKS BY ABRAM T. COLLIER

MR. COLLIER: Thank you, Deane.

When I told my wife that I had been asked to speak on a panel concerned with competition for manpower, she said, "Well, there's going to be a woman on it, isn't there?"

When my reaction time seemed to be a bit slow, she said, "Well, it's obvious, isn't it? They become experts in the art of attracting men early in their lives. They practice it up to the time of their marriage and frequently afterwards."

Well, like other husbands, I decided to respond promptly to my wife's suggestion. I raced to the office and wired Bruce Shepherd as follows:

URGENTLY SUGGEST INVITING MARILYN OR BRIGITTE TO APPEAR ON PANEL DECEMBER 14 STOP THEY ALREADY HAVE WHAT WE WANT TO KNOW.

Bruce was quick to understand my meaning and shot back this reply:

STICK TO THE SCRIPT STOP THE ASSOCIATION IS ON MADISON AVENUE NOT TIMES SQUARE STOP YOUR PURPOSE IS TO INFORM, NOT TO EXCITE.

I was not about to accuse the Association of competing with Broadway. I simply thought that if the Association were to invite Monroe or Bardot to appear here, you would have heard from a real expert on the business of attracting men and you would have witnessed what would have been without question the best attended meeting in Association history.

Now this reference to the man-catching skills of the opposite sex is only made partly in jest, to demonstrate but one of the many different ways in which we can talk about the topic that we have here this afternoon. For my part, I think it's impossible to think sensibly about the problem of manpower, particularly executive manpower, except in terms of a clearly established relationship.

Too often, I think, we talk about recruiting executives as though it were simply a matter of public relations. It is rather, I think, a matter where by our behavior and by the reputation that our behavior creates, we convey to others an image of the kind of people we are. Our thesis is thus that the battle for brains, for executive brains, is not so much a promotion as it is a marriage. It involves the creation of a two-way relationship which is designed, if all goes well, to last a lifetime. It involves an intimate appraisal of subtle considerations both by the individual and by the business, and after the appraisal, it involves a judgment of compatibility and an inner conviction that together the parties will be able to lead useful and happy lives.

Now, since we've been denied the services of a real expert on attracting manpower, I suggest we try to put ourselves in the place of the expert and ask two questions that every expert asks who wants to attract men. First, we must ask the question: "What kind of an impression does the life insurance business make on career-bound young men?" And, secondly, we may ask a question of opinion: "What kind of an impression does it want to make?"

Now, the best way to find out what career-bound young men think of us, I suppose, is to ask them. Several weeks ago, therefore, I questioned two groups of students who ranged in age between eighteen and twenty-five. One group consisted of twenty-two actuarial students; another was made up of ninety-three men who were students at a local graduate school of business administration. (An anonymous school, of course.) They happened to be residents of one dormitory. The men in both groups came from many different states and many different colleges. As you can see, neither of these groups were scientifically selected, nor was the questionnaire scientifically devised, and yet the results may suggest something of interest to you.

The image we create, quite evidently, is an ambivalent one. Most of these young men, it appears, respect our business as an institution but they don't regard it attractive as a career. Asked how well they thought the life insurance business fulfilled its social and economic functions, these men by a large majority indicated that they thought the companies were efficiently managed, responded well to the changing investment and insurance needs, had a good investment record, and a bright future. But when asked whether they were interested in working for a life insurance company, the majority of the answers were negative.

Now the reasons for these negative answers fell roughly into four categories. First of all, with respect to compensation: two out of three students thought the life insurance business had salaries which were lower than those paid by other businesses. About half of the actuarial students agreed that this was so. One comment was typical: "Many individuals," this student said, "are not prompted to make an initial investigation of life insurance due to its reputation for low-salaried jobs." If such a reputation is widespread, even though the facts may be quite different, severe damage to recruiting is bound to result.

Second, with respect to promotions: The answers to our questionnaire showed a more even split of opinion. While many thought promotions were slow and it took too much time to rise within our companies, others saw life insurance as offering a favorable climate for getting ahead. One student said, "I feel that there are excellent opportunities in life insurance. More than in any other field, advancement depends directly upon ability."

Third, with respect to job security: There was almost complete

agreement that jobs in life insurance companies were more secure than those in other businesses, and yet instead of regarding security as an attraction most students seemed to feel that it was a reason for staying away. One student was quite critical, saying, "There are many people in life insurance companies who are incompetent, who are allowed to remain, blocking advancement for those more qualified but lacking in seniority." If security from the point of view of these young men means a safe spot in which to hide away, regardless of job performance, as it did to one student, then it's easy to see why it's not a plus factor for the type of man we want to attract.

Now, the rest of the comments came under a fourth heading which could be called "opportunity to realize one's full potential." Here only about a third of the business school students and half of the actuarial students thought life insurance offered an opportunity for personal growth. The reasons why it was thought to be stultifying to some of these men seemed to center largely around the idea that companies were large and jobs were dull. "There's not much to be learned after the first ten years," said one actuarial student. "The very nature of the life insurance companies requires large size, decreases the chance to retain one's individuality and the chance for creative effort."

Now we can't say that these criticisms were unexpected. They've been made many times about almost every type of business, particularly stable businesses. We thought it important, therefore, to ask students how they compared life insurance with other industries.

Compared with merchandising, the Civil Service, electric and gas utilities, communications and transportation, life insurance came out with half or more than half of the preferential votes, but when compared with manufacturing, banking, chemical companies, drugs, electronics, professions such as law and accounting, these latter activities outpolled life insurance by substantial margins.

The overall reaction was thus somewhat mixed. Mixed feelings were expressed by one student who wrote: "Life insurance is a good place to make money because the company always wins. But I can't help having a distaste for insurance," he said. "It's been too successful, I guess."

Ambivalence is also seen in another comment. "Here's an interesting dichotomy," said this student. "The image of the conservative, backward home office where able men are often advanced but equally neglected versus a highly competitive sales organization where in the

attempt to eliminate many low potential salesmen, many slow starters are neglected."

Now, we should make it clear, that these student reactions prove nothing at all. Even the students themselves fully admitted that they were impressions and not facts. Still we may conclude that the impression that we're making is not a very glamorous one.

To many young men, it would appear that we are an heiress who is handsome but, hefty; wealthy but close-fisted; reliable but dull. If this is the kind of an impression we're making, perhaps we need to try Metrecal and visit Elizabeth Arden as well.

It would be foolhardy in the extreme to try to appear different than we are. Life insurance may never have the glamour of a get-rich-quick business. No one would want it to. And yet within our concepts of prudent management, what kind of an impression do we want to give?

There are doubtless many impressions that we might talk about, but if we were to sum up the most important there are three I would like to suggest.

First, we suggest that the compensation structure of our home office executive jobs should be re-examined.

Second, we suggest that we should improve our methods for executive control.

And third, we suggest we should exploit the unique capacity life insurance has for achieving both individual development and corporate growth.

All things being equal—they never are, of course; but to many young men they often seem to be—a young man intent upon picking a career will usually choose the job that offers the best long-range financial future. Life insurance, as it appears to many young men, does not offer great financial rewards. What are the facts?

We have had enough experience with salary comparisons to know that it's almost never possible to make wholly valid salary comparisons. Even if by careful work we can compare one job with another, there's no assurance that the salaries that attach to the other jobs have any great significance.

Yet, despite this disclaimer, I think it's fair to say that the compensation that life insurance companies pay with respect to their clerical, sales, technical and middle-management positions compare favorably with other large businesses. On the other hand, I think it can be said that our executive compensation may be somewhat lower.

Many of you will remember the *Fortune* magazine article for November 1959 where under a delightful heading, "It's Only Money," a report was made on some 1700 executive salaries in seventeen industries. The article concluded that of all the major industries executive salaries paid by insurance companies were lowest. In this survey, the insurance companies ranked even lower than the textile companies, banks, and savings and loan associations. The salary medium shown for insurance was only slightly half of that shown for the metal, chemical, oil and automobile industries.

A similar picture can be seen if we examine compensation changes within our own industry itself. If we compare salaries paid the presidents of ten of the top life insurance companies in 1939 with those in 1959, we can find that during this period the average salaries paid these chief executives increased only 78%, while the assets and the premium incomes of these same companies increased 250% during the same twenty-year span.

It thus appears that the salaries paid our chief executives as a percentage of assets and income for which they're responsible has been cut 50% since 1939. Or, to put the matter the other way around, if the salaries of top executives were properly related to the size of their responsibilities in '39, they should now be doubled.

During this same period from '39 to '59, it hardly needs to be mentioned that there were other factors at work as well as growth. The value of a dollar dropped; tax rates skyrocketed; the average wages paid our clerical forces shot up 200%. The point is, of course, that even ignoring the enormous growth of the tax bite and the effects of inflation, the basic pattern has changed.

Now, top executive salaries may or may not be significant in and of themselves. Their significance probably lies now in the fact that if the salary of the chief executive lags behind, then the salaries of subordinate officers also lag behind in roughly the same ratio. Our examination of the ratios in the ten companies between the salary paid the chief executive and the second highest-paid executive showed that the ratio went from 50.6% in '39 to 51.9% in '59—certainly not a very great change. The ratio between the top salary and the third and fourth salaries also changed, but very slightly.

Many executives when they hear salary levels are low immediately become hopeful. Their eyes light up in the expectation that a raise will automatically follow, but they should not jump to such a conclu-

sion too hastily. The problem is immensely complicated. Sources of funds for salaries are not unlimited; and competition is keen. Whether we can raise salaries and at the same time improve our competitive position, depends much on how we tackle the job.

What we would like to suggest is that we need to re-emphasize a policy that we have long accepted in principle but achieved only in part, and that is that each individual should be compensated according to the contribution he makes to the total welfare of the enterprise. If we look at our executive salaries in the light of contribution, it is quite possible that we will find our prevailing system of executive compensation is too closely geared to the competitive wage structure, that it is too closely tied to formal levels of responsibility within the organization, and that it is too closely related to years of service an individual has put in on the job. Comparative wages, job responsibility, job experience—all of these are major factors in job evaluation schemes, but they don't necessarily tell us what a particular executive contributes to a particular enterprise at a particular time. They may be essential considerations, but they should not be controlling.

Most executives on fixed salaries continue to do their best, but their only monetary incentive is the possibility of a future raise. It is for these reasons that incentive plans for compensating executive officers have been widely adopted in other businesses. Profit-sharing has been installed in many concerns, even though profits vary widely according to factors far beyond the control of the executive staff. Stock options have been broadly granted, though, like profits, the price of a corporation stock is only indirectly related to managerial competence. Deferred compensation plans are also widely used, providing additional incentive by avoiding high tax brackets ultimately making it possible for an executive to receive more of what he has earned.

Some of our stock companies have adopted these plans, but are none of them applicable to mutual companies? Without long experience, none of us can be sure. But should we not ask ourselves whether a plan could not be reasonably adopted which could provide supplemental compensation which varies according to the company's record of expense control? If income goes up relative to expenses, or if expenses go down relative to income, could we not fairly conclude that a company was doing a good job? And if it was doing a good job, could not the savings or a portion of them constitute a pool from which incentive compensation could be paid?

Now, the particular method by which success is measured and the method by which incentive compensation is distributed is not essential to this discussion. What I suggest is important is that we should be giving renewed thought to our philosophy of compensation. Leading industrial firms in the nation have been successful partly, they believe, because they do have incentive plans and those incentive plans work. Banks, particularly those operating in our major cities and competing with us for the same kind of manpower, have also in recent years begun to install significant profit-sharing plans.

We should now turn to a second aspect of the image we would like to create. We want able young men to regard life insurance as a challenging and exciting business. Students apparently do not want soft jobs, and if they believe the business lacks an intellectual challenge, that early opportunities are lacking, that it offers security to competent and incompetent alike, they find these are good reasons for staying away. Thus the evidence we have suggests a paradoxical situation. The more business seems to demand of its executives, the more attractive it seems to be.

We know that any students who believe that life insurance business lacks challenge are almost entirely wrong. Those of us close to life insurance know that like every business it has challenges enough to test the wisdom of Confucius and the strength of Hercules.

While we have tended to speak of our solvency as ordained and our growth as inevitable, we know that they are maintained only by consistent hard work and sustained good judgment. In any event, we clearly have it within our power to rethink and to revise the methods which we use to control our organization. We can, if we will, admit that merit often takes a fairly long time to rise. We can, if we will, promote able young men faster than we do. Particularly, we can, if we will, take our able young men into a kind of partnership where their voices are heard, their opinions sought, their energies harnessed and their creativeness tapped.

What we need to do, or do better, is to secure the commitment of our young executives, not by our holding the purse strings but by inviting them to share in the selection of our objectives and our policies. Management need not exercise tight controls from above. Indeed, there is abundant evidence that its long-term success depends upon its capacity to secure voluntary and wholehearted commitments from below.

These then are two of the images we would like to create. There

may also be a third. Young men facing a career have a somewhat ambivalent attitude towards large corporations. They like the idea of being associated with a powerful organization through which they, as individuals, can take part in accomplishing things that they couldn't do alone. On the other hand, they fear being caught up in the cult of the organization man, being forced into patterns of conformity, being deprived of their sense of individuality. And even when they decide to join large organizations most good men insist upon retaining a high degree of personal independence.

This balance between the demands of the organization and the interests of the individual exists in every industry, but whereas all large industries tend to demand a total corporate allegiance, life insurance ought to be able to maintain a better balance. The very essence of our business involves a balance between the individual and the group; between cooperation and independence. Life insurance, by its very nature, is a means whereby individuals attain their separate goals through collective action.

If in operating our companies we can maintain a nice balance between the rights of the individual and the interests of the group, should we not also be able to establish a similar relationship with our executives? Should we not uniquely be able so to arrange our affairs that what constitutes growth for the company also constitutes growth for the individual? Should we not join the Prophet and advise our executives "Stand together yet not too near together, for the pillars of the temple stand apart, and the oak tree and the cypress tree grow not in each other's shadow"?

These then are three areas where life insurance companies may, if they will, begin to change their corporate image. They have one thing in common: all are concerned with matters of the mind. Thus it is certain that in the coming battle for executive brains, this will be fought in the minds of men. Young men are not easily fooled or, if fooled, they are not fooled for long. No program of publicity or public relations, no matter how large or how expensive, will alter the image of the life insurance career unless it's based upon conditions as they exist in fact.

If we are to change our reputation of paying low executive salaries, we must be certain that our compensation structure meets high standards of adequacy and fairness. If we are to change our reputation for giving few challenges and few promotions, we must be satisfied that we are giving men more challenges and more opportunities early

in their careers. If we are to change the reputation we share with all big business, that we rob men of their independence, we must demonstrate in our organization—as well as in our policy contracts—that individual goals can best be achieved through collective action. Thank you.

PRESIDENT DAVIS: I would remind you again that you do have the cards at your seats and if you think of questions while these presentations are going on, please make notes so that we can quickly gather the questions after the third speaker.

The third speaker is Dave Kilgour, who was educated at St. Andrew's College and the University of Manitoba. I would think from reading his biography that he was a trainee in the Great-West Life, for it looks to me as though he has held practically every office in the organization except personnel director. At least the biography says that he has been successively Inspector of Agencies; Agency Assistant; Secretary; Superintendent of Agencies; Assistant General Manager and Director of Agencies; and its Vice President and Managing Director. He is now President of the Company.

He slipped on the ice up in Canada just recently and broke three ribs, but he's here in excellent condition and ready to go, Dave Kilgour!

REMARKS BY DAVID E. KILGOUR

MR. KILGOUR: Thank you very much, Mr. Chairman. You spoke about my rapid progress—may I quickly say I am not so keen to change my job as suddenly again. I see enough of my Canadian confreres in the room that I think I should begin by asking for a disclaimer in case any remarks of mine can be construed as a stimulant to further Canadian exports of talent in the life insurance business to the United States. [Laughter] If you take that out of my remarks, I have been misunderstood.

The little package assigned to me of this broad area "Competition for Manpower" is "What Life Insurance Companies Could Or Should Do About These Problems." This is such a delightfully broad assignment that I hope you will forgive me if I merely tackle some few of the current problems as I see them.

May I offer the observation that the problem is in no sense new, and not particularly different today than twenty years ago. It is perhaps thrown into clearer focus by two or three factors that have pretty general application to our companies.

The first is absolute physical size and the increasing complexity of our business. It is within the memory of most of us when a strong agency man, an actuary of broad experience, a wise investment officer, a president whose background might lie in any one of several fields, and perhaps one other senior officer, whose talents complemented that team, successfully carried forward their companies through periods of extremely healthful dynamic growth.

In companies of moderate size, the judgment and talent of these men could pervade the whole organization, and successors were spotted and developed under a tutoring system that while it had faults, also had singular advantages. Even the selection, placing, training and development of young men could fall into the practical orbit of those men. I believe it is important to recognize that in part, at least, it is the sheer physical size of many of our companies, and of successful corporations in all lines of business, that is responsible for a transition whose recognition is fundamental to a solution to this problem.

Secondly, corporations in all fields, government, and education, are engaged in a search for brains and so-called leadership ability with an intentness and excitement that might make an impartial observer think these qualities had just been invented. At times I am amused with the thought that the concentration and effort being directed to this subject could be interpreted as a sudden awakening of present-day leaders to the shocking question "Where can they find other men like me?"

That is a very good question, and not one that I have the temerity to answer, other than to say that each succeeding generation seems to contain some very able people. But there is no use kidding ourselves that the quest for management talent is other than keen and hot and there will be few prizes for laggards in this search.

A third aspect lending urgency to our positive action in this field is the waning influence of the so-called "star" in our business, except in the field of personal sales. There, happily, the million-dollar or multi-million-dollar producer can still shine with undisputed brightness, but in the management area, both field and home office, the broadest opportunities open only to those who can truly effectively work through others rather than by the magnitude or brilliance of their individual accomplishments.

As one who came rather late on the scene, it seems to me that the first quarter of this century was one in which very many individual

companies and, in fact, the industry, were profoundly affected by some very powerful personalities. They were men whose personal magnetism, and salesmanship, built giant agencies, or agency forces, swayed company courses in a manner not seen today, or likely to be reproduced tomorrow.

The inspiration of a Rockne half-time pep talk is no substitute for the hard-headed planning, training and meticulous coaching of modern football, or modern business. So it would seem that those of us who have enjoyed in our own careers and companies the so-called natural processes of bringing up a business family will have to embark, if we have not already done so, on a more strenuous, planned and certain programme of management training, if we are to keep pace with the business climate that surrounds us today.

My suggestions on constructive courses can only stem from my own observation and experience, and are obviously no substitute for a programme of the depth and comprehensiveness outlined by Mr. Mayer. It is my rather simple concept that fifteen years from now there must be ten or a dozen top flight men ambitiously eager to take over the key roles in our Company. These men must emerge from a larger group of sixty or seventy, who, in turn must have bubbled up through our total organization. Prerequisite to any such process is the absolute necessity that we must be getting the right kind of raw material with which to build. We are not convinced we get enough by normal hiring processes, so in a supplementary way, we comb the field for ten or a dozen outstanding young men each year.

I suppose that it is only natural that over the years one forms a conviction as to what our business holds out to a young man who is searching for really broad fields to conquer. Any young man with an inquiring mind can get himself thoroughly confused between the merits of a good half dozen fields. In our part of the world, it may be the oil business, manufacturing, retail trade, the investment world, banking or transportation. Each of these holds attraction, each has disadvantages. There are men who do extremely well in all fields, but we have one characteristic that none of them share in comparable degree.

