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COLLECTION

George Bush Personal Papers
Zapata Oil File
Personal Alphabetical Files

FILE LOCATION

Pension Trust [1954]

OA/ID Number

Date Closed 10/19/99

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]

F-1 National security classified information [(b)(1) of the FOIA]
F-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
F-3 Release would violate a Federal statute [(b)(3) of the FOIA]
F-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

PROFIT SHARING

A Positive Investment For

- **OFFICERS**
- **STOCKHOLDERS**
- **EXECUTIVES**

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Third Edition

The Spread of Profit Sharing

Corporate officers, executives, employee-stockholders, as well as other employees, can *personally* benefit, taxwise, from a deferred-benefit profit-sharing plan to a much greater degree than has been commonly recognized.

However, the realization that here is a legitimate, government-approved way to build up, *tax-free,* a retirement fund and get deferred compensation at minimum tax rates is beginning to spread — especially in the small and medium corporations. The rate at which these plans are being submitted to the Commissioner of Internal Revenue for tax exemption has already reached *four times the rate of five years ago.* The number is still going up.

Why This Interest in Profit-Sharing Trusts?

There are two big reasons:

I. The growing awareness of the great tax advantages both to corporation and executive.

II. A profit-sharing trust imposes no financial strain on the corporation.

No Fixed Commitment

Many corporations, especially small or medium companies, are reluctant to undertake the more or less fixed obligation of a pension plan. Although an employer can skip one or two contributions to a pension plan, yet the fund must be kept up to par in good times and bad if the plan is to survive.

The profit-sharing trust, on the other hand, requires the company to contribute only to the extent profits permit. In good times (when taxes are high) the contributions will be larger than in bad times. If there are no profits, no contribution is made. Moreover, it is always possible to place a ceiling on the contribution, just as it is possible to make no contribution until profits have risen above a specified level or a predetermined yield on invested capital.

Advantages to Executives

Stockholder-officers and other executives of corporations are on a treadmill today. Stiff corporation and personal income-tax rates deprive them of the fruits of their labors. If they increase the profits of the business, only a trickle slips through the twin tax strainers. This is especially true of profits allocated to dividends. Even where profits can be paid out to executives in the form of salary increases and bonuses, personal income taxes skim off most of the cream.

But under a tax-exempt profit-sharing trust the employee's share escapes both the corporate and personal tax blows. The corporation's contribution is deductible from its income. The trust's income is exempt from tax. And the employee's share is not taxed until paid out; and then generally, it is taxed at the lower long-term capital gain rate.

And so, executives are starting to realize:

I. A deferred-compensation arrangement is a sound way for them to salvage more than a pittance from the tax man.

II. Of all deferred-compensation methods, the tax-exempt profit-sharing trust is generally the best and most efficient.

Advantages to the Corporation

Because contributions up to an average of 15% of payroll may be taken as an income-tax deduction, a great share of your company's payments to a profit-sharing trust comes out of money that otherwise would go for taxes.

An Example

Let's take a look at a typical small corporation — call it the X Y Corporation — and its stockholder-executives. Assume two situations:

Situation 1: The corporation has no profit-sharing trust.

Situation 2: The corporation has a Treasury-approved (hence tax-exempt) profit-sharing trust which was set up some time in 1954 but made effective as of January 1, 1954, the beginning of the corporation's taxable year. The essential features of this profit-sharing plan are:

(a) All officers and employees are members.

(b) The corporation agrees to contribute 25% of each year's profits before taxes, but in no event more than the amount deductible on its tax return.

OBSERVATION→ The law limits the normal deduction to 15% of the payroll of the officers and employees who are members of the plan. However, if any year's contribution is less than 15% of the payroll, the difference may be carried over to years when profits permit a contribution of more than 15% of payroll.

(c) Individual accounts are set up under the plan for each member. The company contribution each year is allocated to these accounts in direct proportion to annual salaries. At the end of each year the trust earnings, which are tax-exempt, are apportioned to the accounts of the members.