Almost every major city on this continent has the Home Office of at least one life insurance company; some have many. Talent and experience in our business is a truly negotiable currency as sought after in Los Angeles or Toronto as in New York or Iowa. The border has less significance than moving from New England to the

South. If you attain recognized stature and ability in life insurance in the field of your choice you can never be stymied, trapped behind a boss you dislike, or caught in a shuffle that seems to impair your long-term best interest.

At least until you are 45 you are as free as the breeze, and by that time one should be mature enough and sufficiently established that one's talents and abilities have emerged to a point that they can cope with most things that will come to pass. I don't make this point in a theoretical vein but can point to some of our own distinguished alumni scattered through this continent. I think they left us not because of frustration or despair (though God bless them if they did) but rather because somebody had an opportunity that they wanted, when they wanted it, and they seized it.

I can also assure newcomers that a part of our informal training program, after a few years service, if they shine at all brightly, will be at least two all-expense tours for them and their wives to New York or other interesting cities where their hosts will portray the virtues and merits of other companies with great enthusiasm. For this process we give them time off and hope they come home, resold on our company and prepared to accept the philosophy "change if necessary but not necessarily change."

I could not be more serious than in my belief that the universality of our business is one of its great attractions to one viewing it for the first time. Mr. Ecker and Mr. Shanks might be amazed and amused at the number of young men to whom I have held out their jobs some day if they have the talent, drive and ambition to strive for them.

Almost as unique as our universality is the breadth of our business. The main divisions of our companies embrace a series of businesses within a business, in which one can pursue the field of his choice in the knowledge that all roads can lead to the top. Each of them, sales, investment, actuarial, administration and now electronics individually holds a fascination and scope for individual ability, far greater than do many middle sized businesses. We do not need to apologize for size—rather it contains an excitement and outlet for individual initiative that is lacking in fields of restricted horizons. We are not infrequently charged with being too safe, too secure, too certain of results to contain the glamour or the challenge which holds such a special appeal to young men of initiative and imagination. In broad, dull, massive industry totals, that impression may be justified and continued certain progress seems almost automatic. But you and I

know that this picture is not true with respect to the individual company or the individual executive.

There are bold, imaginative policies which while restrained on the right side of endangering a company's total position, have advanced one company or another, when shrewdly pursued, full blocks beyond their competitors. Conversely inertia can leave them far behind. In agency policy, investment judgment, product, expansion, some individual officer is almost daily putting his personal reputation on the line to shine or dim by the results of his aggressiveness. In total we have a sufficient system of checks and balances that the ship is not seriously rocked by any one misjudgment but the fact remains that we do hold dynamic fields for personal risk and achievement or sometimes failure, on a scale that embodies challenge of the highest order.

Few charges raise my hackles more quickly than the one that we are a stuffy business, safe, solid and serious in which young men can move at best but slowly. Undoubtedly, we have some of these characteristics in individual companies at particular points in history. This is a condition which only accentuates the opportunity and necessity and urgency of break-throughs when the time is right. So that even these are a corporate challenge of the keenest possible interest and stimulation and one fraught with all the excitement which business revolution must entail.

Can young men be given responsibility? Most of us know they can and I offer our own pattern as concrete evidence. We have 70 officers. Some were first given that rank 25 years ago, some in recent months. Their age distribution at the time of first appointment to officer rank was something of which I was unconscious until I inquired the day I left home. Here it is. Of seventy, twenty-three were appointed under age thirty; fifteen under thirty-five (there's over half of them under thirty-five); seventeen, thirty-six to forty; fifteen were forty or over.

Are they progressing financially? Yes. Exactly one-half of them have incomes more than 200% greater than 10 years ago. Among those to whom this does not apply many were already in senior roles at that time or are more recent appointments. Twenty percent of them have incomes 300% greater than they were earning in our company just 10 years ago. This is not a static business. I was intrigued by the earlier comments on compensation. Certainly, we, in the life insurance business, must pay our people well and can afford to do so.

I know of no other field in which people in Winnipeg, or Nashville, or Des Moines can get a green-covered book each year that I call the Catalogue of Discontent. Some of you may recognize it as the New York Department Report.

I do not suppose there is anyone in this business who can not spend an evening with this book and by using carefully selected data and indices of the relative size of companies prove that they are grossly underpaid. You have to be careful to use only certain figures. There are others that have a lack of correlation that is quite discouraging, and are best left out of any serious study designed to prove your point.

I am sure it has had a buoyant effect on compensation in our industry that the highest cost area in the business publishes these facts, while other areas make it sufficiently difficult that the hurried researcher can be excused for ignoring them.

After a long bull market, salaried people in all fields feel a bit put upon. We have a continuing obligation to pay our people well. I doubt that we have either the obligation or the capacity to try to match the lushness of the feast or famine fields, because we have a long-term solidity they sorely lack, and which precludes the premiums that must attach to less attractive fields.

The other day I sat at lunch between two university students as part of a rather large gathering. I thoroughly enjoyed the badinage and controversy so typical of that age until I was startled to hear one point on which there was instant agreement. One young man stated a premise, "The prime function of a university is to train leaders." His friends agreed with him promptly and went on to tell me how important it was that the future leaders of our country should know the techniques of public speaking, student government, and the arts of moulding public opinion.

I threw a wrench into the gears by suggesting that 25 years ago I would have defined the prime purpose of a university to be the training of minds. It was an unpopular suggestion but I amplified it by suggesting that the quality of leadership, its judgment, and wisdom may be infinitely more important than its techniques of brilliance. One does not win that sort of luncheon discussion nor did I try, but this is a point on which I feel quite strongly. It seems to me that we are infinitely richer in the techniques of leadership in all walks of life than we are in trained, cool, balanced minds. It seems to me that in seeking young men and training them we must be continually

aware that clarity of purpose, the honest inquiry of an open mind, and the mental integrity to reach sound decisions are pre-requisites to good leadership both in business and our national existence.

But having found these young men, potential leaders, or trained minds, or happily, both, are there characteristics in our business against which we must guard in seeking their speedy development?

Heading the list I would nominate the selection of the people they will work for. If one recognizes the breadth and diversity of talent contained in our own organizations, I suggest that the greatest variations of all can exist in the individual disposition and willingness and capacity to stimulate and enthuse young men. Projects can be exciting or drudgery, depending on the understanding and import attached to them. Mental doors can be opened or slammed by the interest and patience or their lack shown by a superior. Initiative can be fostered or squelched and the personality and imagination of the officer concerned plays a dominant role in these two extremes. Certainly this is a field in which we should try to develop the skills of our confreres, but most importantly, we should examine the record. If you find, as we have, that in some areas in your company, young men blossom and develop with great rapidity, then exploit success by giving them the best that you can find. Conversely we should avoid the chilly and rougher exposures where they wither or leave us, until we are thoroughly sure that our young men are ready for them. I believe that perhaps 50% of our mortality rate flows from errors of omission and commission on our side and not that of the young men concerned.

How favored is the young man who can enjoy the privilege of working closely with someone who is not only able himself, but who will truly delegate responsibilities. The privilege of trying your own ideas, or having their fallacies exposed with thoughtfulness and understanding is perhaps the greatest stimulant a keen mind can enjoy.

I can well remember our first major boner in a matter of some responsibility. Very many I have made since have failed to take on any such import in my mind. It was a transaction which I had handled stupidly, and it was compounded by the fact that I hadn't even been stupid with sufficient dispatch. When the matter exploded, as it should have, and I realized the enormity of my offense, I could think of no better solution than to send the whole ghastly file in to my Boss with a little note that went something like this: "This could not have been more ineptly handled, and it will not happen again." Back it came in a few minutes with one completely sufficient word

across my memo: "Agreed." And the subject was never mentioned again.

Finally, in this "Battle for Brains"—to use Abe Collier's expression—do we bring the full force of the vision which should be ours, and a lively awareness of the excitement and opportunity which surely lies before our young men?

The strides which have been made, often at an increasing tempo, in the last few decades, have I suspect dwarfed the most optimistic conjectures of thirty years ago. The field of financial service, which a population increasingly dependent upon earned income can use to their advantage could well be only tapped.

Not the least of our strengths and assets is that we can hold out not merely the prospect of stimulating careers, but the truly unusual satisfactions of the life insurance business. It is not for me to knock corporate life in any field, but the worth of our services takes on a color and an import that is greatly enriched by the field in which we serve.

The vital role which our services assume in the lives of our policyholders, the thrill of watching men develop in stature and confidence through their capacity for sound counsel, the knowledge that what we hold out today will in fact come to pass years hence whether we are here or not, all these things lend a point to our efforts and bring rewards that cannot be measured in dollars.

The challenges of our business as we know it today are vast, exciting and worthy of the best minds we can bring to bear upon them. Our marketing techniques, our investment know-how and our products all contain horizons too broad to scan with clarity. Our manpower responsibilities are very great. It is clearly up to us to take second place to none in garnering sufficient talent, initiative and integrity to fully measure up to our vastly growing trust.

Thank you very much.

PRESIDENT DAVIS: In my urge to hurry through the introductions of these three men, I noted I have neglected to tell you a fact which probably many of you know, that Dave Kilgour, in addition to being President of his own company, the Great-West Life, is also currently President of The Canadian Life Insurance Officers Association, which is the Canadian counterpart of our Life Insurance Association of America.

Now we come to the point in the program where we are ready

for questions. Will you pass the cards in this direction and will somebody at each aisle collect them. Pass them towards my right and somebody there will pick them up.

While they're picking them up, I'm going to tell you a story I intended to tell after Gene Thoré's speech in which he was telling about the problems of the aged. I want to call to the attention of all the actuaries in this room that when you get around to studying those problems and considering the cost of medical care to the aged and the other things, you should look particularly at the record in Vermont—our distribution of age up there and the needs of our aged. I think you're going to come to some different conclusions and I will illustrate by just one incident which, however, is typical.

A New Jersey couple came up to Vermont last summer to make a trip through the state to see what kind of strange people were up there and how they lived, and they were told to go on the back roads and talk with the people. That was the way to find out, and they spent two weeks doing it. They came to a farmer's place and saw him sawing wood by the side of the road. So they stopped and had a nice chat with him, and they said, "Don't you think it's a pretty hot day for you to be sawing wood? You look like a man of middle age or greater. Incidentally, how old are you?"

He said, "I'm sixty-five."

"Well, that's not very old, but it's too hot to be sawing wood."

He said, "I know that, but I've got to get this wood sawed because I've got to go over this afternoon and help my father get in the hay on the south lot."

"You have a father?"

He said, "Yes."

"How old is he?"

"Eighty-five."

"Eighty-five! Can you imagine that! Well, neither you nor your father should be working on a day as hot as this."

He said, "Yes, I know that, but Dad and I have got to get that hay in this afternoon because we've got to go to my grandfather's wedding tonight."

"You've got a grandfather!"

"Yeah."

"How old is he?"

"One hundred five."

"One hundred five! What does he want to get married for?"

He said, "He didn't want to." [Laughter]

The first question is directed to Mr. Mayer. This question is: "Who pays for outside formal training?" Mr. Mayer, would you like to answer that one?

MR. MAYER: In our case, we do, providing the fellow finishes the course satisfactorily.

PRESIDENT DAVIS: This next question is addressed to Abe Collier. "You spoke of ratios between salaries of the president and other officers. Doesn't this have an accordion-like effect?"

MR. COLLIER: Yes. I think that's one of the real problems, that inflation has had its primary effect on your lower salaried jobs with what I have indicated has been the relatively slower growth. In your top executive salaries, you have had a pushing-together effect. So long as these ratios exist between the top salary and the second, third and fourth salaries, so long as those are maintained then you do get a very real squeeze in the second and third levels of your management compensation structure.

PRESIDENT DAVIS: The next question is to Mr. Kilgour. "What suggestions can you offer to university schools of business to encourage a greater interest among their graduates in an insurance career?"

MR. KILGOUR: That's a hard one to give a quick answer to, but I think that perhaps many of us—certainly on the Canadian scene—have erred in not having more of our senior people (I include myself) get out and do some work at universities. Perhaps, too, we've been farming it out too much to some of our junior people who lack the spark that will make people want to come into the life insurance business. That's both a guess and a good resolution I'm making.

PRESIDENT DAVIS: The next one is to Mr. Mayer. "Can you successfully avoid disturbing your present personnel with such a visible obvious grooming process for a few selected men?"

MR. MAYER: I don't suppose that whenever you do a thing like this you completely get away from disturbing other people, but we do select from within our own ranks a substantial number of people

we put in the program, and if we select them right and if people generally regard them as people of accomplishment and ability, I think that takes the curse off, very largely. We've not found any real problem in the six years we've been doing it.

PRESIDENT DAVIS: The next question is to Mr. Collier. "Won't the battle for brains be easier in the 60's than in the 50's because of the increasing impact of the birth rate of the 40's?"

MR. COLLIER: I think my conclusion would be just the reverse. With fewer youngsters born during the late 30's we're going into a period where the people now being trained for management jobs are people in the 25 to 35 age bracket. These people were born in the 30's. With the large number of people born in the 40's, I think it is another ten years away before you'll have them in sufficient numbers so that you'll feel any easing of the demand for talent.

PRESIDENT DAVIS: The next question is to Mr. Mayer. "What can your trainees do when they finish your program? What are they fitted for?"

MR. MAYER: Well, they're not fitted for any specific job, but they have a broad background in banking and from there on, their on-the-job work fits them for the specialty that they will go into. Our feeling is that it is important to get them to understand the whole fabric of our business first and the eighteen months that they're in the training program attempts to do that. But if you think that they will be fitted for any particular job, to do it and to do it well, they're not. We don't make any pretense about this or attempt to do so.

PRESIDENT DAVIS: "Mr. Collier, do you feel university students really know much about the life insurance business or do they have mostly a vague impression?"

MR. COLLIER: I think it's entirely a vague impression. They know little about any business and I must say that in asking questions they were all very quick to point out that they were acting on insufficient knowledge, but they do reflect a general reputation. This is all it's worth. I don't think we ought to overemphasize it, of course.

PRESIDENT DAVIS: This is for Mr. Mayer. "What types of positions provide the best training for young men?"

MR. MAYER: I think those that require making decisions where the decisions count and there's a penalty for making them wrong. I think that's the way to make people grow.

PRESIDENT DAVIS: The next question is not addressed to any particular member of the panel and reads as follows: "Dr. Endicott's 1961 salary survey just released shows insurance salaries for new college graduates 20% below the average of other industries—\$408 per month versus \$480. Why can't we or don't we become competitive?" Who would like to take that?

MR. COLLIER: Well, I'll give a preliminary answer. It isn't easy for us to hire college graduates at \$480 a month or \$500 or \$600 a month as we would bring them in at substantially higher rates than other men on our staff who have been there for several years and who would be receiving the same or less money. This is the problem. If you bring in the young fellows at these high wages, you just compound an internal problem.

One answer would be to say that we should just jack it up and live with the consequences. It isn't as easy as that. I think it has to be done gradually. We have to be able to select people who are going to go ahead very fast. If we can get better men and push them ahead faster and, as John Mayer just said, if others in the organization know that these young men are good, then they'll accept the fast promotions.

MR. MAYER: The life insurance business has no monopoly on that problem. Every other business has the same problem and the only thing you can do, I think, is to work out some kind of a system of moving people along so that there is room for the good people to get raises without an invidious comparison. Fortunately, in a good many cases, up to this point at least, we have been sufficiently understaffed that we could do that. The day may come where we won't be able to do it.

PRESIDENT DAVIS: I guess we've Englished this one out now. The next question is: "One of the most to be desired qualities of a management man is emotional maturity. How can it be appraised best in the selection screening process?" I think all three of you might take a quick shot at it.

MR. MAYER: If you're asking me, I don't know. [Laughter]

MR. COLLIER: I am reminded of a series of tests that the OSS used during the war to determine the emotional maturity of candidates for these very highly classified jobs. They were mostly going to be dropped behind enemy lines. They wanted to be sure they had fellows who could take it, and so they put them through a whole series of simulated stress situations.

For one thing, a man was told that while he was lifting some documents out of a German office he was going to be apprehended by a man playing the part of a German officer and he was to try to talk himself out of that situation. So he actually had to play the role of being apprehended lifting those documents. Well, they had a whole series of tests like this which went on for two days, and with but one or two exceptions all of the men had to have psychiatric care afterwards. [Laughter]

PRESIDENT DAVIS: Do you have an answer, Dave?

MR. KILGOUR: You just talk to them. [Laughter]

PRESIDENT DAVIS: This is to Abe Collier. "In referring to executive compensation among life companies, did you consider retirement benefits. If not, should they not be considered?"

MR. COLLIER: I didn't consider them. The salary data I gave was very crude, but I have talked with people in our own pension and group annuity field and have asked them how we stand, how the life insurance retirement benefits stand viz-a-viz other industries. Are we better off as we think we are?

The answer I got is that we are not now materially better than most other industries. They have caught up with whatever advantage we have had. There are good pension plans in most substantial businesses and substantial industries so that whatever advantage we have had there has been, to a large extent, eliminated.

PRESIDENT DAVIS: The next and last question is to Mr. Mayer. "The cost of a trainee is \$12,000 a year. How long before the average trainee earns the money spent on him?"

MR. MAYER: Earns the money spent on him—well, it would be several years. I don't know whether this question is intended to cover whether he earns \$12,000 a year or the accumulated total. But if it's how long it takes to get him to a point where he is earning

\$12,000 a year, the more successful ones should be there within four to five years.

PRESIDENT DAVIS: Now, are there any questions from the floor that you'd like to ask?

MR. HAROLD LEAVEY: In considering personnel, is much attention paid to wives and their social or other adaptabilities?

MR. MAYER: In our particular case—I don't know much about anybody else in this respect—we don't pay too much attention. As far as our trainees are concerned, we've probably never seen the wives, and when you get into higher levels, obviously nature takes care of itself. You're bound to bump into them and if the wife gets herself drunk at parties and things like that, it's not a great asset and you don't exactly pin a rose on the fellow.

MR. COLLIER: Well, I think the answer as far as I have been able to observe it is that little or no attention is paid to wives of college graduates. Frequently, they're not married or if they are married they are very young people.

PRESIDENT DAVIS: Dave, do you have an answer?

MR. KILGOUR: I would only say I think probably it's one of those things—and you are speaking of executive selection, I take it—that has to go into a sort of total balance sheet. It seems to me it's a part of a total selection process.

PRESIDENT DAVIS: Well, I don't know whether this is any answer or not, but I remember about a year ago—maybe two years ago—*Fortune* magazine had an article on this subject in which they stressed this angle pretty strongly. At one place in the article it said that one of the most important factors in the success in business of a young executive was the fact that his wife loved the company. One day the wife of a newly-created officer of the National Life Insurance Company insisted on having a session with me in my office. She had a very perplexed look on her face and a copy of *Fortune* in her hand. She pointed out the article to me and said, "Mr. Davis, I don't understand this. Does this really mean I've got to love the company? Isn't it enough if I love my husband?" [Laughter]

Any other questions?

MR. MAYER: I've always had a feeling my wife never had a very high regard for the banking business. She said to my boss one day, "Do you know why your bank is so big?"

He said, "No."

And she said, "Because it's so easy to get your money in and so hard to get it out." [Laughter]

PRESIDENT DAVIS: Gentlemen, thank you very much for participating in this symposium.

You've been a wonderful group today to be here on time and to participate so earnestly in our sessions. Tomorrow will be at least as good and maybe better. So will you get here early to find out. Thank you very much.

The afternoon session adjourned at 4:25 P.M.

MORNING SESSION

Thursday, December 15, 1960

MR. DEANE C. DAVIS IN THE CHAIR

The meeting reassembled at 9:45 A.M.

PRESIDENT DAVIS: As you see on your program this morning, we're going to be especially favored with an address by Dr. Dan M. McGill on the general subject of pensions. Some scholar told me once that the pension idea first began to be developed back in 1834 with the passage of the so-called Superannuation Act in Britain. I have never read it, but if all this happened as long ago as that, there certainly has been a long time of development, and we have seen some pretty rapid changes in the last twenty years in the new dimensions that have come into this field which touch in so many different ways so many different lives.

The Program Committee I think did an especially good job in selecting Dr. McGill to cover this subject. As some of you know, and all of you ought to know, Dr. McGill is the Frederick H. Ecker Professor of Insurance at the University of Pennsylvania's Wharton School. Mr. Ecker, I think, established this Chair about two years ago, and I am very happy to see him here in the audience this morning to hear the Professor who occupies the Chair.

Dr. McGill came to this post by way of quite varied financial teaching experience at three different universities, the University of Tennessee, the University of North Carolina, and Stanford University. He was educated at Maryville College, where he received a B.A. Degree, Vanderbilt University, where he received his M.A., and the University of Pennsylvania, where he received his Ph.D. He is also a member of the American Society of Chartered Life Underwriters.

Last year, Dr. McGill served as President of the American Association of University Teachers of Insurance, and has for many years rendered valuable service as consultant to Government agencies, including the Pennsylvania Insurance Department. He also has served on a number of important advisory committees. He is widely known as an editor and an author, and is perhaps best known for his book, the "Analysis of Government Life Insurance and the Fundamentals of Private Pensions." I think we are especially privileged to have a man of his qualifications covering this subject for us this morning.

He is going to speak on the topic "Keys to Security of Pension Expectations." Dr. McGill!

KEYS TO SECURITY OF PENSION EXPECTATIONS

Dr. Dan M. McGill then addressed the meeting as follows:

MR. DAVIS, LADIES AND GENTLEMEN:

Thank you very much for that very gracious introduction. I am deeply honored to be invited to address this distinguished audience. I am pleased that the Program Committee saw fit to include the subject of pensions on the program, because I feel it deserves the sober reflection and best judgment of responsible persons in the life insurance industry, the banking industry, and other circles.

The private pension movement in the United States, which had its genesis in the nineteenth century, has enjoyed a remarkable development during the last two decades. Whether measured in terms of the number of employee participants, the volume of assets accumulated, or the number of plans in operation, the private pension institution has reached such dimensions as to warrant a critical evaluation of its present strengths and weaknesses. Approximately twenty million persons are looking toward a private pension plan as a source of economic security in old age and more than \$40 billion have been set aside in trust or with life insurance companies to meet the benefit expectations created by 25,000 plans. Clearly, the private pension institution can prove to be an instrument of great social, economic, and political value. This potential can be realized, however, only if the benefit expectations engendered by participation in a pension plan are ultimately fulfilled. Thus, a searching inquiry into the factual basis of benefit expectations under private pension plans seems to be highly justified.

Such an inquiry was launched by the Pension Research Council of the University of Pennsylvania more than two years ago and the findings will become available within the next few months in the form of five books and monographs, the first of which has only recently come off the press. This paper has drawn on the findings and conclusions of this study but the proposals set forth herein do not necessarily have the endorsement of all members of the Pension Research Council or any other person associated with the project. These proposals should be regarded as tentative and subject to modification in the light of further study of the issues involved.

NATURE OF THE EMPLOYER'S UNDERTAKING

The first step in evaluating the factual basis of employee expectations under private pension plans is to ascertain what the plans undertake to do. To a great extent this is a question of what the employing firm undertakes to do. While the employees may contribute toward the cost of the plan and, if organized, may through duly appointed representatives participate in its formulation and administration, the basic responsibility for the success of the venture rests upon the firm.

The fundamental obligation assumed by an employer in establishing a pension plan may take one of two forms: an undertaking to set aside funds on some specified basis or an undertaking to provide benefits in accordance with a stipulated schedule.

Undertaking To Set Aside Funds

Where the employer's undertaking is to set aside periodic contributions according to a predetermined, or agreed upon, formula, some procedure must be adopted for the allocation of the funds to individual participants. The traditional arrangement, usually referred to as a "money purchase" plan and associated with the unilateral action of a single employer, is to allocate the contributions on a current basis through the maintenance of individual employee accounts. Contributions are generally expressed as a percentage of covered payroll, the rate sometimes varying with the employee's age of entry into the plan. If paid over to a life insurer, the funds are converted into retirement benefits in accordance with rate schedules in effect at the time the funds are received. If the funds are administered by a trustee, the benefits depend upon the actuarial assumptions being used by the employer and the actual experience under the plan.

While this arrangement permits a clear-cut determination as to the discharge of the employer's obligation, it may not induce a satisfactory feeling of security on the part of participants because of the uncertainty concerning the amount of retirement income that will be forthcoming. Benefit projections are frequently prepared in conjunction with plans of this nature, but they must necessarily rest heavily upon estimates as to future purchase rates for deferred annuities or upon mortality, interest, and other assumptions that may be adopted in the case of trust-fund plans. These projections are susceptible to substantial error, and benefit expectations of participants may be frustrated by unfavorable deviations.

In recent years plans of the defined contribution type have taken on quite different characteristics. They generally stem from collective bargaining and commonly cover the employees of a number of firms. The periodic contributions are determined by reference to rates of compensation, hours of work, or some productivity factor, and are accumulated in a pooled fund out of which benefits, not related to individual accounts or equities, are eventually paid. The fund is virtually always administered by a board of trustees on which the participating employers and unions are equally represented.

At the time such a plan is set up, the trustees, with actuarial guidance, establish a scale of benefits that can presumably be supported by the prospective flow of contributions. This procedure, while necessary, places an appreciable burden upon the objectivity and integrity of the actuary who is called upon to advise as to the proper level of benefits. The natural tendency of the union is to press for the most liberal scale of benefits that can be justified by the anticipated volume of funds. Thus, the union trustees are likely to urge the actuary to adopt overly optimistic actuarial assumptions, a course of action which would satisfy the short-range objectives of the union but could lead either to frustration of the employees' expectations or to demands upon the contributing employers to make up a future deficiency.

The participating employers, on the other hand, can be expected to favor a scale of benefits that will provide maximum assurance against future deficiencies or higher employer contributions. This would call for the most conservative actuarial assumptions.

This inherent conflict between the interests of management and labor representatives on the board of trustees of pooled funds injects a potentially serious element of uncertainty into the benefit expectations of covered employees. Other features of pooled funds, beyond the scope of this paper, pose similar threats.

Undertaking to Provide Benefits

The typical single employer plan holds forth the promise of benefits on a definitely determinable scale. The variety of benefit formulas is limited only by the ingenuity of pension planners but broadly speaking a plan will undertake to provide either a unit of benefit for each year of recognized service or an aggregate benefit for the entire period of covered employment. If based on compensation the benefits may reflect earnings over the whole period of credited service or only

those for the last few years preceding retirement. Formulas of the latter type are currently in vogue but create liability potentials of indeterminate magnitude. Under all types of formulas recognition is generally given to some portion of an employee's service prior to establishment of the plan, as well as to potential OASDI benefits.

In order to qualify for the benefits described in the plan, an employee must satisfy certain conditions, typically a minimum period of service and the attainment of a designated age. Moreover, the employee may have to be working for the employer at time of retirement. A growing percentage of plans, however, modify the latter requirement and provide that all or a portion of the accrued benefit credits of a participant will *vest* upon fulfillment of certain stipulated conditions, frequently involving both service and age. Benefits in this status become payable at normal or early retirement age, even though the holder may have terminated his employment prior to retirement. This is a fundamental concept of considerable social and economic significance, and will serve as the basis for certain recommendations at a later point in the paper. It will suffice here to note that the vesting of a benefit right does not always assure the ultimate receipt of the benefit.

The intention of the employer to provide a definite scale of benefits is generally expressed in unequivocal language. It is customary for the plan to state, without qualifying clauses, that an eligible claimant *shall* receive the benefits described in the formula. In substance, the following statement, taken from an actual plan document, is believed to be representative: "Upon retirement at or after normal retirement date, each retired member *shall* [emphasis supplied] receive an annual retirement allowance equal to the sum of the following . . .," the benefit formula then being described. The specimen plan and trust agreement of the Committee on Pension and Profit-Sharing Trusts of the American Bar Association, which serves as a guide to many employers and their advisors, states in Article IV that "The normal retirement benefit *contemplated* [emphasis supplied] for every participant, commencing on his normal retirement date, shall be a monthly pension for life in an amount determined as follows. . . ." This appears to be an attempt to indicate to the participants the conditional nature of the undertaking, as well as to provide a safeguard against legal action by a pensioner, or other party at interest, seeking to enlarge the obligation of the employer. Nevertheless, a later section of the agreement (Article VIII, section 8.1) assures the employees that: "When any participant shall reach his

normal retirement date while in the employ of the company, and shall thereupon retire, he *shall* [emphasis supplied] be entitled to the benefits provided for him in Article IV."

To bulwark the promises made in the benefits section of the plan document, the employer may, and usually does, make certain commitments as to contributions. The plan whose benefit commitment was cited earlier sets forth the employer's financial commitment in the following terms: "The employer will from time to time make contributions to the trustee adequate to finance the benefits provided for in the plan on a sound actuarial basis." This commits the employer, in principle, to a fairly rigorous standard of funding, even though the expression "sound actuarial basis" lends itself to rather flexible construction and no specific commitment is made as to the timing of the contributions.

The specimen agreement of the American Bar Association suggests the following language: "The company will make due and timely payment to the trustee of such amounts of money as may be necessary from time to time . . . to provide the benefits to which participants and their beneficiaries are entitled under the plan." This wording gives the employer wide latitude as to the pattern of financing to be followed (for example, pay-as-you-go financing would be permissible) but, standing alone, would seem to obligate the employer to provide, in one fashion or the other, the funds necessary to pay the benefits to which the participants become entitled.

Contribution commitments such as these may be all but nullified by a series of limitations scattered throughout the plan document. One clause, not found in all plans, makes it a matter of record that neither the establishment of the pension plan nor participation in the plan by a particular employee shall create any obligation on the part of the employer to provide continued employment to the employee. This would seem to be self-evident, but the specific disclaimer removes any doubt as to the matter.

Another clause, almost invariably used, gives the employer the unilateral right to alter, modify, or terminate the plan at any time. Such a clause, which may not be operative during successive periods under a collectively bargained plan, is essential if the employer is not to commit himself to an undertaking of indeterminate duration and unknown magnitude. This clause is effective as to future benefit accruals but, under Treasury regulations, cannot operate to curtail, modify, or terminate any pension credits already earned.

Perhaps more critical than the second clause is a third which re-

serves to the employer the right to suspend, reduce, or discontinue contributions to the plan at any time and for any reason. Implicit in this clause is the right of the employer to discontinue contributions to the plan even though benefits earned to date have not been purchased or funded.

A fourth clause implements the third and states that in the event of termination of the plan, or the discontinuance of contributions thereunder, the employer shall have no liability for the payment of accrued benefits beyond the contributions already made. In other words, in the event of discontinuance of the plan, the participants and pensioners must look to the accumulated funds or paid-up insurance or annuity contracts for the satisfaction of their claims. If the accumulated funds should prove to be insufficient to meet all claims—as they are likely to be for some years after establishment or amendment of a plan when the cost of past service benefits is being amortized—the benefits of all claimants must be scaled down or priorities must be created, which would deny any recovery to some claimants.

Other clauses could be cited but the foregoing should demonstrate the contingent nature of the employer's commitment under the great majority of pension plans.

Some plans, most of them long established and operated by large companies—principally in the oil and chemical industries—contain an explicit guarantee of all or some of the benefits credited under the plans. The firm may hedge its commitment by the purchase of annuity contracts or the accumulation of a trust fund irrevocably pledged to the payment of benefits under the plan, but it promises to contribute any additional funds that might be necessary to assure payment of all accrued benefits. The guarantee under some of the plans is limited to benefits of retired persons and the accrued benefits of active employees who have satisfied the requirements for vesting. A number of employers implicitly guarantee all accrued benefits under their plans by omitting any reference to the financing of benefits or the usual limitations on the employer's financial commitment.

Under certain collectively bargained plans, the employer is committed to provide lifetime benefits to all members of the plan who retire during the term of the labor contract. A variant of this arrangement commits the employer to the payment of retirement benefits only during the term of the labor contract.

MANNER IN WHICH THE EMPLOYER'S
OBLIGATION IS DISCHARGED

Once a benefit expectation has been created under a pension plan, whether it be grounded on a legal obligation or the benevolent intentions of the employer, it can be given substance in one, or a combination, of three ways: (1) the appropriation of financial resources by the employer on a current, and presumably recurring, basis for the direct payment of the monthly benefits; (2) the assumption by an insurer of responsibility for payment of the benefits; and (3) the accumulation of an unallocated fund of assets with an insurer or trustee.

Direct Payment by Employer

The degree of security attaching to benefit expectations which must be fulfilled through direct payments by the employer depends entirely on the future financial strength of the employing firm and its continued willingness to meet the obligations accruing under its pension plan. The security associated with the benefit promises of a large, well-established firm in a very stable industry is relatively high and in certain instances might approach certainty. On the other hand, the benefit expectations created under the unfunded pension plan of a small, recently established firm in an unstable or highly competitive industry would have a relatively low probability of fulfillment. Other things being equal, the guarantee of accrued benefits by the employer would enhance the probability of their fulfillment.

Assumptions of Obligation by An Insurer

There are a number of contractual arrangements under which a life insurer, for a consideration, will underwrite the benefits of a pension plan and, in effect, assume the obligation that would otherwise rest upon the employer. Under all of these arrangements, however, the insurer is responsible only for those benefits that have been purchased by the employer, or a trustee acting for him, for specifically identified individuals. The extent to which accrued benefits have been funded, or purchased, as of any given time, depends, of course, upon the contractual arrangement involved.

Under two of these arrangements—the individual contract pension trust and the group permanent plan—the total anticipated benefits of a plan participant are funded on a level contribution basis, identical in

principle to the financing of personal life insurance and annuity contracts. If the scheduled contributions are made until the employee's normal retirement date, all of his benefits will have been purchased in full and the insurer will be responsible for their payment. Moreover, as of any given date all benefits accrued for service after inception of the plan will have been funded in full. Any benefits attributable to past service, however, will be fully funded only upon the employee's attainment of normal retirement age.

Under a third common arrangement—the deferred group annuity contract—all current service benefits are purchased in precisely the right amounts as they accrue and are guaranteed in full by the insurer. Benefits for past service are usually not purchased in full at inception of the plan, but any such benefits payable to a particular employee must be funded by the time he retires. If the plan continues in operation, all past service benefits will have been funded upon retirement of the last participant with credited past service—usually much earlier.

The unallocated funding arrangements outlined in the next two paragraphs result in insurer assumption of benefit obligations upon allocation of funds to specific individuals.

Unallocated Fund

Through the so-called deposit administration plan life insurers provide facilities for the accumulation of funds in an unallocated account for later conversion into benefits. The funds are allocated to specific individuals (through the granting of paid-up annuities) only as they qualify for retirement benefits or, in some plans, satisfy the vesting requirements. The rates at which the accumulated funds can be transformed into benefits are specified in the contract. Under one variant of the plan, benefits may be paid directly from the employer's account, no annuities being purchased in the formal sense. In all cases, however, pensioners' benefits, once entered upon, are guaranteed in full by the insurer.

The funds developed by payments under a deposit administration contract are merged with the other assets of the insurer and through the dividend or rate adjustment formula share pro-rata in the overall investment experience of the insurer. However, they are protected against loss of principal and are assured of a minimum rate of return. They are fully subject to the statutory and judicial re-

straints on the investments of life insurers and, hence, enjoy only limited access to common stocks and other equity investments. This has caused some insurers to seek greater latitude in the investment of pension monies through the creation of segregated investment accounts and the acquisition of trust powers, a development dealt with in the underlying study but beyond the scope of this paper.

The bulk of unallocated pension monies is held in trust and administered by banks and natural person trustees. The trustee acts only as a funding agency and assumes no other responsibility with respect to the plan. It holds title to the funds, invests them, and upon specific instructions from the employer disburses them in satisfaction of benefit claims. Unless a common trust is used, the assets of each plan are strictly segregated from the funds of all other plans for which the bank or individual may be serving as trustee.

In the administration of pension funds, trustees are governed by the whole body of statutory, decisional, and administrative law designed to assure a high standard of fiduciary conduct and to protect the interests of trust beneficiaries. Corporate trustees are subject to active supervision by appropriate state or federal officials (sometimes both), but individual trustees are free of formal supervision. Many states impose restrictions on the investment of trust funds, but the trust instrument may grant broader powers than those available under applicable state law and may, in fact, relieve the trustee from all statutory restraints. The latter action is typical, but the employer may retain varying degrees of control over investment policy.

As of any given time and with respect to any particular pension plan, the significance of an unallocated fund of assets as a source of benefit security is measured by the relationship between the amount of assets in the fund, valued on a realistic basis, and the present value of the accrued benefits—likewise computed realistically—to be paid from the fund. Ideally, the ratio should be one to one. In practice it will be determined by (1) the nature of the actuarial assumptions underlying the funding policy of the employer, (2) the extent to which contributions to the fund conform to the funding policy, and (3) the manner in which the assets are invested and administered by the agency to which they are entrusted.

Under both the deposit administration and trust fund plans there is great latitude in estimating the cost of accruing benefit credits. Within broad limits, the employer or his actuary is free to make his

own assumptions as to each of the factors that eventually determine the amount of benefits to be paid. The range of choice is especially broad in regard to mortality, interest, turnover, and salary scale—all of which exert a powerful influence on the incidence of costs and, in the case of interest, on the ultimate outlays as well. Cost projections for the same set of plan specifications and employee data may vary widely, e.g., by as much as 25 or 30 percent, even when computed by actuaries of presumably equal skill and judgment.

There is also wide latitude as to the rate at which funds will be accumulated to meet the estimated cost of pension claims. This depends, of course, upon the particular funding method used and the faithfulness with which the employer adheres to the contribution schedule called for by the method. If pension promises are not to be openly repudiated, contributions must be made at a rate adequate to meet the claims of retired persons. Under the deposit administration arrangement this is a contractual requirement as to those already retired and some funding in excess of this rate may be prescribed.

There is a widespread belief that the Internal Revenue Service requires, as a condition of continued qualification, that a pension plan generate contributions at a rate sufficient, in the aggregate, to meet the cost of currently accruing benefits and to prevent an increase in any unfunded accrued liability that may have existed at the inception of the plan. This belief stems from the interpretation placed on certain rulings promulgated by the Treasury in an attempt to prevent discrimination in favor of highly compensated participants in pension plans. A careful analysis of the pertinent rulings, however, raises serious doubts that this minimum funding requirement is applicable, except possibly during the first ten years after the establishment or amendment of a plan. Even if applicable this requirement is not an effective safeguard against underfunding since the Service sets up no criteria by which contributions are deemed adequate to support the benefits promised. The Service accepts the employer's certification of costs, provided they do not lead to unreasonably *large* tax deductions. In the area of pension financing, the Treasury is admittedly more interested in preventing *overfunding* than *underfunding*.