(d) Members can draw down their entire shares if they retire for age or disability. Upon the death of any member while employed, his share is paid over to his beneficiary; or if he hasn't designated a beneficiary, then to his estate.

(e) Each year of membership entitles a member to a "vested right" in 10% of his account. Thus, if he leaves before ten years of membership he forfeits part of his account. The forfeited part is then redistributed among the accounts of the remaining members.

Corporate Picture at End of 1954

The corporation's profits in 1954 before taxes are $60,000. It has a payroll of $85,000. Thus, 25% of profits before taxes is $15,000. However, 15% of payroll is $12,750. Accordingly, the contribution for 1954 is $12,750, the lesser of the two figures.

The net cost to the corporation of its '54 contribution of $12,750 to the plan is that amount less the tax saved by the deduction allowed on the '54 tax return for the contribution. The total rate of corporate normal tax and surtax is scheduled to be cut to 47% (as to income above $25,000) effective as of April 1, 1955. But there's a possibility of a rate of 50% or higher. So, let's assume that the total corporate normal tax and surtax rate is 50% for '54 and subsequent years (i.e., 28% normal tax plus 22% surtax on income above $25,000). On that basis, the actual cost of the '54 contribution to the corporation is $6,375, as appears from the following table:

	No Plan	With a Plan
Profit before taxes	$60,000	$60,000
Contribution to plan	—	12,750
Income subject to tax	$60,000	$47,250
Normal tax and surtax	24,500	18,125
Income after taxes	$35,500	$29,125
[Thus, actual cost of $12,750 contribution is $6,375.]		
To funded reserves and surplus	$14,500	$14,125
Balance for dividends	$21,000	$15,000

Greater Profits for Corporations

Hundreds of corporations will attest that not only have their profit-sharing plans cost them nothing, but that their profits have greatly increased. The main reason for this is that the plan gives the employees the sense of ownership, hence a feeling of responsibility for the welfare of the company, since their own fortunes rise with the corporation's.

Corporations with profit-sharing plans report great increases in efficiency, production per employee, interest in work. On the other side of the scale, they report sharp decreases in turnover, absenteeism, strikes, grievances, waste of time and materials. It is not surprising that many of these companies have been able to cut selling prices and yet raise wages, pay higher dividends, and increase surplus.

Advantages to the Executive

Now let's see how the executives of X Y Corporation fare, first, without the profit-sharing plan, and second, with the plan:

JA, the president, is 40, married, with two children. He owns 50% of the stock. His brother owns the rest.

JA draws an annual salary of $12,000 and has additional income of $3,200 from investments. Without the profit-sharing plan his dividends from the company for 1954 would have been $10,500; and with the profit-sharing plan, $7,500. His wife has no income of her own. Living expenses take $11,000 a year. What is left goes into stocks yielding an average of 4%. His brother's picture is much the same.

	No Plan	With a Plan
JA's income before tax	$25,700	$22,700
Income tax (standard deduction; dividend tax benefit)	5,700	4,700
Income after taxes	$20,000	$18,000
Living expenses	11,000	11,000
Available for private investments	$ 9,000	$ 7,000
Allocation for year in profit-sharing plan	—	1,800

Thus, the profit-sharing plan cuts JA's funds for private investment in 1954 by $2,000. In return, however, JA has $1,800 earning income in a tax-exempt trust. And the trust also has $10,950 in the accounts of his brother and the other employees.

Accumulation Through the Years

Let's see what would happen if tax rates remain the same and the events of 1954 repeat themselves year by year:

Investment yield.—We assume that JA's private investments would earn 4% a year. That, however, is before taxes. Even under a joint return and the income splitting technique, JA's top bracket is 38%. He will be in a higher bracket in a year or so, but for our purpose assume it stays at 38%. So his net return is about 2½%.