The framework within which unallocated funds are invested was briefly sketched above. Possible changes in the investment environment are suggested at a later point.

GUIDING PRINCIPLES FOR ENHANCEMENT
OF BENEFIT SECURITY

It must be apparent that the private pension mechanism, as presently structured, does not assure participants of the ultimate enjoyment of the potential benefits credited or imputed as of any given point in time. It may be impossible to devise safeguards that would make benefit rights absolutely secure, and even if it were possible, it might be impracticable and self-defeating to attempt to enforce such safeguards by legislative or other mandate. Nevertheless, it would seem that a higher degree of security is imperative if the mechanism is to achieve its business and social objectives. Moreover, this goal appears to be attainable by methods not inconsistent with the tenets of free enterprise and sound business practices. The following proposals, stated in the form and spirit of guiding principles, are offered as one approach to this goal.

Vested Benefits

Perhaps the most fundamental proposition is that benefit rights which have vested, whether through the employee's retirement or through the satisfaction of age and service requirements, should enjoy a higher degree of security than the benefit accruals which are nothing more than an "expectancy". Under current judicial doctrine vested benefit rights are recognized as enforceable obligations of the pension plan to the extent of available funds and contractual commitments. Benefit "expectancies", on the other hand, are not enforceable as such and achieve that status only upon satisfaction of the normal vesting provisions, if any, or through termination of the plan. In addition to their superior legal claims, individuals with vested rights appear to have a stronger moral claim than other participants because of their greater vulnerability to elements of insecurity in a pension plan. Those who have retired will be out of the labor market and presumably dependent upon retirement benefits for the major portion of their livelihood. Those approaching retirement will have lost most of their maneuverability and will have only limited opportunities to make alternative arrangements for their retirement needs.

In operating a pension plan, an employer holds out to his employees the inducement of retirement benefits if they should remain in his service until retirement or some earlier age. Many are undoubtedly motivated to remain with the employer because of the prospects of a pension at some future date. If an employee satisfies the

conditions laid down in the plan document—as the consideration for the employer's promise—he has performed his part of the bargain and is justified in expecting the employer to make good on his. Admittedly, the employer probably hedged his promise by reference to funds already contributed, but few employees are aware of the limitation and, even if they are, do not generally receive sufficient information about the functioning of the plan to evaluate its significance. As an important step toward the strengthening of pension promises and the fostering of harmonious management-employee relations, the employer should assume legal responsibility for the fulfillment of all vested benefit rights.

Direct Payment. The employer should be permitted to discharge his legal obligation in accordance with any one or a combination of the three approaches described above. If he should choose the current disbursement route, the present value of the vested, contractually guaranteed, benefit credits might have to be shown in the firm's balance sheet. To the extent that cash dividends would be inhibited by the resulting reduction in surplus the firm's ability to meet its pension obligations would be enhanced. The security of the vested benefits would depend upon the earning ability of the firm and the liquidating value of the assets used in the business. From a security standpoint this arrangement would be comparable to the investment of a pension trust fund exclusively in the debt securities of the employer, except that the trustee, as a holder of the securities, would have a claim against the firm's assets superior to that of the unfunded pension claims. The employee's pension rights could be strengthened by granting them, through appropriate legislation, a preferred status in liquidation proceedings. On the other hand, this could adversely affect the employees' job security through limiting the firm's ability to obtain outside financing. Other things being equal, this approach to pension financing affords the lowest degree of security to benefit rights.

Purchase of Annuities. The employer should be construed to have discharged his obligation completely through the purchase from a legally-licensed insurer of annuities in the proper form and amount for all vested benefits. This approach provides the highest degree of security since the insurer pledges its entire corporate resources to the fulfillment of its promises. Only the insolvency of the insurer could impair the security.

Unallocated Fund. If the employer should elect to meet his obligation to vested participants through the accumulation of funds with a trustee, or with a life insurance company for later purchase of annuities, a number of safeguards ought to be observed. Foremost among these is that the fund contain assets equal to the present value of the vested benefits. This equilibrium condition, identified as *full funding* and attainable in the usual case only after several years of past service benefit funding, is significant only if the prospective benefits are valued on a realistic basis. Fortunately, there are no insuperable obstacles to the valuation of vested benefits. The amount of monthly income vested in each participant is definitely known at all times. This is self-evident if the participant has retired (except for possible changes in Social Security offsets provided for in some plans). It is also true of the active participant, even when the benefit is expressed as a percentage of final average salary or in some other manner which renders uncertain the amount of the ultimate benefit. If the vesting concept is to be applied, the plan must specify the amount of benefits which would be credited to a terminating employee. One common procedure is to define the vested benefit in terms of the participant's compensation at the point of valuation (or the average salary over a period of time immediately preceding the date of valuation). The vested benefit could be defined in a manner quite unrelated to the formula that would determine the benefits payable to an employee remaining in the employer's service until retirement. Under allocated funding procedures, vested benefits are sometimes defined in terms of the benefits already purchased. Regardless of the method used, the amount of the vested benefit is definitely fixed. This being so, the only valuation factors that must be taken into account are mortality and interest—and possibly expenses. Turnover and salary projections are not involved. The valuation problem is analogous to that of life insurers in valuing deferred and immediate life annuities.

Objective standards of valuation should be used. One meaningful standard would be the cost of purchasing all vested benefits from a legally licensed insurer. The valuation could be accomplished very simply through the use of an insurer's current rate schedule. The system would be flexible since the employer could use the rates of any insurer authorized to issue annuities. The standard would be rigorous inasmuch as the sum would represent not merely an *estimate* of future benefit payments but the price demanded by a pro-

fessional risk bearer for its promise to make the payments. The price would reflect provision for expenses, unforeseen contingencies, and possibly a profit to the carrier. While the sum might ultimately prove to be inadequate to meet all benefit payments, for that amount the employer could fully discharge his responsibilities in the event of plan termination by the purchase of annuities from an insurer.

Objectivity in valuation could also be achieved by the use of mortality and interest assumptions certified by some responsible agency or organization as adequate for the purpose. This would be similar to the procedure applicable to the valuation of annuity contracts pursuant to which state laws specify the annuity table to be used and the *maximum* rate of interest but permit the use of any assumptions that will produce a reserve liability equal to or greater than the reserve required under the specified assumptions.

The valuation should be carried out by an actuary whose professional qualifications have been certified by some governmental or professional body. This matter will be dealt with more fully in connection with the valuation of nonvested benefits.

The assets to meet the reserve liability for vested benefits should be held in such manner as to ensure their use for vested participants, including, of course, pensioners. Within each unallocated fund, whether it be a deposit administration or trust arrangement, there should be two separate and distinct accounts: one for vested benefits and another for nonvested benefits. If the plan is contributory, a third account might be needed for employee contributions.

The establishment of separate accounts for vested and nonvested benefits need not involve an actual segregation of securities and other assets. If, however, the assets are actually segregated, there should be on each valuation date a dollar of assets in the vested benefits account for each dollar of liability, as computed and certified by an accredited actuary, with due allowance for the special character of the liability attributable to past service benefits. If on any valuation date the assets in the vested benefits account should be smaller than the liabilities, the deficiency should be erased by a direct contribution from the employer or a transfer of funds from the nonvested benefits account. The former would, of course, be preferable.

If, as would usually be the case, the assets are not literally segregated as to the respective accounts, the vested benefits account should be credited on each valuation date with that share of the total assets

of the unallocated fund which is equal to the liability for vested benefits.

The verification and valuation of the assets, whether segregated or not, should be carried out by a certified public accountant as a phase of the general audit of the funding agency's financial condition. The assets should be valued in accordance with generally accepted standards.

The funds allocable to the vested benefits account should be invested within the framework of broad quantitative and qualitative standards. Equity securities should not be held in disproportionate quantities. Safety of principal should be favored over anticipated yield. Within each broad category of investments, qualitative standards similar to those imposed on life insurers might be appropriate and in the case of a deposit administration contract would be applicable in any event (except where special segregated accounts have been set up). It might be argued that no restraints on investment policy are needed since any deficiency in the vested benefits account created by investment losses can be made good from the account for nonvested benefits. The practical effect of such a policy would be to shift to nonvested participants a portion of the investment risks which would otherwise be borne directly or indirectly by the vested benefits account, when the gains (in the form of higher yields and capital appreciation) from a speculative investment program would ordinarily enure to the benefit of the employer (through reduced contributions). This is another argument for broad quantitative and qualitative standards for the investing of pension funds.

So long as the pension plan remains in operation and unallocated funds are held in respect of nonvested participants, any deficits that might arise in the vested benefits account, whether attributable to excessive longevity, unfavorable investment experience, or other reason, could, as noted above, be made good from the nonvested benefits account. Should the plan terminate, however, all accrued benefits vest and all funds must be allocated. Thereafter, the vested benefits account would have to be self-sustaining—except for possible employer contributions—and could not draw upon the unallocated funds of the nonvested benefits account to offset any deficiencies that might develop. If the funds were held by a trustee liquidity problems might arise as the account became depleted through benefit payments and could lead to forced liquidation of trust assets in an unfavorable market. This whole problem would be magnified if the employer

should go out of business and not be available to supplement the funds on hand.

These considerations suggest that upon termination of a pension plan, whether or not the employer continues in business, the funds in the vested benefits account should be applied to the purchase of annuities from a life insurer. If the funds were being held under a deposit administration contract they would be convertible into annuities according to the appropriate scale of rates. A trustee, on the other hand, would purchase annuities in the open market. The purchases could be spread over a period of time to avoid liquidation of trust assets in an unfavorable market.

If at time of termination, the vested benefits account should be insufficient to purchase all required annuities (because, for example, the funding program for past service benefits has not been completed), the additional sums needed should be transferred from the nonvested benefits account. In the event that the funds in the latter account would be inadequate to make up the entire deficit, the employer's residual guarantee should be invoked.

The priority advocated for vested benefits throughout the foregoing section should naturally be reflected in the plan document, especially with respect to the allocation of funds upon termination of the plan. No distinction would be made between the claims of those who have gone elsewhere and those still in the service of the employer. It would not be inconsistent for the termination provision to bestow the highest priority to the claims of pensioners.

Nonvested Benefits

In the absence of plan termination, a participant acquires an enforceable right to retirement benefits only when he retires or meets the conditions laid down for vesting. The accrual of benefit *credits* does not of itself create an immediate unconditional legal obligation against any entity—the employer who holds out the promise of retirement benefits, the insurer (if the plan is insured) which underwrites the employer's promise, or the trustee which administers funds destined for benefit payments. Yet each benefit accrual is a potential benefit right. If a benefit accrual—credited or imputed—ripens into a benefit right, it is enforceable against available funds or insurer guarantees and, under a guiding principle enunciated above, would be enforceable against the general resources of the employer. Ideally, benefit accruals which become benefit rights through termina-

tion of the plan should enjoy the same financial safeguards as those available to, or proposed for, rights which mature in the normal manner. In essence, this would mean that in the event of plan termination the employer would stand back of all benefit accruals, including those that would never have ripened into enforceable obligations (because of employee turnover). This is too rigorous a standard of responsibility to be accepted by most employers and, consequently, the protection of nonvested benefit accruals must be sought through the adequacy of fund accumulations.

Funding Commitment. As a general proposition the employer should adopt a funding policy which would ultimately lead to the accumulation of assets, or acquisition of paid-up annuities, equal to the actuarial value of all benefit accruals, whether attributable to service before or after inception of the plan, and whether vested or not. This goal could be achieved by the funding of current service benefit credits as they accrue and the amortization of the initial accrued liability over a period of years. The funding commitment in most plans would suggest that this is the employer's objective. However, the lack of conclusiveness with respect to the amount and timing of the employer's contributions, plus the limitation of his liability to funds already contributed, vitiates the legal obligation to adhere to the objective and quite possibly weakens the employer's resolve to do so. It is proposed as a guiding principle that the employer commit himself to contribute during or within a reasonable time after the end of any particular accounting period the actuarial value of the benefits credited or imputed for service during that period. He should also have a definite program for the funding of past service benefits over a period of years if, as will usually be the case, it is not completely funded at the outset by a single payment. This funding program for past service benefits should be such that the benefits for each employee would be completely funded not later than his normal retirement date, but in the event of plan termination there would be no obligation on the part of the employer to make further contributions for the then unfunded past service benefits. This would permit the amortization of the past service liability on a basis which should be within the fiscal capabilities of any firm that could afford a pension plan in the first place.

The effectiveness of this sort of funding policy would depend upon the accuracy with which the cost of accruing benefits is estimated.

The valuation problem is more complex than in the case of vested benefits, since assumptions must be made as to *all* of the factors that influence the ultimate cost of a plan. The particular characteristics of the plan, the employer's personnel policy, the anticipated investment performance of the funding agency—these and many other factors must be taken into account. Unduly optimistic assumptions as to any relevant factor, especially investment earnings and employee turnover, can seriously impair the adequacy of a funding program. Assumptions as to future salaries also introduce great uncertainty. It is no exaggeration to say that the label "fully funded" is no more reliable a warranty of actuarial soundness than the judgment and integrity of the actuary who affixes it.

There seem to be too many cost variables to permit the development of a generally accepted minimum standard of valuation for nonvested benefit accruals. This suggests that proper actuarial guidance will have to be sought through the technical qualifications and moral fiber of the persons who provide actuarial services to employers and other plan administrators.

Accreditation of Actuaries. It is significant that there are at present no legal restraints on the practice of actuarial science, except for a few statutes that may be applicable to certain activities of consulting actuaries. In no state must a license be obtained to practice as an actuary, and the Federal and state laws and regulations which make references to the services of actuaries in connection with pension plans do not define the term "actuary" nor prescribe any qualifications for such a practitioner. For example, the pension section of the Federal income tax regulations requires the submission of an "actuarial certificate" under certain circumstances, but apparently such a certificate by anyone who calls himself an actuary will be accepted. Neither the Federal Welfare and Pension Plans Disclosure Act nor any of the six state disclosure acts contains a definition or clarification of the term "actuary", despite the fact that all require the submission of information of an actuarial nature.

Professional standing as an actuary is traditionally reflected by membership in a learned society which is achieved only after a demonstration of competence in those areas of knowledge deemed by the society to be the foundation of actuarial science. There are several such bodies in the United States and Canada. The largest is the Society of Actuaries, Fellowship in which is attained only by pass-

ing a series of rigorous examinations spread over several years. An Associateship in the Society can be achieved by the passing of the earlier examinations in the series.

Over the years a large number of persons, many of whom are not members of a recognized professional actuarial organization, have set themselves up as consulting actuaries. Such consultants have been particularly active in the pension field where the demand for actuarial guidance and services has exceeded the supply of actuaries possessing the traditional qualifications and credentials. Some of these persons have developed a competence in the field of pensions superior to that of actuaries trained more broadly and without specific responsibilities in the area of employee benefit plans. Unfortunately, however, too many self-styled actuaries are not qualified by training and experience to provide the sort of actuarial direction needed to protect the interests of both the employer and the employees.

About ten years ago, a group of consulting actuaries organized the Conference of Actuaries in Public Practice to, *inter alia*, "promote and maintain high professional and moral standards." Membership in this body is based upon experience and subjective evaluation of technical proficiency, professional and business qualifications, moral character, and ethics rather than upon an objective demonstration of proficiency through a formal examination process. While the Conference and the Society have made progress toward the enforcement of standards of competence and professional conduct on their memberships, neither has the authority to exclude from the public practice of actuarial science those persons who do not measure up to its standards.

In view of the great importance of proper actuarial guidance to the sound operation of pension plans and the millions of persons who would be affected by their unsound functioning, some procedure for enforcing minimum standards of technical competence and professional conduct among actuarial practitioners is needed. Various approaches might be used, but the most promising would seem to be a system of accreditation by some governmental agency or agencies. In essence, each governmental agency whose responsibilities include the collection and evaluation of actuarial data would establish its own set of qualifications for those actuarial practitioners with whom it has dealings. Those actuaries who meet the special requirements of the agency would be "accredited", and the agency would accept actuarial certificates and reports only from actuaries who have an ac-

credited status. It would simplify the process very greatly if a uniform set of qualifications could be developed and adopted by all agencies. It might be feasible for the Internal Revenue Service—the federal agency most deeply involved with actuarial data—to establish an accreditation process, with all other agencies accepting the credentials of persons having the stamp of approval of the Service. Candidates for accreditation would normally be expected to give evidence of technical competence through the attainment of a specified level of formal education, the passing of a series of examinations, and the accumulation of a stipulated body of experience in the pension consulting field. All or part of the examination phase of the process might be waived upon evidence of appropriate membership or examination status in a recognized professional body.

In initiating accreditation procedures, appropriate provision should be made for those actuaries already active in the pension field. This would be consistent with “grandfather clauses” found in other regulatory legislation.

Adherence to Funding Objective. Under this concept the sums necessary to meet the funding objective postulated above would be computed by an accredited actuary, and the employer would commit himself to adhere to the funding schedule recommended by the actuary. Some flexibility should be provided with respect to the funding payments for past service benefits and after such benefits have been fully funded (when there would otherwise be no source of flexibility) the employer should be granted the privilege of underfunding or overfunding to the extent of some percentage, e.g., 10 percent, of the accrued liability for active lives. Subject to this degree of latitude, the employer should obligate himself to make good on any disparity between the actual level of assets in the pension fund and the level which would have prevailed had all contributions been made on schedule and all assumptions been exactly realized. This obligation would be especially relevant and significant in the event of plan termination.

Under this proposition the employer would, to a large extent, be underwriting the assumptions of the actuary. Favorable deviation of actual from projected experience would redound to his benefit (through smaller contributions), while unfavorable deviations would operate to his detriment. This should be a positive influence toward the adoption of realistic assumptions. Since the employer would bear

the risks associated with the investment of the fund, he should be permitted to determine broad investment policy.

Funding discipline of the sort envisioned here would be greatly affected by the valuation placed on the assets in the fund. This phase of the problem falls within the bailiwick of the accountant who could be expected to apply standards of general acceptability. At periodic intervals the physical existence of pension fund assets, their current value, and the basis of valuation should be attested to by a certified public accountant. As in the case of the vested benefits account, this attestation should form a part of the general audit of the funding agency.

Complete adherence to this funding policy would not assure payment of all accrued benefits. Past service credits would normally be fully funded only after many years. Moreover, the use of a turnover discount in the valuation of prospective benefits—the prevailing practice under unallocated funding procedures—would introduce a continuing deficit in respect of the accrued benefits of employees assumed to terminate their employment prior to retirement or the earlier satisfaction of vesting requirements. Under deposit administration and trust fund plans it is virtually certain that the funds on hand as of any given time will be insufficient to honor all benefits credited to that point. Thus, it is necessary for the plan document to contain a provision stipulating how the available funds are to be allocated among the different classes of claimants at plan termination, when by mandate of the Treasury all benefits vest. Claims may be honored on a pro-rata basis or in accordance with a scale of priorities, preference in the latter case frequently being given in the order of nearness to retirement.

In the event of plan termination—which under existing Treasury regulations may not be easy to determine—all unallocated funds would be applied within a reasonable period thereafter to the purchase of individual paid-up deferred annuities from a life insurer, the distribution pattern of the allocation formula being observed. This would make crystal clear to each participant, *at point of termination*, the amount of benefits he could expect to receive from the plan and, more important, would ensure ultimate receipt of such benefits. Since the employer might not be in the picture, and, in any case, could not be relied upon to absorb through additional contributions unfavorable deviations of actual from predicted experience, the risks of the plan should be transferred to a professional risk bearer.

CONCLUSIONS

The foregoing proposals will be regarded by many as unrealistic and by some as visionary. It is recognized that their implementation may not be easy. Employer—and union—attitudes toward their pension obligations would have to undergo substantial change, and technical difficulties of some complexity would have to be surmounted. Yet the proposals must be evaluated in the light of the fact that private pension plans have become more than an instrument of business policy; they are now an imposing instrument of social policy. In a very real sense the business community and the Federal government have become partners in a vast program designed to provide economic security in old age. This goal will be achieved by one route or the other. To the extent that the business community fails to fill its quota of security, the government will surely underwrite the deficit.

In commenting on the joint responsibility of government and business in this venture, a highly-respected corporate official made this statement ten years ago: "Industry should gladly meet the challenge to solve the pension problem within the framework of our free enterprise system and with satisfaction to the millions of employed persons rightly concerned about their old-age security. Unless industry can operate plans which give employee satisfaction and can be soundly financed, we had better forego this privilege." This observation is even more pertinent today.

PRESIDENT DAVIS: Thank you very much, Dr. McGill.

We are coming to one of the most popular parts of the program, what we call the "working session," in which the problems which are pressing most strongly are discussed by selected people, and in which discussion you are invited—in fact, urged—to participate. This, as usual, will be under the direction of the Executive Vice President, Bruce Shepherd. I have been thinking a little bit about how I ought to introduce Bruce because the dimensions of my admiration for him are such that the only things that come to mind are adjectives of such tremendous scope that I am afraid it would be embarrassing to him.

It reminds me of a client I had some years ago up in Vermont during my first years of practice when, as everybody knows, a lawyer doesn't eat very well. That is particularly true in a country community; so, we use the barter system up there to provide for all the

necessities of life. I used to have an arrangement with Joe, the barber—an Italian barber—in which he cut my hair for me, and I in turn agreed to defend him any time that he needed a defense. I found he got the better of the bargain—that became clear very soon.

At any rate, after that arrangement had been going on for a while, Joe got into a fistfight with another Italian in our community, with the result that Joe was the victor and the other Italian was the vanquished; and the vanquished landed in the hospital and stayed there for about three months, with many injuries to his person. Finally, the arrangements were being made for his discharge from the hospital, and the question arose as to who was going to pay the bills that had been incurred. They were quite sizable, and the vanquished had no money. So, some thoughtful friend suggested that he ought to bring a suit against my client, Joe, the barber, and recover enough money to pay these bills. It sounded like an awfully good idea to the man who was injured, although it did overlook the fact that Joe didn't have a penny either. Anyway, the suit was brought by an Italian lawyer who spoke both Italian and English fluently.

This was one of my first criminal cases in county court, and as a young lawyer I was a little nervous. I remember that the counsel for the plaintiff, after the evidence closed, made his address to the jury and didn't even mention the facts in the case or the law applicable to the case. All he did was to give a eulogy of his client. And it was some eulogy, too!

Well, that didn't seem right to me, but I wanted to do the right thing by my client, so I thought, "Well, I better do the same thing." I told the jury how my client was probably the thriftiest individual in the community. He was a good churchman, he was a wonderful family man, he was kind to little dogs and elderly women, and he was just really something. I would keep turning around to my client, who sat there at the counsel table, to see how he was taking it. He was taking it all right. He was smiling and he was nodding, and the more he smiled and the more he nodded the more adjectives I used. Finally, we got through and I sat down. The judge made a very perfunctory charge, and the jury went out and came back with the verdict for my client.

My client took that award of the verdict as a complete vindication, or acceptance, on the part of the jury of every adjective that I had used about him. Of course he didn't know that that was the only verdict anybody could have rendered anyway, because they were

both to blame; and under the law any other verdict would have been set aside by the courts.

That didn't bother Joe any. He loved it just the same. So that night as I was trying to catch up with some work, in comes Joe. He had been partaking of a fluid that we make up there that is very effective both for raising the hair on the outside and on the inside. He said, "Mista Davis, I comma to pay you."

I said, "Joe, you don't have to pay me. You know that we work under a barter arrangement here. We just swap services."

"Oh yeah, I know Mista Davis," he said, "but dissa tima I'ma gonna pay you."

"Well," I said, "I tell you what you do, Joe. You pay me just the out-of-pocket expenses." I said they were about \$26. I thought that would be quite a lot for him, but he reached in his pocket and he pulled out a roll of bills and he began peeling them off until he had peeled off \$400. I took it rather quickly and put it into my pocket and pulled out a receipt and gave it to him. As I was making out the receipt he stood there with the most adoring expression, put the receipt in his pocket and said, "Oh Mista Davis, you speaka so nice-a for me. You know, when you talka, I understanda everyting you say. Buta whena datta wop lawyer talk I no understanda notting." [Laughter]

With that introduction of Bruce— [laughter] —I will turn the meeting over to him.

MR. BRUCE E. SHEPHERD: Thank you, Mr. President. This is the longest and most incomprehensible introduction I have ever had. [Laughter]

We now come to the part of the program which is informal, unrehearsed and unpredictable. There is a good deal of flexibility in it, and I have been debating as to whether we ought to proceed with the subjects that are listed here on the program, or whether we should simply call upon our Vermont Perry Mason to get up here and continue to tell stories. You know, Perry never loses either. [Laughter] We might proceed with some of these subjects, and if we run out of gas we can always call on Deane Davis.

In picking subjects of this sort to discuss you are always perplexed by the problem of trying to pick something that would be interesting and yet something that is not so controversial as to deter everybody from talking on the subject. And that is a difficulty we ran into this

time; but we hope we can choose a sort of a middle ground and get some discussion of these subjects. I would encourage those of you who are here and interested in these subjects to enter into the discussions.

We listened to a very interesting talk this morning from Dr. McGill. It is so technical and it involves so many important suggestions that have to be thoroughly thought over that I would recommend to all of you that you read it and study it carefully. It is deserving of your careful attention.

The Life Insurance Association is also interested in a different research project in the field of pensions which will consider it in a somewhat different way. This project will be pointed toward a development of the economic impact of pensions and retirement benefits, Social Security, and so on, in this country, and I have no doubt that like all research projects in a particular field ours will make use of much of the work that Dan McGill and his team have done. For example, it is perfectly obvious that the type and rate of funding of employer pensions, or any pensions, will have an economic effect.

We are fortunate, this morning, in having in our audience the gentleman who is in charge of our particular research project, a man who is known to many of you as being an expert in the pension field. I refer to Dr. Roger Murray of Columbia University. I hope that he will be willing to take a few minutes and tell us, if he can, some of the information that has so far been developed by his research project, and to comment, in a general way, on what we have listed here in the program, the relative growth of insured and uninsured pension plans and the economic effect of that growth. Thank you!

DR. ROGER MURRAY: I am very glad to have a few minutes with you to give you a brief interim report on our research project at the National Bureau of Economic Research, which is being sponsored by the Falk Foundation and your Association. I cannot give you as complete and as comprehensive a report as Dan McGill was able to give, nor can I come forth with some conclusions that can be stated in generalized terms. However, there are a few points that I think you may find of some interest where we have gone at least far enough along so that we begin to see the shape of the findings, or the shape of things to come.

One of the things that we have realized as we have worked on this

project is that we are intensely interested in the economic effects of transfer payments on the one hand—that is, the OASDI kind of program, where income and outgo are approximately in balance—and then, on the other hand, we are intensely interested in the economic implications of the kinds of plans, public and private, which involve substantial accumulations.

Maybe we were a little slow to come to this realization, but we finally did realize that, looking down the road, the transfer payment element in private plans was going to increase relatively much more rapidly than the accumulation phase of private plans. In other words, now the payout of benefits is relatively low compared to contributions. In the years ahead it is going to be very much higher. It is interesting to think of what the economic implications are in terms of consumption and saving and investment. So we have a very keen interest in what we have described as the redistributive effects of the pension structure—what the effects are on saving and investment of these transfer payments that are made under public and private plans.

It is easier to analyze the public plans because we know something—it may be imperfect, but we do know something—about the pattern of income distribution in the incidence of the tax structure, and we can see, for example, that the tax-supported programs—at least at the present time—have a net effect of moderately increasing consumption and moderately reducing saving in the economy.

When we try to study the redistributive effects of private plans, we find ourselves in real trouble because we don't have any clear tested set of ground rules for our analysis. We are still debating, for example—as many people have before us—the question of whether a private pension contribution is a deferred wage in the literal sense—just a part of compensation, a cost shifted back to the employee—whether under some circumstances the cost may be shifted forward to consumers generally through higher prices. Under some circumstances it may actually come to rest as a cost on the corporation, reducing profits and corporate savings. It is a very involved problem. I mention it just to illustrate the kind of thing we are wrestling with in this area of redistributive effects.

Let me turn now to something that I think is more clear and perhaps more interesting. We took on this question: what is the effect of this pension structure on aggregate savings? This again has been debated before, and different people have tackled this question. Our

analysis suggests—pretty much to our satisfaction—that the flow of funds generated in the pension structure represents a net addition to personal savings. This is to say that people covered under private pension plans do not substitute their growing accumulations of funds for other forms of saving. They seem to go right on saving in other forms, just the way they used to before they were covered under pension programs. In other words, we would say—in the language of the economists—that there is no substitution effect.

Naturally, a related question is: is this just a transitional phenomenon? Is this only because pension programs are new and little understood and not taken into account by people in their savings and financial planning? Our tentative finding on that is that if this is a transitional phenomenon, it looks like a real long transition. If this were a transitional phenomenon you could expect to find that people who have been covered for a long period—say fifteen years, and longer—would begin to take their pension savings into account and substitute them for a portion of their savings in other forms. As far as we have been able to tell from our data, the people who have been covered longer, in this respect, behave no differently—or not significantly differently, in a statistical sense—from those who have been covered for only a short period. This, at least, suggests that if what we are observing here is a transitional phenomenon, the period of transition may be quite extended.

This finding would suggest that the pension structure is adding to aggregate savings. And this, we believe, is the tendency. I said, earlier, it appears to represent a net addition to personal savings. There are, without any doubt, some offsets. There may be reductions in business savings or government savings, as a consequence of this particular pension structure, which would offset in part this contribution to aggregate savings represented by the increase in personal savings. But as near as we can tell, and as far as we have gone, the offsets are not very substantial. This, I suppose, is perhaps the most significant area of our finding. We still have to fill out the details and try and look a little further down the road on some of the possible implications.

The other focal point, as I mentioned in the title of the study, is the investment process, the impact on the capital markets of this kind of a pension structure. Here our findings in preliminary form, it seems to me, are quite interesting, although not terribly surprising. We find, here, a contribution to flexibility and fluidity in

the capital markets because, whether the plans are insured or trusteed, we have a stable, steady flow of funds which may be invested with little or no regard to short-term liquidity requirements. This means that there is a fairly stable and relatively high flow of funds into long-term capital formation undertakings. This is not to say that instability in the capital markets is in the process of being eliminated. On the contrary, it is even possible to argue that in some areas of the capital markets instability may continue as usual.

But one thing seems to be emerging clearly out of this pattern in the flow of funds, and that is that business investment is favored relative to government investment. I should say, really, business investment plus housing plus commercial construction. What I am talking about is private finance. It is, relatively, the beneficiary of this burgeoning pension structure. Government is not. The tendency among life insurance companies and pension fund trustees to invest less and less in governmental securities, relatively, has been reinforced by the tendency of state and local government retirement systems to shift away from the long-term financing of governmental projects. This has some implications which I am sure will occur to you on relative yields between governmental obligations and private obligations, and it has, I would think, some rather important implications for fiscal policy and debt management policy.

I have just tried to give you a few highlights. If I may sum up our thinking on this project as to what comes into focus as the most important question from an economic standpoint, it is: what difference does it make whether the private or public tax-supported pensions play the greater role in the total pension structure? I think, as we have progressed in our study and analysis, it is clear that this is the important economic question. What are the economic implications of a greater role for OASDI relative to private plans? Or, what are the implications of a lesser role? This is not an easy question to answer. I am hopeful still that we will be able, at the end of our project, to give you a nice, neat, clear answer, but there are those doubts that cross your mind when you get thoroughly immersed in this kind of a complicated problem.

But we do hope that we may make some contribution to the problem of analyzing the question. It is not the National Bureau's function to suggest or to recommend or to promote public policy, but it is a legitimate function of the National Bureau, as we see it, to provide the groundwork, the methodology, the reasoning, the

analytical framework for trying to tackle this kind of a public policy question. And this question you can state very clearly and very succinctly, I think: what kind of economic effects should we anticipate if, as a nation, we decide to put greater or less reliance on our public programs compared with our private programs?

MR. SHEPHERD: Thank you, Dr. Murray! I would like to ask you just one question, and that is with respect to the uninsured, trustee type of pension operations funding that is, in a sense, in competition with our pension business. Has there been any significant shift in the type of investments that they get into in the capital flow and the uses of the capital that has accumulated through that medium in recent years that would have an effect on our economy?

DR. MURRAY: Of course, you could perhaps guess what my observation is by the fact that I really made no comment or report on this particular question in my brief summary remarks. But, in terms of the capital market, in terms of the economic effects, the channel—as nearly as I can tell—is not very important at all.

There may be some short-run effects, which we could all recognize by the fact that life insurance companies will channel more funds into real estate mortgages and trustee plans, more funds into corporate equity securities. But even if you take these short-run effects into account, what you must realize is that at the very time you are trying to make something of it, the situation is changing. We all know that private pension trustee plans and state and local government retirement systems are moving actively into the mortgage area. We all know that life insurance companies are working to explore and work towards various ways in which to increase their equity investment.

When you come to trace these effects in the capital markets, the dollars seem to lose their labels. You don't have a life insurance dollar, or a trustee dollar, that goes into a certain area of the capital market. The significant and important thing is that both types of dollars are long-term dollars. It is the difference between the dollar in the deposit-type institution, where you have considerations of marketability, shiftability, liquidity, stability of value of various kinds, and the long-term investment dollar, where your primary interest is in long-term rate of return. And in this respect, as you trace the effect through the capital market, it makes very little differ-

ence—apart from some short-run effects—whether these are life insurance dollars or pension fund trustee dollars.

MR. SHEPHERD: Thank you. That's a good answer.

I am sure that George Conklin, if he is here in the audience, might like to make a few observations on this subject.

MR. GEORGE T. CONKLIN, JR.: Thank you, Bruce!

I guess Roger had to leave for a class. He raised the idea—it seemed to me very interesting, very challenging—that the net increment to savings on the part of pension funds has not resulted in a substitution effect. This contrasts with the evidence that I thought was around that the savings ratio to national income has been approximately constant and hasn't shown any great trend, or any trend downward, although I don't know the most recent data.

But if these two things are true—I don't know whether the latest data is that the savings ratio has been maintained level, but I think so—this would imply that without pension funds there would have been a significant decline in savings in the economy. Whatever the effect, if it is for increasing savings, I think it is certainly a salutary one for the economy as a whole.

The only other observation I have is as to the question Bruce asked Roger as to the investment significance of the channels of funds. I agree with the broad line of Roger's reasoning on that, but specifically I think that in the short run they have had significant effects upon the market. I think that the two institutions are moving closer together, and maybe in another twenty or fifteen years you won't be able to tell them apart. In the last fifteen years there has been a great difference between the two institutions, and that impact upon the capital market has been very great in the equity area. The supply of equities coming into the market has been very, very small relative to the total outstanding equities in our economy, whereas the normal supply of new debt, new mortgages, new municipal bonds, ranges anywhere from a minimum of 5 to 10 or 12 or 15 percent of the outstanding amounts of those obligations coming in each year for net additions.

In the equity market it has been running in the area of less than 1 percent, when related to market values, coming in. And that entire net addition to the equities outstanding can be accounted for by the pension funds buying. In other words, the amount that the pension funds in recent years have been putting into common stocks is equal,

and often more than equal, to the entire increase in the supply of common stock.

MR. SHEPHERD: George, may I interrupt you just a minute? I'm uninformed—as perhaps many of the other members of the audience are on this subject—but do you include in this flow of new equity the ploughback of profits?

MR. CONKLIN: No. This is just the new stock issues, the net issues of common stocks.

MR. SHEPHERD: Well isn't that other a factor, too?

MR. CONKLIN: Yes, it is a factor. But I was just talking in terms of the price of common stocks. Common stocks have not been coming on the market in great volume, and the pension fund purchases of common stocks have accounted for the entire net increase in some areas. Therefore, this undoubtedly has had a very marked effect upon price-earning ratios and scarcity values of stocks. Therefore I think that in this area it has had a very significant effect.

Other than this, I don't think that there is any great deal of effect on the investment area in the economy as a whole. I think as far as the investment man is concerned he certainly would have liked to have seen the life insurance industry, by virtue of regulatory ability, been able to compete more effectively for this great and growing source of funds to invest. There is no doubt about the fact that this is one of the most rapidly growing areas, and it is the one where we have lost the most ground. And this accounts for at least a good part of the decline in the relative importance of life insurance as a savings institution. So I certainly hope that the steps that have already been initiated by virtue of the tax changes will be amplified by other regulatory changes to enable the insurance companies to compete more effectively in this field.

MR. SHEPHERD: Thank you, George.

I am glad you mentioned the last point that you did because that was what I was going to lead into. From the standpoint of the economist, as you can see, it may not make very much difference whether this capital is channeled through insured pensions or trustee pensions. But from the standpoint of the fellow who has charge of selling annuities and pensions in his own company it makes a lot of difference.

I have been interested in trying to find out what the effect of this

tax relief provision that it was possible for us to get in the present company federal income tax law has had on our competitive position in the pension market. I would like to ask Harry Blagden to tell us what he thinks about it, and I would be interested to know what some of the other company people think about it, too; what their experience has been. This is a subject on which I would like a little broader expression of opinion.

MR. HENRY E. BLAGDEN: I think it is really too soon to say what effect we are going to get from the federal income tax relief. One thing we notice in this business is that there is either a certain amount of inertia—if you want to put it that way—or there is a momentum. It took the trusts and the banks quite a while to overcome the momentum that the life insurance companies had built up in the late thirties. I think we helped them to do it when a lot of us pulled in our horns in the early forties because investments at that time could only be made at a very poor yield and we were diluting our overall investment portfolio. To limit that, a lot of us, as I say, pulled in our horns in pulling in new customers.

As a result of that—and for some other reasons, which I would like to touch on—your banks and trustees have achieved a dominant role, right now. The federal income tax, I think, is undoubtedly one reason. Another reason is the postwar inflation, which led other people to fear further inflation, and to the thought that as a hedge against inflation they should invest in common stocks. That kind of investment hasn't been readily available to life insurance companies, although as we know there has been legislation in Connecticut and in Massachusetts which would permit segregated asset accounts which can be invested in common stocks. I might say that another factor that has operated against us is the rather wide differential between the interest rate on new investments and the interest rate on an established portfolio such as the life insurance company has. This is one of the factors which has served to promote the sale of trustee plans in competition with insured plans.