And let's assume that the profit-sharing trust funds yield 4%. However, that is a net return, because the trust is tax-exempt. So JA gets off to a head start under the trust:

1. He has $1,800 of principal added each year to his profit-sharing fund at an annual cost of $2,000 in funds for private investment.

2. The trust investments earn a net of 4%, in contrast to a net of 2½% on his own investments.

Forfeitures.—However, there is another important factor. In our example, the employee has to be a member of the plan for 10 years before his rights are fully vested. And if he leaves before 10 years of membership are up he forfeits part of his fund to the other employees. Let's assume—conservatively—that forfeitures swell JA's account each year by 4%. That brings each year's "yield" up to 8%.

Let's trace the two funds ($2,000 a year in a private investment fund, as against $1,800 a

year in the profit-sharing account) through the years until 1979, when JA becomes 65 years old and plans to retire:

Amount After:	Private Fund	Profit-Sharing Fund
5 years	$10,800	$ 11,400
10 years	23,000	28,200
15 years	36,800	52,800
20 years	52,400	89,000
25 years	70,000	142,100

Amount after all taxes.—Note that the taxes will have been paid on the private fund. That is not true of the profit-sharing fund. When JA draws down his account in 1979, he presumably can treat the entire sum as long-term capital gain. That means, at present rates, that the tax cannot be greater than 25%. Thus, JA will have left, *after taxes,* the sum of $106,575—which is $36,575, or about 52% more than he would have had without the profit-sharing plan.

Finally, don't forget that JA's brother gets similar benefits, and both JA and the corporation would reap great benefits through the incentive value of the ever growing accounts of the other employees under the profit-sharing trust.

Pay Increase or Profit-Sharing Trust?

High taxes spoil every employee's chances of accumulating a security fund by his own efforts. The tax has a double impact: not only does it cut his earnings but it also lowers the yield on his investments. For example, an extra $1,000 to a married employee who files a joint income tax return with his wife and who has $3,000 of other taxable income, nets him only $800 after taxes. If he can invest the extra $800 in, say, 4% bonds, the tax lowers the net yield to 3.2%. The income tax hits harder the higher up on the tax rate ladder the employee finds himself. Take for example the married man with $25,000 of taxable income. An extra $1,000 to him means only $570 after tax, and his 4% return dwindles to 2.3% after tax. And if a married man now pays tax on $50,000, an extra $1,000 to him is cut down to a net of $410, and the net yield on his 4% investment drops to 1.6%.

However, if that extra $1,000 were placed into a profit-sharing trust for an employee, it would not suffer a tax cut in the process and a 4% yield would still be 4%. The following table illustrates the marked advantage of the trust to employees in various income brackets:

[The table assumes that each of the investors — the trust and the employees in the indicated income brackets — is given $1,000 (before tax) each year by the employer to be put into stocks returning an average of 4% compounded annually. For simplicity we have (a) assumed that tax rates will remain constant; (b) ignored changes in the employee's top tax bracket in later years; and (c) assigned an overall factor to reflect the employee's higher after-tax return due to the tax benefits accorded dividend income by the 1954 Internal Revenue Code.]

Tax Impact on Investments

Investor	*Balance of $1,000 After Tax*	*After-Tax Return on 4% Yield*	*20-Year Result*	*25-Year Result*	*30-Year Result*
TAX EXEMPT PROFIT SHARING TRUST	*$1,000*	*4.0%*	*$31,000*	*$43,300*	*$58,300*
MARRIED MAN WITH TAXABLE INCOME OF					
$ 3,000	800	3.4	23,200	31,800	42,000
5,000	780	3.3	22,300	30,600	40,300
10,000	740	3.1	20,700	28,200	36,900
15,000	700	3.0	19,400	26,300	34,300
20,000	620	2.7	16,600	22,300	28,900
25,000	570	2.5	14,900	20,000	25,700
30,000	530	2.3	13,600	18,100	23,100
40,000	440	1.9	10,800	14,200	17,900
50,000	410	1.8	9,900	13,000	16,400

The Tax Picture.—The amounts in the trust under the above table will ordinarily be paid out when the employee's services end. That will usually mean a tax only at long-term capital gain rates — that is, the tax cannot be greater than 25%, under 1954 tax rates.