There are other factors, of course, that create disadvantages for us. We still have the problem of premium taxes, and if we get into the equity market we have the problem—created in the 1959 tax law—of the capital gains tax, which is applicable to insurance companies. It seems to me that that should certainly be removed as it applies to qualified pension plans.

If I may summarize, I should say that we have a number of disadvantages, but that steps are being taken to overcome them. Maybe they haven't fully been overcome as yet. Even in the federal income tax we do not have complete relief. We won't have complete relief until 1961. I do think, however, that if we all go after this business hard—in fact, if the whole industry really talks about the changed climate for the life insurance pension plan—we can reverse this trend. But I don't think we are going to see any sudden reversal. It is going to take quite a while to achieve the results which we think we should be able to achieve.

MR. SHEPHERD: Thanks, Harry. Do you have something to say on this, Paul?

MR. PAUL F. CLARK: I am sure that we have all had some withdrawal of reserves from our pension accounts. In some cases they cancel them out entirely, often on account of the pressure from trust companies and banks. Some of them, of course, leave the reserves that are there; but from there on out that's also a problem. You have a lot of small amounts to pay out in the future on some of these pensions. In some cases we have been able to leave the reserves there. But in many the whole thing is taken out. I think we have to think of that, too, sometimes.

MR. SHEPHERD: I meant to ask you that, Harry. Have you been losing your big groups the way you had before or has there been any slowdown on that?

MR. BLAGDEN: We have lost more business in 1960 than any other previous year.

MR. SHEPHERD: Anyone else want to say anything on this subject? Anybody here from the Equitable who could tell us how they are getting along? Bill November?

MR. WILLIAM J. NOVEMBER: I just want to comment on the last point. We have slowed down our losses this year. We are doing much better than as of July. We did reduce our rates at the end of '59 as a result of the way the federal income tax was coming out. I think that helped to improve the situation this year.

MR. SHEPHERD: Any other reports on pension persistency? All right, we will move on to the next topic which is company federal income tax. We are entering into a period where we can expect some

important issues of interpretation of the new law to arise, and normally these will arise in a critical way when we come to the auditing process. I don't know how far the auditing by Internal Revenue Service has gone. I know they have started on it. Whether they will slow up on it until they get the regulations out or not I don't know, but there have been some indications that that has been true in some parts of the country. But under their decentralized system I am not sure that the same situation prevails in all sectors of the country.

I know there has been a little of this up in Hartford, and I have asked B. M. Anderson—Andy Anderson—to tell us what he knows about the situation up there generally. And also, Andy, while you are speaking, if you will, you might touch on some of the issues that you think will arise under this new law, and that may eventually lead to litigation.

MR. B. M. ANDERSON: First, I want to say that Henry Rood's committee and the staffs of the three associations have done a wonderful job with the new regulations. They have won every point, I believe, that they were entitled to win. The litigation which is sure is on tax-exempt interest. The trade associations quite properly are staying out of that one, but I am sure that the position of the folks who say that the interest is being taxed, and that it should not be, will be well-presented. The answer, obviously, is in the courts or in the Congress.

The litigation will be a great deal less by reason of what the Government did with the final regulations under phase one, which is the more important of the three phases. There will be litigation under the new law. There will be a great deal of litigation even under the old law. The cases are building up. I believe it is important that we let our three associations know what is being done, and let Henry Rood's committee kind of centralize information. They are not going to control litigation, I am sure. That is not their function. But I think they can assist the individual companies and can hold litigation to the minimum.

The second point that may be litigated is the definition of assets. The groups of companies interested are various kinds of companies, stocks and mutuals, big and little, and they are interested in the question of assets. The regulations, as I understand it, said in effect that, if you claim the full reserve without deduction of due and

deferred premiums, you have got to put into assets the corresponding premiums which made the reserve as big as it was.

You asked specifically about audits. I think that that depends on the location. I think in some sections of the country they have started the audits. In Hartford, I believe, they have done very little. We have a very tough unit up there. They decide everything in favor of the Government, which is perhaps the way it will start in a lot of places. We should have full coordination. The Government will coordinate their case, and we are not very smart if we don't coordinate ours and let everybody else know what is being done. The Government is ganging up on us so far as the array of the audit and legal talent is concerned, and we are very unsmart if we don't do the same thing.

MR. SHEPHERD: Thanks, Andy. Has anybody else had experience with audits under the new law in any other parts of the country? Phil Raye of the New England Mutual?

MR. PHILIP C. RAYE: We had an internal revenue examiner in our office for about the month of June to audit our 1958 return. He spent most of his time on accrual accounting. At the end of the time he advised me that the Government had withdrawn him from the case, and he left with no report.

MR. SHEPHERD: I think something like that happened out in Des Moines, if I am correctly informed, with one of the Des Moines companies.

MR. LEE SHIELD: May I talk a minute to Andy's suggestion on this audit problem? We had an agent of the Internal Revenue Service call on us in Chicago a short time ago who was trying to prepare himself to make an audit of an insurance company. He told us that he had never been in a life insurance company before, and knew little about the accounting practices of life insurance which might differ from those of other corporations. And he knew nothing about the new law. In fact, he didn't even have a copy of the law. We did what we could to help him. We gave him a copy of the law, and of the proposed regulations and of our arguments concerning the proposed regulations for phase one.

We have also heard that that tough section that Andy talks about up in Hartford is developing a handbook to be used for the assist-

ance of internal revenue auditors in auditing life insurance companies. One reason why there has been less activity so far in auditing companies is probably the waiting for the development of that handbook.

It's obvious from our experience with this man, and from the fact that they are trying to develop a handbook, that for a long time to come there are going to be interpretations of this new law that haven't been heard of before, and that might result in new rulings or possible litigation or possibly, even, attempts to amend the federal income tax law. And it would be quite helpful if we would do as Andy suggested and set up some mechanism for letting the associations, through their officers, know something of the interpretations being made by these auditors. This can be a two-way street. It can be quite helpful to the company being examined, because we can furnish to that company the legislative history that might bear on this particular point, if the Rood Committee has considered that, or a related problem. And if you will all follow this practice of letting us know on these points, we can tell you what other companies have done when the same or a related point has been raised in their company. I don't know how you can set up a mechanism for this, but I would hope that the companies will take it upon themselves to let us know about these problems so that we can be of what help we can to them, and so we can weigh the importance of these various points to the business as a whole.

MR. SHEPHERD: I want to talk to you about that, Lee, when we get through with this annual meeting—to see if we can't set up some formal mechanism or some formal procedure whereby we can be in touch with these situations, at the start. Unless you can do that, you can get some pretty bad law on the way before you know what is happening. As a matter of fact, nearly twenty years ago I started talking to Colonel Robbins about the same thing right after, or while we were still working on, the 1942 regulations. Unfortunately, the Colonel died before we got anything going. We didn't need it so much under the 1942 Act because there was less reason to litigate under it. But we're going to be into a mess of litigation, I think, in the next ten to twenty-five years.

Has anybody else anything to say on this subject?

MR. HENRY F. ROOD: Mr. Shepherd, just adding to what has been said, there was one company in Des Moines that was being

audited, and the President of that company called me. A number of the points he made were, I thought, of great significance to the whole industry, and I asked if he would mind if I sent the manager of the Lincoln National's tax department out there to discuss them with him. It ended up that the manager of our tax department sat in on their discussions with the auditor. And I might say that they decided to refile as a result of some of the thoughts that our man gave them. They had a lot of new ideas for deductions that they hadn't thought of themselves before.

About that time a wire was received from the Internal Revenue Department, in Washington, calling this man off, and I believe that wire was sent to all of the offices calling off any audits which had taken place. Now there were one or two companies that had been audited and had made settlements. I don't know the position of these companies. The Treasury made the comment to some of us, recently, that it was no secret that they were training auditors for this particular phase of the work. In other words, I don't think we are going to get the kinds of audits which some of us have had before, particularly in a place like Fort Wayne where there are not a lot of companies to be audited. The man came over and spent just a very short time auditing our report and looked for, primarily, things that he understood.

I think we are going to have some thoroughly qualified and trained men coming in, and as Andy says, they are going to be trained by this handbook. Again, I urge that you work through your associations in trying to consolidate that because I think you can be helped both ways on it.

MR. SHEPHERD: While you are on your feet, Henry, would you like to tell us anything about your first impressions after looking at the new regulations, both the final ones and phase one.

MR. ROOD: I think I might make some comments. As all of you know, phase one of the proposed regulations were published about the middle of August, and the industry had thirty days in which to protest. There were many things about those regulations which were perhaps a little ambiguous. We thought they could have been written better, but we felt that it wasn't our job to criticize the language. We did pick out twelve points that we thought were reasonably important—some of them much more important than others—and we filed a protest letter covering those twelve points. On ten of them

the Treasury has agreed with industry and has made changes. Of the two that they did not change, one of them was of particular importance to Tennessee companies, but I think affected very few other companies in the country. The second was a provision that was put in primarily to control strictly credit insurance companies, and the Treasury refused to change that on the grounds that it wanted that type of control. I think that it affected very few of the regular life insurance companies. So I would say, of the points that are of importance to all of us, we won ten of those.

We also submitted a supplementary memorandum of some technical points where we thought of some improvement in language, or where we thought perhaps there were errors in their statements. I think practically all of those were accepted. They were primarily technical points, and our reason for not putting them in our other letter was that we were afraid the Treasury would say "We gave you all of these, why do you want the rest of them?"

Then we filed five briefs on the five most important subjects; and I want to point out that, really, our committee had very little to do with that as a whole. We had to work under a strict time-schedule, and what we did was to select very knowledgeable people, many of whom were not on our committee, and ask them to work directly with the staffs in preparing this material.

Those five points were, first, reserves required by law—the definition, as you know, is very unsatisfactory; the final definition was more or less along this type. It says that reserves must be set up in the annual statement and approved by the insurance commissioner. That means if you actually set up these reserves and your insurance commissioner gives you a valuation certificate, we think that you are adequately protected.

The second was deposit administration plans, and here there was a great deal of controversy as to whether these reserves, or funds—whichever you want to call them—should be reserves or should be funds. There, two different groups of companies had different views and each of them was asked to present its views, in writing. Those two views were consolidated into a memorandum, and presented to the Treasury along the line that these probably are reserves in most cases but if they do not qualify as reserves then they certainly qualify as funds and the interest allowed on those funds should be deducted.

I think the final consequences of the action of the Treasury would be that if you guarantee the rate at age 65, the Treasury then says

you have a mortality table and a rate of interest involved, that you are accumulating a specific amount for an individual—although the fund in total may not be specific—and that those are reserves. If you do not guarantee the rate you are merely accumulating a fund which is to be used to buy annuities at an unspecified rate, and that is a fund and the interest paid may be deducted. So I think the companies have some choice, if the competition will permit them that choice, of determining whether these are funds or reserves.

A third important point was the question of whether interest contained in fractional premiums was interest income. The Treasury backed down completely on their position there and deleted that part of the law.

The fourth point was the question of interest on dividends left on deposit in similar funds. The original regulations had proposed that only interest guaranteed could be deducted. The Treasury again backed down and has agreed to permit the deduction of interest actually paid. I think that was a very important item to many companies.

The fifth question was the question of unearned premiums and unpaid losses on accident and sickness insurance, particularly non-cancellable and guaranteed renewable. I think this was the toughest sale and Bruce himself went down and helped adequately to present this case. Again, the Treasury has come up with an acceptable solution in that they phrased the law so that I think we all can live with it.

I think that we are extremely fortunate that we had such able representation on the part of the staff. I have heard some bouquets thrown at the Advisory Committee; but my personal opinion is that the staff members in both Washington and New York did the major part of the work and they are entitled to the major part of the credit. I certainly want to compliment them and tell them how much we enjoyed working with them.

When the final regulations came out there were two other points—both of which were mentioned by Andy—where there was some additional material that was not in the proposed regulations. One was the question of tax-exempt interest. There the original regulations had been silent. Now they have more or less picked up the law and paraphrased it to the extent that they say that if a company can demonstrate that this interest is not tax-exempt then it may take such an exemption. I think that is merely a protective measure.

The Treasury felt that it might be severely criticized if it completely ignored that part of the law.

The other—and this disturbed some of us somewhat—was the question of the assets and the deferred and uncollected premiums. These were defined as being included in assets. Now there a paragraph has been added which says that in event they are not assets, a company may properly deduct them from its assets and that it shall make a corresponding deduction from its reserves. I think there is a little ambiguity in the wording. We are hopeful that it is an optional affair, although a reading might be construed to say that it is mandatory and that this deduction shall be made. We don't think that is intended. The second sentence seems to imply it, but we all feel the second sentence is really modifying the first sentence, which says "if they are considered." So I think our present feeling is that we better keep our mouths shut and not ask, or it might be worse.

Going into the new regulations which came out last Saturday, our committee has already had a meeting. Some of us had read them through completely; others had had a chance to look at them very briefly. None of us has had a chance to really give them the thorough study that they deserve. But we did pick out just a very few troublesome spots. I think, in general, that they are very well done and that there are not going to be any of the major problems that we had in phase one. There are one or two things that I think do need clarifying, and we have already appointed subcommittees which are at work on helping the staff in clarifying those sections.

We have asked the companies—who, incidentally, have already received copies of these proposed regulations—to give us their comments by next week. We must work very promptly. Our committee is going to meet in Washington on the 22nd to review any of those comments which companies may send in by the 20th, and also the subcommittee reports which we hope to have prepared at that time. We must file our protest early in January. The hearings have already been set for the 12th of January, and we are assured by the Treasury Department that they are going to settle this before they go out of office on the 20th of January.

We have also been told that the balance of the tax law which covers the miscellaneous sections will be available about the first of January, and to the extent possible they are going to try and clear those up by the 20th of January. So when they come in we will have to

move very promptly in that area, and we certainly appreciate any cooperation from you. Thank you.

MR. SHEPHERD: The faster we can move the better, because we will be dealing with the people whom we have been dealing with before, and we have been quite successful with them. I would like to ask Harold Cummings if he could tell us of the status of the litigation which we are all expecting on the tax-exempt interest question.

MR. HAROLD J. CUMMINGS: Well, in the first place, there isn't any litigation that I know anything about. Almost two years ago, when we realized there was going to be a new law, it dawned upon us that, while our company had, I think, 24 percent of its funds in tax-free securities, the business as a whole had something like 3 percent. It was obvious we had a situation in which the companies as a group might not be interested. We talked it over at some length and it seemed to us that we were under a very definite obligation to do something for our policyholders—the people who were saving money to keep themselves off the Government's back—so that same Government would not deprive them of their tax-free interest. That was the way it looked to us. It seemed to us that whether it was pleasant or unpleasant there was a duty to see what could be done about our own tax-free interest.

So, we came to Washington—and I would like to have it in the record that the first place we went was to the Life Insurance Association office to ask if we could expect any help. We were told pleasantly that we could not, that there were other things of more importance; and we asked, "Well, will it upset the boat? Will we cause any damage to anybody if we seek some help our own way?" And we were told "No. You go right ahead."

Subsequently, before we talked to anybody on the so-called Hill, we came to the Board of the Association and to the Board of the ALC, and asked them both if we would be damaging anybody or be doing anything harmful to the business if we sought our own way of getting relief on this one question. There again, we got a clearance from both, and at that point we decided to see if we could do anything about it. I don't mind telling you that was the first time I ever talked to a United States Senator, other than to say hello, in my life, I knew nothing about the Hill and couldn't have been more of a country boy about it.

Well, it wasn't long before we found ourselves in the middle of

something we didn't anticipate at all, and that was that one company after another indicated to us that they were interested, too. Ultimately there were something over 200 companies that seemed to look toward this group—or what became a group—to do something about it.

Very naturally, we went to organizations interested in tax-exempt securities, organizations representing the governors and mayors and attorneys general and such; and once they became aware of the fact that tax-exempt interest was being threatened—not just for the life insurance business but for all their securities—they began to be interested. They have become increasingly so. There are seven or eight such organizations of real consequence, and they have been trying through persuasion to get something done that would make the litigation you asked about unnecessary. I assure you we don't welcome the idea of it, either.

That interest has become increasingly keen. After the final regulations are out, I suppose we must give up hope of any change in the rulings that would make resort to the courts unnecessary; but we are still hoping that some way or another it will be unnecessary to go any further than persuasion to get something done.

Let me say that all you have asked about is tax-exempt securities, and that is the only subject on which we were talking at the time. Inter-corporate dividends got tied into it later, and of course these companies are interested in both. So if I mention one I don't mean to be ignoring the other.

As it stands today, there are somewhere between seventy and eighty companies that have agreed that they want to see this thing to the end of the line; that they believe it is a duty to take care of their policyholders, and that if tax-exempt interest is going to be entirely stopped it shouldn't be just for the life insurance policyholders—the people who are saving money to take themselves off the Government's back. That same Government shouldn't center its attention on them first, as we see it. We can't understand how the Treasury, out of one side of its mouth, can say it is not taxing tax-exempt interest, and out of the other side say it is going to cost \$40 millions not to tax it. We asked one man up on the Hill what the Government would rather do, skip the tax on the interest on some \$60 billions of tax-exempts or put up the \$60 billions. We were told they could collect the tax for that purpose and then they would know where the money would go. That is the other side of this thing.

So, to answer your question, there are—to my knowledge—at least two or three companies that are all ready with the figures to go to the courthouse if they have to. Every one of them, so far as I know, wish they won't have to, and I believe that is the truth, as nearly as I can state it.

MR. SHEPHERD: Thank you very much, Harold.

Now I want to move ahead to another subject—company-field relations. One of the issues that seems to be giving rise to some of the unrest that we have all observed in the field forces and the relationship between the field forces and the companies is the question of group insurance commissions. We have got a subcommittee studying that, and as you know it was a point that was brought out and discussed in the Beers Committee report.

I have asked the Chairman of our Group Insurance Committee, Bill Seery of the Travelers, if he will tell us what that problem is. I think, probably, that a lot of us in the room have heard about it but don't really understand what it is all about. Maybe I am one of them. I would like Bill, if he will be kind enough, to elucidate a little bit.

MR. WILLIAM N. SEERY: Thank you, Bruce. In the interest of preserving my tenure in office at the Travelers, and preserving the existing Travelers group insurance accounts, I think I shall read my extemporaneous remarks on this non-controversial subject. [Laughter]

As Bruce said, we do have a subcommittee that has met once and has made a start on this little problem of ours. We are not far enough along, as yet, to submit even an interim report, but here are my extemporaneous remarks.

These problems are really perplexing, and a solution that will satisfy all parties is difficult, if not impossible. Now to gain a proper perspective, historical background may be helpful in the hopes that all of us in the industry, both agents and companies, and the public that pays the bills, may approach this problem calmly and with understanding.

For many years all group insurance was sold. Commissions were paid to licensed agents and brokers who assisted in the sale and who were designated by the policyholder as agent or broker of record. In the rare instance of where a commission might not have been paid, to the best of my knowledge it was always charged in accord-

ance with the New York Insurance Department Letter of January 28, 1927.