If guaranteed periodical income is preferable to a lump-sum benefit, the trustee could use an employee's account at retirement to buy an annuity contract from an insurance company. In that event, not even the long-term capital gain tax would be due; instead, the employee would take into income each year the annual amount received under the annuity. Thus after 20 years of membership, a man of 65 could have a life annuity of about $200 per month; after 25 years under the plan, about $280; and after 30 years, about $375 per month.

Meanwhile, the ever growing trust fund represents protection for his family if he should die in harness, and protection for himself if he should become disabled.

Acceptance by the Rank-and-File.—And your rank-and-file employees will acclaim a profit-sharing trust, because:

I. It gives them a chance to get increased earnings by way of tax-deferred compensation.

II. It enables them to look forward to increased comfort and enjoyment, rather than subsistence existence, after years of loyal service.

III. It protects their families in event of death of the breadwinner, and assures protection for themselves in event of disability.

Planning and Administration

Benefits For Whom?

You may or may not include all classifications of employees. You may wish to benefit only certain classes of employees or only those employees who have been with you for a given period. To reward long and faithful service, you may provide that shares forfeited by employees who leave your employ in the early years of participation, for reasons other than death, disability, or retirement, are to be redistributed among those who remain.

These things can be worked out for you by your attorney, bank officer, or other consultant.

How Much Sharing?

Although the Internal Revenue Service maintains that the sharing of profits must be in accordance with a definite formula, any one of several types of plan may be adopted. You may provide for sharing a definite percentage of profits after allowing for necessary and mathematically computed reserves for business purposes and for a minimum rate of earnings or dividends on company stock. You may adopt a sliding scale of contribution under which the amount of the contribution increases more rapidly after profits reach a certain level. An example of this would be a formula calling for a contribution of 5% of the first $10,000 of profits before taxes: 7½% of the second $10,000, and so on, up to whatever amount you seek to establish as the maximum.

Any formula which makes a definite, reasonable commitment will probably be acceptable to the Treasury Department.

Some of the variations which have proved workable are:

I. A specified percentage of profits before taxes, but not more than 15% of annual payroll of participants.

II. A specified percentage of profits before taxes, but not more than the amount deductible on the income-tax return for that year for contributions to the plan.

III. A specified percentage of annual profits before taxes but after allowance for the pre-tax amount required for regular dividends on preferred stock and $2 on common stock.

IV. A specified percentage of net earnings after taxes.

V. A specified percentage of pre-tax profits in excess of a fixed amount.

In any event, the employer is not committed to any fixed-dollar contribution. There is sharing only when there are profits to share.

Allocating the Profits

Of course, definite provision must be made for allocation of the profits to be shared among all participating employees. You may arrange for participation in proportion to basic compensation. Thus, each participant will share in the year's contribution in the ratio which his basic compensation bears to the total basic compensation paid all participants. Expressed differently, you may arrange participation on the basis of a flat percentage of salary so that, if your contribution amounts to 10% of the total compensation paid all participants, each individual's share will amount to 10% of *his own* compensation. Or you can allocate units to the participants, giving, let us say, one unit for each $100 of compensation. And it is often possible to allocate part of the contribution on the basis of years of service or plan membership, in order to reward long service with the company.

Here again, your advisers can be helpful. They will be glad to give you examples of various methods of allocating the contribution.

Administration of the Fund

The fund may be used or invested in different ways. Where it is all invested in securities, the portfolio might, for example, consist of about 55% in sound bonds, including governments, 15% in preferreds, and 30% in commons. Where the fund is small, diversification can be obtained by investing in common trust funds or in shares of regulated investment companies. Government-backed FHA and VA mortgages are also being used.