In this period direct writers and self-insurance were insignificant factors. However, in the early 1940's, during the wage freeze, unions were negotiating with management for group insurance benefits; and both sides relied heavily upon licensed and qualified agents and brokers for guidance. And to the best of my knowledge at that time, the payment of commissions was not questioned; and the tendency, on the other hand, was towards liberality, and in some instances over-liberality, culminating in the New York hearings and hearings before the committees of the House and Senate in Washington in the early 1950's.

At that point, group insurance had been accepted as social insurance, with the United States and Canada the only countries in the world where the voluntary approach had really achieved stature. And I might say, that if we as an industry—and by industry I include the agents and brokers, as well—with the cooperation of management and labor, had not done this job, the Federal and state governments would have been required to do it to fulfill this public demand.

Now what has happened in the last decade, and where are we today? In the opinion of many in the industry there are really two major areas. First, where group insurance results from a sale; and this represents, to the best of my knowledge, over 99 percent of the cases that are sold. The commission practices that have been long established are continuing in that area.

Now we have the second area. This falls in what I might refer to as the "jumbo" area, and in this jumbo area additional benefits result largely from collective bargaining agreements. And here the amounts of premiums may be very substantial and huge, running into millions of dollars.

Let us take a look at the record thus far. The House and Senate committee investigation uncovered flagrant abuse in payment of excessive commissions to licensed agents and brokers. And I am certain that representatives of both management and labor recognize that they had an obligation to safeguard the interest of employees in the funds which have been set aside for employee benefits. Very shortly, legislation was enacted, as we all know, which recognized that that obligation did exist, and it required full disclosure of all commissions and service fees paid. This resulted in pressures to

cut down commissions to a point where they reflected the actual service rendered.

At about this time—that is, in the early 1950's—certain qualified, licensed life insurance agents and brokers, seeing an opportunity to capitalize on this situation, recognizing the large premiums involved and the public reaction to the abuses that had been uncovered, borrowed a page from the experience of self-administered pension plan advisers. They offered their professional services to management and labor on a fee basis.

Representatives of management and labor who have elected to work with consultants on this basis—and I again might add, to the best of my knowledge most of them are licensed insurance agents—indicate that they prefer to pay for services as rendered, and feel that a pre-determined scale of percentages to be applied to jumbo premiums can result in unrealistic payment for such services.

Now one additional thought was this. The advantages of self-insurance and the advocates of self-insurance are now on the doorstep of a lot of our larger policyholders. And we have all had the experience of having to defend our position. So it requires that we all take a long hard look.

It is my belief that the group writing companies sincerely recognize their obligation to the agents who have made them great. And it is my belief that most of the life insurance companies are strong supporters of the American agency system. Furthermore, we are prepared to support that system. However, we are not unmindful of the facts that were brought out in the Beers Committee report as well as in the report of the N.A.L.U.—I believe about two years ago—that the payment of so-called phantom commissions can hardly be justified in our economy as it is today. Thank you.

MR. SHEPHERD: Thanks, Bill.

I would like to ask Roger Hull to tell us a bit about the action that our Board took—and I believe the Executive Committee of the American Life Convention took similar action—in setting up a committee to deal with company-field communication problems. Roger has been in on this and can tell you how this evolved.

MR. ROGER HULL: Thank you, Bruce.

It was just a year ago, I believe, that several leaders of the New York State Association of Life Underwriters contacted several dif-

ferent company officers on an individual basis to suggest the possibility that, from time to time, some of the leaders of the Association, together with some of the company presidents, might sit together and talk about some of the issues that were causing some concern not only to them but also to other field people around the country.

Following these discussions we met, informally, with this group on several occasions. We found these gentlemen very constructive and very serious in their desire to make a contribution to a better understanding between management and the field people. We found them concerned, for example, about things that we might jointly do to enhance the stature of the career agent. We found them concerned about more emphasis on conservation and efforts to prevent twisting. We found them interested in doing more to emphasize net gain and insurance in force, and less emphasis on sheer volume; more emphasis on premium and less on face amount. And then, they were concerned, of course, about the elimination of the marginal agent.

Out of these discussions came a very clear conviction on our part. We found from them that they were concerned not alone about the areas where there might be differences in views, but they were also concerned about misconceptions and misunderstandings that existed in the field as to just what management policy might be.

It seemed clear to those of us who were involved in it that probably our main problem had been a lack of adequate channels of communication, so that the field realized that we were concerned in the companies, in most instances, about the same things they had been concerned about. We felt that it might make a real contribution if there could be some instrument, or some mechanism, through which responsible people in the field could, from time to time, come and sit down with a group of top officers of the companies and talk about things that were giving them concern and that we might work jointly together for the benefit of the business as a whole.

We suggested this to the Board of the Association. We were delighted to hear yesterday from Deane Davis that the Board took affirmative action, and that such a committee on field relations will be named and this will become a joint committee. I believe it is the intent to have the President of the Life Insurance Agency Management Association sit in as a liaison member of this group so that

the agency officers will be informed of any discussions that may take place between these various groups.

But it does seem to us that it is an excellent idea to have a means by which responsible people in the field—from whatever the source, whether it be National Association of Life Underwriters or at some state level—can have things that are giving them concern talked about with people in the management side of the business. We were delighted to hear the announcement yesterday.

MR. SHEPHERD: Thank you, Roger.

I see our good friend, Harry Gutmann, sitting there in the back of the room. Harry is a prominent leader of the New York State Association of Life Underwriters. Harry, I wonder if you would like to take the floor and say anything on this subject. We would be glad to hear from you.

MR. HARRY K. GUTMANN: Thank you, Bruce.

It is a pleasure to follow my own President to this microphone.

Naturally, we in New York State—and I think I can speak, too, for the National Association—are grateful that the project that we instituted here has moved forward as rapidly as it has. I for one feel that the main problem that has existed between the companies and the field has been the fact that there is no one to talk to at the proper time, and that, with this two-way channel of communication between the home offices and the field a good deal of the unrest that does exist in the field will be quickly and easily dissipated. We think this is a salutary step, and we are happy that it has taken place. We are looking forward now to the implementation of it, and to see how it will work out. We promise you our full cooperation because we think—even as Gene Thoré said yesterday that this industry can do better in Washington if all its elements are united—that on a home office-field level we can accomplish more by working together than by screaming in the front pages of the trade press.

MR. SHEPHERD: I am sure it will work out that way, and I personally am very happy that this step was taken.

I have a real pal out in the audience. I had asked J. Harry Wood of the Home Life to speak on this subject, but he just sent me a note saying, "Just skip me, it'll be okay." He won't have his feelings hurt. We are running a little short of time, so I am going to take advantage of Harry Wood's offer. But I'll tell you what I am going

to do, Harry. Some day I will get you up here and let you give a real talk on this subject when you have plenty of time, because it would be worth listening to, I am sure of that.

With that I will turn the meeting back to our President, Mr. Davis.

PRESIDENT DAVIS: The Program Committee, in deciding as to what the content of the program would be, assumed what they believed to be the fact—and what I believed to be the fact—that this working session is one of the most valuable and important parts of the program. I think it might be helpful to your incoming President if you were to express that as being so. Again, did you really enjoy this working part of the program which we have just had? If so, would you express it by your applause. [Applause]

That is the conclusion of the session, this morning, and we will meet at 12:30 in the Sert Room.

We are in recess.

The morning session adjourned at 12:15 P.M.

LUNCHEON SESSION

Thursday, December 15, 1960

MR. DEANE C. DAVIS PRESIDING

The meeting was called to order at 1:45 P.M.

PRESIDENT DAVIS: Please, may I have your attention. I will quickly present to you, the men who have directed the destinies of the Life Insurance Association during this year.

(Mr. Davis then introduced members of the Association's Board of Directors, who were seated at the head table.)

PRESIDENT DAVIS: I would like to pay a tribute to Mrs. Charles J. Zimmerman as Chairman of the Ladies Entertainment Committee. Would you please rise and let them just see you? [Applause]

We have a world of distinguished people in the audience here, but I'm going to introduce only one. It's a rare privilege when we can have a man with us at our meetings who is ninety-three years of age—which is something of an accomplishment in and of itself—who has had an insurance career in which he has been with one company for seventy-seven years. I introduce to you Mr. Frederick H. Ecker. Will you stand, please, Mr. Ecker, and just let them see you? [Applause]

And now, ladies and gentlemen, we come to the real meat of today's program. We have the pleasure of having with us the outstanding space expert in the whole world. I'm not going to waste your time nor his in a long introduction. I shall say only one or two things, maybe three things about him. The first is that he won his Bachelor's Degree at the age of twenty and received his Doctorate within two years after that. He began when he was twenty-two his direct interest in the field of space travel with a German society.

You have read in the newspapers, I'm sure, many, many times of his connection with the German Government. I thought as I was sitting here today talking with him at lunch how fate sometimes takes a hand in running the world, and I wondered what the fate of the world might have been if in the closing days of the war Dr. von Braun had not made the decision, in collaboration with a hundred other persons as the Russian artillery was being heard over the hill just beyond to surrender to the United States Government and bring that team of ballistic experts to the United States.

As you know, he and his group, or practically all of them, became United States citizens in 1955. His official connection has changed so many times since he has been here that I will not bore you with that, but you will recall that the Army Ballistic Missile Agency development team which had been headed by him was made responsible for the development and launching of the NASA space vehicles. He personally has directed the development of all of the major outstanding rocket programs which we have at this point.

He is a husband and a proud father of three children—one twelve, one nine, and the last, born six months ago. I had the pleasure of hearing him at our home office dedication ceremony in Montpelier, Vermont, on October 12. He was introduced by one of my associates who said, "Dr. von Braun, there is no point in my introducing you to this audience, but I would like to introduce this audience to you." And I think that's a pretty good way. And so, Dr. von Braun, the audience that you see out there is charged with the responsibility for the savings of the next three or four generations of young people in America.

Just before I present him, I want to touch on one human interest item I picked up as I was talking with him, and that is, that his twelve-year-old girl, who was born in Texas, made the comment just before he came up here: "You know, Dad, you have two children born in the United States and one in Texas." Dr. von Braun!

WHY MUST WE CONQUER SPACE?

Dr. Wernher von Braun then addressed the meeting as follows:

MR. PRESIDENT, HONORED GUESTS, LADIES AND GENTLEMEN:

I want to talk to you today about the question—why should we conquer outer space? And then I would like to tell you a little bit about what we are doing in this field.

My talk here today seems to get off in a kind of awkward way because as you probably know and learned from the papers that last night our last Atlas Able rocket designed to orbit the moon fizzled again, and so now we have to wait for approximately six months until we can try something like this again.

I have no excuse for this; I have only an explanation, and the explanation is that these rockets are very complicated. We are venturing into a new field and we have to be willing to stick our necks out.

Now you people in the insurance business live in a world of calculated risks and you don't give up your insurance business just because every now and then somebody dies or a house burns down. The same goes for us, too, in this space field.

Many people ask themselves why we announce our failures in this field. The Russians don't do it. But in Russia, in order to get support for a program like this, all it takes is one man in the Kremlin who wants such a program. He makes a few telephone calls and directs his Director of the Budget and his Chief Rocket Administrator to get going, and that's about it.

In a free country, in a free society, the process of getting funds for such a venture is not quite that simple. We have to ask the Congress for the funds, and in all my dealings with the United States Congress—I testified many a time before committees of the House and the Senate—I learned one thing, that no Congressman and no Senator ever supported any program that his own constituents didn't want him to support.

This means in very simple terms that we have to carry our case to the people, to the taxpayers. We have to tell them why we must go into outer space—and this is why I'm here—but we also have to tell them that there is no easy way to the stars; that this is a costly venture; that it is full of pitfalls and that for every successful flight of such a space rocket, there will be many, many failures.

Without telling the American public that there will be failures, without really letting them in on the facts of life in this difficult field, we cannot hope to muster their continued support. If we just tell them whenever something goes well, they would never understand why it costs so much, why we have to tie up so many people in these programs. This is the price that goes with an intelligent civilization, a civilization where the public at large is asked to help its policy through its elected representatives.

Approximately eighteen months ago, in the wake of the Russian Sputniks and Luniks, the Congress and the Administration decided to put the program of scientific exploration of outer space in the hands of a civilian space agency, the so-called National Aeronautics and Space Agency or for short, NASA. Until the first of July, 1960, my associates and I worked for the United States Army Guided Missile Program.

The National Space Administration made two attempts to persuade the Army to turn this development team over to the NASA. On the

first try, the Army said "No." There may have been two good reasons for this. One was that the Army just didn't see why the Army, having placed the first satellite in orbit around the earth and the first satellite around the sun in the Western World, should be ruled out of the space business. This is understandable.

The second reason, and maybe a more important one, was that the leaders in the United States Army knew that in the atomic age you cannot run an Army without a potent guided missile force. The Army, after all, depends on draftees and the Army would be very, very severely affected in their overall morale if word would get around that it was no longer capable of equipping the boys with the most modern weapons available.

On the second try, the National Aeronautics and Space Administration succeeded. One reason for the success was that the Army by now had realized that NASA was here to stay, which was not so obvious to many people at the beginning, but a second reason was that a very fine agreement could be worked out with the National Aeronautics and Space Administration and the Army to assure the Army of continued support of some Army missile programs by our Huntsville guided missile team, now the space team of NASA.

So we are now since the first of July, 1960 a part of the NASA and the former Army Ballistic Missile Agency is now called the George C. Marshall Space Flight Center of the National Aeronautics and Space Administration.

What is NASA's objective in outer space? I think this is really something we must explore a little more thoroughly to understand why we ought to go into space in the first place. NASA has no assignment to develop a space transportation system. NASA has no assignment to protect this country militarily from invaders from outer space, be these little green men from Mars or Russian missiles descending upon us from outer space.

NASA's charter is very simple. It says "acquire more knowledge about the environment of outer space and about the moon and other planets."

NASA's budget in the present fiscal year, the fiscal year 1961 which ends on the first of July 1961, is \$915 million. The program for fiscal year 1962 beginning the next first of July is presently estimated at approximately \$1.1 billion. So we are talking here about roughly a billion dollar a year program, and this billion dollar a year program,

as I said before, is solely devoted to the acquisition of new knowledge. It is there to satisfy some people's scientific curiosity.

In this respect, NASA is absolutely unique. I think no country in the world has ever launched a billion dollar a year program just to satisfy some scientists' curiosity. And why is it so important to satisfy our curiosity? After all, outer space has been there for hundreds of millions of years. The chances are it will be around for many more hundreds of millions of years, so why are we all of a sudden in a hurry to learn so much about it?

Well, let me tell you something here about the mechanism of scientific progress. I think it is one of the least understood phenomena of our times, and maybe one of the most fateful ones.

Approximately twenty-five years ago, an American astrophysicist became curious about a real puzzling question. He calculated that if the sun was just radiating the heat away out of this initial temperature—its initial energy—the sun must have cooled down so rapidly, that during the hundred million years or so that we know the earth has existed the sun must have cooled down to a dark red glow.

But the sun is just as hot as it was several hundred million years ago. So he asked himself, how come? What mysterious mechanism is there at work inside the sun to keep the oven stoked, to provide the heat to compensate for the radiation losses?

He analyzed the spectrum of the sun and discovered in his photographic laboratory where the spectrum was analyzed the phenomenon of thermonuclear fusion, the fact that hydrogen atoms in the solar atmosphere under certain conditions of pressure and temperature could fuse into helium atoms, thereby releasing tremendous energies. This was the mechanism that keeps the sun hot—thermonuclear fusion.

Now you all know that man's attempt to simulate thermonuclear fusion on earth was first carried out on a small island in the Pacific when the first hydrogen bomb was exploded. This island vanished off the map and it was the biggest bang the world had ever heard. It also created the most terrifying weapon ever invented by man. But thousands of scientists are at work today to harness thermonuclear energy, to convert thermonuclear energy into useful power; maybe to convert it into electricity. And in this technological age in which we live, the standard of living can best be defined by the number of electrical slaves, so to speak, that are working for us day and night. It is these electrical slaves, these unseen kilowatt hours that keep our

iceboxes running, our washing machines running, our dishwashers, our vacuum cleaners, and so forth. If we put more kilowatts to work for everybody, our standard of living will rise, provided, of course, we can make these kilowatt hours for an even lower price.

I think I am not sticking my neck too far out when I predict here that most of you will still see the day when thermonuclear power will be used to make electricity, when these tremendous energies will be harnessed to raise the standard of living on earth. I think this will be the greatest bonanza the earth has ever seen, because it means power, and it means electrical power, electrical slaves, for everybody for free or for a very low price. Consider this mechanism and us astrophysicists being curious about what keeps the sun hot, men trying to duplicate this phenomenon on earth creating a hydrogen bomb and, at the end, a bonanza in electrical power generation and an increase of wealth for everyone.

I can give you other examples. About a hundred years ago, an obscure Austrian monk made some experiments with white and red peas in the garden of the monastery. He crossbred these peas in order to find out the laws of heredity. He wanted to know in simple terms how many white types of peas with white blossoms would come out of this crossbreeding and how many red. In conducting these experiments for a number of years just born out of curiosity, he established what became known as the Mendel laws of heredity. All our work today in breeding sturdier cattle, in growing hardier corn that can be planted in rougher climates, can be directly traced back to this work of this obscure Austrian monk.

A Canadian chemist one fine day became curious about what happened in common mold. The result of his studies led to the discovery of penicillin which has saved millions of lives all over the world.

Sixty or seventy years ago, a German physicist was curious about how an electrical current travelled through a vacuum, so he evacuated a glass jar and fed an electric current through the vacuum. Then he put all kinds of obstacles in the path of the electrical current to see how the current would travel through that obstacle.

Suddenly he noticed that a barium process plate in the far corner of his laboratory was radiating in a greenish hue everytime he turned the current on. Evidently some radiation traveled from this glass jar to that plate and made it glow. He placed all kinds of obstacles between the glass jar and that plate and couldn't stop the radiation.

Finally he put his hand in the path and, to his great consternation, he saw his own bone structure clearly portrayed on that plate. In this way, X-rays were discovered which proved to be one of the most powerful tools for medical diagnosis and medical therapy. The man who discovered X-ray wasn't even a medical man. He had no idea what he was running into. He was just curious on how an electrical current travelled through a vacuum.

I think these examples should suffice to say that we have ample evidence that if we just satisfy our innate curiosity, things may come out of it that nobody has ever dreamed of. More often as not, the results will be very different from what we were originally aiming at.

I'm tempted at this point to relate to you a little story that Dr. Edward Teller, generally credited as being the man who created the hydrogen bomb, likes to tell. Dr. Teller said when Christopher Columbus took off on his immortal voyage, the purpose of the exercise was to improve trade relations with China.

"This problem," says Dr. Teller, "has not been solved to this very day." [Laughter] But then he says, "If we look at the by-product, we can still be quite satisfied."

So maybe this is the way it is going to be with outer space. We are in a way hard put today to account to you in dollars and cents what the exact pay-off of our billion dollar a year space program will be, but I think if we just go back to these historical precedents we can say we can rest assured that just by throwing open the gates of the universe we are likely to discover so many things that we'll always be able to pay you back—you the taxpayer—with the discoveries we will make.

This does not mean, however, that we are in no position at all at this time to identify a few areas where very immediate pay-offs can already be clearly discerned. It simply means that we are not in a position yet to say whether these will really be the most important pay-offs in the long run, as historians may see them a hundred or five hundred years from now.

A few months ago, the great American Telephone and Telegraph Company announced that AT&T, with the help of their Bell Telephone Laboratories, would establish a fleet of communication satellites to install a transatlantic telephone system far superior to anything we have today. Now, most of you know that AT&T doesn't exactly have a reputation for going half-cocked into business ventures spending their own money. They are about the most hard-headed bunch of

people that you can find anywhere. So if these people decide that a communications satellite system is a sound business venture, then you can probably bank on the fact that they have evaluated not only the technical feasibility of this problem very carefully, but also the monetary returns.

Why do we need communications satellites? The number of telephone calls and wire messages exchanged between Europe and America have increased during the last quarter of a century by approximately a factor 10 every seven years; that is, we have ten times as many words exchanged by telegraph or telephone in 1960 than in 1953. This trend seems to be quite stable. You just remember this figure—a factor 10 every seven years.

Now, all our transatlantic cables combined can handle approximately 70 telephone calls at the same time, and the reason that you still pay \$12 for a three-minute telephone call to Europe and have to wait for hours to get your connection, and finally when you have it you can't understand the other fellow, just goes to show that this system leaves a lot to be desired. A transatlantic cable from Newfoundland to France costs about \$200 million, and it will increase our traffic handling capacity only in a very, very insignificant way. So a very meager investment probably involving several billion dollars would be necessary to really keep up with the growing needs.

How about radio? There's a fundamental difficulty with radio, direct radio to Europe. You can either operate on long waves which reliably follow the curvature of the earth because they hug to the ground, but the number of messages that can be accommodated in these very long waves, or low frequency waves, is very limited. Moreover, the entire frequency spectrum in this area is already so solidly tied up by existing commitments and existing installations that there is simply no more room to accommodate commercial traffic.

The other alternative is what we call ionospheric scatter radio. This works with short waves. You beam these waves in the general direction of Europe and hope that you will find some electrically charged clouds or layers in the higher atmosphere which will be friendly enough to bend your waves down so that they follow the curvature of the earth. These friendly layers are sometimes there and sometimes they are not. As a result, ionospheric scatter radio is a very freakish thing. You may fade out, your voice may fade out in the middle of a conversation. You just can't rely on it.

It is for this reason, also, that transatlantic television so far has not succeeded.

With the idea of putting communications satellites into orbit, we can do away with all of these difficulties. You can do this in various ways and here is the way AT&T proposes to proceed. They suggest putting something like twenty-five relatively small 300 pound active repeater satellites in orbits anywhere between about 2500 miles altitude and 5000 miles altitude.

These satellites will run around the earth and simply by statistics you can say, a statistical probability, that there will be at least two or three over the horizon of a typical American city and a typical European city all the time. These repeater beacons can do exactly what a little amplifier station at the bottom of the ocean does in these cables. It receives the signal radioed up to it from the ground and the received signal is put on to a transmitter and the transmitter sends it back. At these altitudes, the satellite is so high up that it is in simultaneous line of sight contact, say, with New York and Paris.

In this case, therefore, because we don't depend on refraction in the atmosphere, an ionospheric scatter, we can use microwaves. We just flash our message with a dish-shaped antenna up to that repeater satellite and the repeater satellite sends it back to Paris and Paris also has a transmitter that sends the answers back over the repeater satellite. It is presently planned that at least twenty-five such repeater satellites will be established within a few years. You can make a pretty good bet that five years from now you will be able to telephone to Europe via satellite.

There is another possibility in using satellites for communications purposes, and this is in the area of television relays. I mentioned before that because of these electronic difficulties it is not possible today to link the European and the American continent together on television. With a repeater satellite you can do that. In this particular case, it is planned to do it in a somewhat different fashion; namely, with a so-called stationary twenty-four hour satellite. Now, what is a twenty-four hour satellite? Imagine that you put a satellite up in the plane of the Equator, in the plane of the Earth Equator, at an altitude where its period of revolution is exactly twenty-four hours. Now that altitude happens to be 19,500 nautical miles, or about 5 earth radii.

If this satellite travels like the earth from west to east, then such a satellite in a twenty-four hour orbit will come at a standstill over one

point of the Equator. You can pick that point in advance just by timing your firing correctly. For example, you can aim it in such a way that it finally comes to a relative halt with the earth underneath over the mid-Atlantic—shall we say a little bit east of the mouth of the Amazon River. In such a position, 19,000 nautical miles out into space, the satellite will sit like a star in the sky day and night. In other words, you can aim an antenna in New York under a certain angle of elevation and certain direction, and day and night you will know that behind the clouds there, there will be that repeater satellite stationary sitting in the sky. They can also see it from Paris by just aiming in another direction. Of course, if you go to the mouth of the Amazon it would be right overhead.

So such a stationary repeater satellite, or twenty-four hour satellite, is an ideal relay for television. I do not know whether our European audiences are quite ready to take in "Gunsmoke" and things like this. So maybe our television programs must be adjusted to their tastes a little bit and maybe we even have to take into consideration that there is a certain time factor involved. Because they want to hear it at nine o'clock their time, which is only five o'clock in the afternoon or four o'clock in the afternoon our time, but I could imagine that it would become popular once it is proven to be feasible.

The greatest importance of such a television system, however, may lie in the political area. This is the time of competition for the souls of the uncommitted people in Africa, in Asia, all over the world. You can rest assured that the Russians, as masters of propaganda, will not overlook the tremendous potential of a television relay satellite in their efforts to influence these people. And I think it may be of utmost importance that people in Africa and Asia, if they see television, get an English language program rather than the Russian language program.

Another area where satellites will have a very immediate practical utility is in the area of weather forecasting. I'm sure most of you have seen the pictures produced by the Tyros I and Tyros II meteorological satellites. These are satellites equipped with a little television camera looking down towards the earth. What these cameras see can either be radioed down directly over a television carrier frequency to the ground, so that you see simultaneously what the satellite sees, or the satellite's pictures can be stored on what we call video tape, which is essentially a magnetic tape capable of storing moving television pictures. If you use video tape, you can therefore store pic-

tures taken on the other side of the globe and play them back upon radio signal from the ground, once that television satellite is in line of sight contact, with an American ground receiver station. This has been done repeatedly and the quality of the pictures that we can expect in this area will continuously improve.

I am convinced that these meteorological satellites will in the not too distant future become the most powerful tool of weather forecasting ever known to man. One of the most important factors affecting the development of the weather on earth is the change of the clouds, of the overcast pattern over the globe. One would think that this information is easily accessible, but actually it is not, and the reason is that 70 percent of the world is covered with oceans where we have no observation stations and a great percentage of the land masses are jungles, deserts or polar areas where we also have no permanent weather stations that send the information back to earth immediately, without delay.

A satellite going around the earth sixteen times a day is an ideal tool for telling us all the time how the pattern of cloud coverage changes and where solar energy for lack of cloud coverage is absorbed by the earth and where due to cloud coverage most of the solar energy impinging upon the earth is reflected back into outer space.

It does not take much imagination to see that in the future weather forecasts based on weather satellites of this kind may be combined with weather-making techniques. In the Middlewest, the rain seeders are already pretty well known. These are operations whereby silver iodide is seeded into the clouds for the purpose of making the clouds give up humidity, the idea being that the man who pays for it gets the rain and not his neighbor. I think in the very near future we will have, if not complete, weather controls, at least some humble beginnings in this direction, and I think within a generation or so the old Mark Twain complaint that everybody talks about the weather and nobody does anything about it will also be a thing of the past.

I think it also doesn't take much imagination to see, when you can look down with a television camera and observe the clouds that with somewhat better optical attachment to these cameras this can be a very potent military tool of reconnaissance. After the U-2 incident, of course, our capability of appraising the Russian military build-up has greatly suffered and some new tools must be invented to get this vitally necessary intelligence without the chance of precipitating

a global holocaust. I think the reconnaissance satellite may be an answer to this problem.

So far, outer space has not been contested. The Russians feel free to send a satellite over United States territory, so just by power of precedent, we can say, we will send ours over their territory also. In fact, we are doing it right now, only not with television cameras powerful enough to be of any military value.

Aside from these more tangible applications of our space endeavors, there are many, many others which may turn out to be even more important in the long run. For example, with the very first satellite we ever fired on this side of the world, Explorer I, the great Van Allen Radiation Belt was discovered. This is a huge belt of trapped radiation around the earth which, as we have learned, profoundly affects things like radio communications on the earth, Northern Lights, and other things. As we improve our satellites, we will learn more about the light emitted by other stars. This may sound very remote to you, but don't forget that example with the thermonuclear energy that was discovered in just this way.

Actually, at the bottom of our atmospheric shell, our astronomers are very greatly hampered in observing the universe. It is as though they were sitting in a basement looking out through a dirty window called the atmosphere. This atmosphere is transparent only for what we call visible light, but by far most of the light emitted by the stars is in the ultraviolet, in the X-ray region and beyond, and all these rays simply do not penetrate the atmosphere. We never so far had a chance to look at the universe in the light of these other frequencies and tremendous discoveries are likely to occur once we can do this. We are presently building orbital telescopes, both in the visible and the ultraviolet light, and I think that we can really expect a lot of new insight as to what makes the universe tick by putting this equipment to work.

I think in the long run the greatest pay-off of our outer space program will be to send man himself into outer space. Now, many people doubt the necessity of doing this. They say, "Well, if we can build these fabulous automatic satellite apparatus and send a radio transmitter out into the planetary void to radio back messages over millions of miles, why do we have to send men out there?" "Why," as the good old lady said, "rather than going to the moon, why don't we stay at home and watch television as the good Lord intended?"

The answer is simple. To explore some phenomena, such as radiation intensity, you just have to have suitable equipment, such as Geiger counters and so forth, the simple reason being that the human body has no sensors to give us information in these fields. But when it comes to exploring the unexpected, things are different.

Just imagine one fine day, we will land a rocket on Mars. There is ample evidence that there are at least lower forms of life on Mars and maybe there are higher forms of life on Mars. What that life is we don't know, but we do know that it could develop on an entirely different planet for hundreds of millions of years according to a very different pattern than that on earth and never have any correlation or relationship with the pattern of life developed here. It is virtually impossible to lay out equipment to explore this. The unexpected would become the rule and when it comes to the task of correlating unexpected observations, there is no electronic computer feasible that could even remotely match the capability of a human brain. It is for this reason that I am convinced that in the age of space flight, explorers like Vasco da Gama or Columbus or Pizarro will play just as important a part as they did five hundred years ago.

Our man-in-space program moves along in three steps. The first step is ballistic flights with Redstone rockets. We can expect the first manned flights of this kind going through a two-hundred mile ballistic projectory in a very few months. After this program, we will switch to the Atlas Intercontinental Ballistic Missile as a carrier. This missile is capable of putting a single astronaut in his capsule into orbit. Flights of this kind can be expected in the latter part of 1961.

Thereafter, as a third generation carrier, the man in space program will be handled by our big, new, multipurpose space truck, the Saturn space rocket. The Saturn space rocket can carry several astronauts into orbit simultaneously. It can even send three men around the moon, so it is a real space ship. This Saturn superrocket is the most important program assigned to my field center in Huntsville, Alabama, the George C. Marshall Space Flight Center.

[Dr. von Braun then showed various slides and a film illustrating the Saturn superrocket.]

Ladies and gentlemen, this ends my presentation.

PRESIDENT DAVIS: Thank you, Dr. von Braun. At this point, I shall call your new President to the rostrum and turn his responsibilities over to him. He has my sympathy and my admiration.

MR. WILLIAM P. WORTHINGTON: If I seemed concerned at the start of this meeting, it is only because I read of the slight difficulty with the Atlas this morning, and we happen to have the eight astronauts insured! I was looking before lunch for some reinsurance facilities but, after Dr. von Braun's speech, I find my confidence completely restored.

Doctor, we're greatly indebted to you. Yesterday I was surrounded largely by lawyers and actuaries, and then to cap it off I am surrounded—a man like this can completely surround you—by one of the world's greatest scientists. I am just a mere layman expressing our great appreciation for what you have told us and for your presence here today. Thank you very much.

Now, my other concern was the prospect of following a very distinguished President like Deane Davis. Yesterday he spoke with some fairness toward actuaries, a greater enthusiasm toward lawyers, and it was obvious that he was prejudiced toward judges. As in his former capacity as a judge, he has conducted the affairs of this Association with great judicial temperament and very fine good humor, which has not been my experience before judges. They seem to have been a lot sterner and completely without any sense of humor, as far as the outcome was concerned.

But I do feel that at this time you will wish with me that enough of his judicial temperament has rubbed off on this gavel and some of the other things that he has handled, and that there might be left enough for inoculation for me in the coming year. I think at this time that you would like to express to him your appreciation of the outstanding job that he has done for us in the past year. [Applause]

The Fifty-fourth Annual Meeting adjourned at 2:30 P.M. *sine die*.

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Association's 1951 Legislative and Legal Activities. A Report to the Membership of the Life Insurance Association of America. By Henry R. Glenn, Associate General Counsel. December, 1951.

Association's 1953 Legislative and Legal Activities. A Report to the Membership of the Life Insurance Association of America. By Henry R. Glenn, Associate General Counsel. December, 1953.

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- Address. By Adolf A. Berle, Jr., Professor, Columbia University Law School. May, 1951.
- Address. By Hon. Prescott S. Bush, U. S. Senator from Connecticut. December, 1959.
- Address. By L. L. Colbert, President, Chrysler Corporation. December, 1957.
- Address. By Hon. Albert Conway, Chief Judge, Court of Appeals, State of New York. December, 1956.
- Address. By Hon. Henry Cabot Lodge, Jr., United States Representative to the United Nations. December, 1959.
- Address. By Hon. Wade O. Martin, Jr., President, National Association of Insurance Commissioners; Secretary of State and ex-officio Insurance Commissioner of Louisiana. December, 1952.
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- Basic Research and Financial Processes. By William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System. December, 1957.
- Canada—Today and Tomorrow. By James Muir, Chairman and President, The Royal Bank of Canada. December, 1956.
- Competition for Manpower. A Symposium. *Participants:* John A. Mayer, President, Mellon National Bank and Trust Company; Abram T. Collier, Vice President and General Counsel, John Hancock Mutual Life Insurance Company, David E. Kilgour, President, The Great-West Life Assurance Company. December, 1960.
- The Cultural Lag. By Devereux C. Josephs, Former Chairman of the Board, New York Life Insurance Company. December, 1959.
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- Investing in Another Renaissance. By Roy W. Johnson, Director, Advanced Research Projects Agency of the Department of Defense. December, 1958.
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- Looking Ahead: The Economic Background. By Solomon Fabricant, Director of Research, National Bureau of Economic Research. December, 1955.
- Reflections on Capital Supply and Demand. By Hon. W. Randolph Burgess, Under Secretary of the Treasury. December, 1956.
- Research in the Economy. By Dr. Augustus B. Kinzel, Research Vice President, Union Carbide Corporation. December, 1958.
- Symposium on International Affairs. *Participants:* Adolf A. Berle, Jr., Professor, Columbia University Law School; Nelson A. Rockefeller, Director, Rockefeller Center, Inc.; Clarence B. Randall, Special Assistant to President Eisenhower. December, 1957.
- Technique of Successful Living. By Dr. Norman Vincent Peale, Rector, Marble Collegiate Church, New York. December, 1952.
- The True Challenge of Asia and Africa. By Dr. Charles Malik, President of the General Assembly of the United Nations. December, 1958.
- Vanguard and Its Implications. By Hon. James P. Mitchell, Secretary, U. S. Department of Labor. December, 1957.
- Where Will Tomorrow's Leaders Come From? A Panel Discussion. *Moderator:* Dr. Lyman Bryson, Counselor on Public Affairs, Columbia Broadcasting System, Inc. *Participants:* Horace W. Brower, President, Occidental Life Insurance Company of California; Walter H. Wheeler, Jr., President, Pitney-Bowes, Inc.; Roy E. Larsen, President, Time Incorporated; Thomas A. Bradshaw, President, Provident Mutual Life Insurance Company of Philadelphia. December, 1956.
- Why Must We Conquer Space? By Dr. Wernher von Braun, Director, George C. Marshall Space Flight Center, National Aeronautics and Space Administration. December, 1960.

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1957-1960, inclusive

(For Cumulative Index 1907-1956 see Proceedings of Fiftieth Meeting)

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Chairman and Counsel, Grover Cleveland, 1907-1908.	
Attorney and Secretary, Robert Lynn Cox, 1907-1908.	
General Counsel and Manager, Robert Lynn Cox, 1908-1916.	
Secretary, George T. Wight, 1911-1917; Robert B. Crane, 1946 to date; George V. Hanley, 1957; Ralph J. McNair, 1957-1959.	
Secretary and Manager, George T. Wight, 1918-1933.	
Manager and General Counsel, Vincent P. Whittitt, 1934-1945.	
Executive Director and General Counsel, Dave E. Satterfield, Jr., 1945-1946.	
Manager, Bruce E. Shepherd, 1945-1957.	
Executive Vice President, Bruce E. Shepherd, 1958 to date.	
Vice President and General Counsel, Eugene M. Thoré, 1958 to date.	
General Counsel and Treasurer, Henry R. Glenn, 1958 to date.	
Assistant Manager and Actuary, Charles C. Taylor, Jr., 1925-1931.	
Assistant Manager and General Counsel, Vincent P. Whittitt, 1932-1933.	
General Counsel, Job E. Hedges, 1918-1925; Vincent P. Whittitt, 1929-1931; Dave E. Satterfield, Jr., 1945; Eugene M. Thoré, 1947-1957.	

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Associate General Counsel, Robert L. Hogg, 1943-1944; Henry R. Glenn, 1949-1957; Manuel M. Gorman, 1958 to date; Kenneth L. Kimble, 1958 to date; Eldon Wallingford, 1958 to date.	
Assistant General Counsel, Robert L. Hogg, 1935-1943; John V. Bloys, 1944 to date; Henry R. Glenn, 1946-1948; Eldon Wallingford, 1946-1957; Manuel M. Gorman, 1951-1957; Kenneth L. Kimble, 1957; James Andrews, Jr., 1958 to date; Charles K. Peters, 1960 to date.	
Actuary, John J. Brinkerhoff, 1908-1918; George W. Smith, 1919-1922; Bruce E. Shepherd, 1932-1945; Albert Pike, 1946 to date.	
Director of Health Insurance, James Andrews, Jr., 1953-1957; Albert V. Whitehall, 1958 to date.	
Associate Actuary, George H. Davis, 1956 to date.	
Assistant Vice President, Ralph J. McNair, 1958 to date.	
Attorney, William J. Tully, 1908-1909; Alfred Hurrell, 1911-1915; Frederic G. Dunham, 1916-1927; Vincent P. Whittitt, 1927-1929; Hobart S. Weaver, 1929-1935; Clyde W. Savery, 1936-1939; Frank DeF. Ross, 1940-1944.	
Statistician, Orlow H. Boies, 1911-1924; Charles F. Creswell, 1925-1947.	
Associate Attorney, Frank DeF. Ross, 1932-1940.	
Assistant Attorney, Clyde W. Savery, 1933-1936.	
Assistant Secretary, Orlow H. Boies, 1907-1911; George T. Wight, 1908-1911; Mott A. Brooks, 1918-1939; Vincent P. Whittitt, 1922-1927; Hobart S. Weaver, 1928-1929; Robert B. Crane, 1930-1946.	
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