Some trusts purchase life insurance on key employees upon whom profits depend, and name the trust beneficiary. Others invest all or part of each employee's annual share of profits in deferred annuity contracts of the single-premium or annual-premium type.

Provision may be made by some corporations for investment of part of the funds in the corporation's own common stock or other securities, and in effect make the employees part owners of the business through the trust. Still others hold options to buy up the shares of a stockholder at his death, and fund the arrangement through insurance on his life. And there are some trusts which own the corporation's plant and equipment, under a buy-and-lease-back arrangement, to the mutual advantage of employer and employee.

The earnings of Treasury-approved profit-sharing trusts will normally be entirely tax-free. The exemption will not apply, however, to any "unrelated business income"; or, under some circumstances, to "lease-back" rents. (Unrelated business income means income from any trade or business regularly carried on by the trust or a partnership of which the trust is a member. Lease-back rent means, generally speaking, income from a lease for a term of more than five years.) The trust will lose its exempt status entirely if it engages in a "prohibited transaction"; for example, if it lends money to the employer or his associate without adequate security or reasonable interest.

Here too, as with other aspects of the plan, the advice of skilled experts should be utilized.

Who Shall Be Trustee?

A profit-sharing trust can be administered by an individual trustee or by a corporate trustee; both types have been used successfully. But the trustee's job is not one to be undertaken lightly by an individual. You will find that books and records must be kept meticulously. The trustee must be a person who cannot be accused of self-interest or partiality. You will soon realize that your profit-sharing trust should last beyond the lifetime of any individual trustee. Finally, you will see that the continuous investment process which takes place in all substantial trusts is best handled by an organization equipped and staffed to administer, on a routine, daily basis, the thousand and one detailed operations. *Only the corporate trustee meets all these requirements.*

WALL STREET JOURNAL

Kitty-Splitting

More Companies Divvy Profits With Workers; Find Productivity Rises

Some Pensioners' Pay Tops Last Working Wage; Sears Hands Out Half a Billion

Little Benefit for Some Firms

By JOHN S. COOPER
Staff Reporter of THE WALL STREET JOURNAL

CHICAGO — Profit sharing with employes, a gospel growing fast since World War II, has won more corporate converts than ever this year.

This wooing of workers continues, somewhat surprisingly, in an era when employer complaints of labor shortages, high employe turnover and excessive absenteeism have almost disappeared. It also defies the general stiffening of competition and the widespread move to cut costs.

The paradox is simply explained. Many businessmen find profit sharing can help boost worker productivity and help cut production costs in more competitive times. Some companies whose profit margins have dwindled or vanished in 1954 are among the stoutest drumbeaters for profit sharing.

Nearly 8,000 corporate profit-sharing plans are now on file with the Internal Revenue Service of the Treasury Department, which regulates such matters, compared with 6,000 a year ago and only 549 a decade ago. When Procter & Gamble set up its plan in 1887, there were only about 22 profit-sharers in the U. S. By 1917 this number had increased but slightly to 60 companies. Now there are that many companies which do nothing but offer advice to companies setting up profit-sharing programs.

Bell & Howell Joins Up

Just last week Bell & Howell Co., the Chicago photo equipment maker, joined the ranks of profit-sharers. Other 1954 recruits include Federated Department Stores, the big chain with about 25,000 employes; Batten, Barton, Durstine & Osborn, Inc., the well-known ad agency; and cereal-making Kellogg Co.

More enlistees are likely. The Council of Profit-Sharing Industries, an information-distributing group based in Chicago, has several hundred "associate members" who have joined just to get information preparatory to setting up plans. The latest of these include Rheem Manufacturing Co., with 10,000 employes, and Prudential Insurance Co., with 8,000.

For employes of some companies, the benefits of profit sharing can be fabulous. At De Luxe Check Printers, Inc., of Chicago, some of the relatively few workers due to retire in the next 10 years will get pensions actually exceeding their last annual pay while working. Company officials believe the usual living-standard cut at retirement involves too hard a readjustment.

Employes Buy Out the Boss

Employes of E. G. Shinner & Co., a 33-store Midwest meat-market chain, accumulated so much under profit sharing that they bought the company early last year. Since then, says C. W. Walker, president, the employe-owners have "built up a very sizable reserve, paid a $1-a-share dividend, at the same time paying the highest rate of wages in the history of our industry plus our payment of 15% of these wages into our retirement fund."

And Sears, Roebuck & Co., the biggest and perhaps the most famous profit-sharer, has piled more than half a billion dollars into the kitty since 1916 for its 120,000 employes.

A Thousand Varieties

Profit sharing exists in a thousand varieties. The percentage of profits set aside ranges all the way from 5%, before taxes, to 50%, with a typical cut about 20% to 25%. The distributions amount to anywhere from 5% to 100% of employes' annual pay, with a representative share around 10% to 12%.

Some sample melon slicings this year: The Readers Digest, $1.2 million cash to 1,200 employes, in payments ranging from $548 per worker to $25,000; P. R. Mallory & Co. of Indianapolis, $1 million into a profit trust and $404,000 in cash to 6,000 employes; Norris-Thermador Corp. of Los Angeles, $929,000 into a fund for 1,445 employes, up $271,000 from last year; the Pitney-Bowes Co. of Stamford,

Guessing Game, $2 Bills Dramatize Profit Sharing

By a WALL STREET JOURNAL *Staff Reporter*

CHICAGO — Employers sometimes find themselves the only ones in their company who are "sold" on profit sharing. Employes often are suspicious, don't understand it, or take it for granted. Continuous educational efforts are used to make them familiar with their plans.

Motorola, Inc., dramatized its program this year by running a guessing contest on how far the employes' share would extend if stretched end to end in dollar bills. The prize was a weekend trip of the same distance with all expenses paid for the winner's family. Motorola's $2.8 million distribution from 1953 profits would stretch 280 miles, so Sylvester F. Booth, a mechanical engineer, who came the closest, enjoyed an outing at the Wisconsin Dells with his wife and three children.

Kitty-Splitting: More Companies Divvy Their Profits With Workers

Continued From First Page

Conn., $930,000 with the year only half over.

However, employes of some companies are finding their slice is a lot smaller this year because employer profits have shrunk or vanished.

"We're having a terrible time. We're losing money and haven't made a profit distribution to our 6,000 employes since February," says Hugh Comer, chairman of Avondale Mills of Birmingham, Ala.

Does this mean Mr. Comer is preparing to scrap his plan? "No," he says, "we are finding it one of our best means of communicating with employes. They know we are in the red and are really putting the pressure on to improve things. When you have to shift an employe around or change his work methods, it helps to have him know that your money is wherever your mouth is."

Anthony Y. Yonto, president of Quality Casting Co. of Orrville, Ohio, agrees: "This has been a tough year for the foundry industry, but we still think our profit sharing plan has paid off. Our shop has been working four and five days a week all year, while others in our area were down to one and two days. Next month we are getting back to a six-day schedule again." He explains that the plan has resulted in reduced waste and improved products.

Although Mr. Yonto's 200 employes, who have received about $100,000 of company profits this year, can't expect to equal the record $230,000 of last year, he says he has noticed no decline of enthusiasm in the shop.

"Profit sharing actually tends to make a corporation more flexible in hard times," Harold V. Lush, president of Supreme Aluminum Industries, Ltd., of Toronto, "By the time a man has worked for us six years he has from $3,000 to $4,000 in trust for him. In the unlikely event he would have to be laid off, he would not be turned out in the street without a dime. Actually we don't see any difficulties ahead at all. Things are going very well with us."

Effect of Size

Company size is sometimes a factor, too. Giant General Electric Co. discontinued its profit sharing plan in 1947 after 13 years, one explanation being that expansion of the work force had diluted the distribution. "Apparently, profit sharing works best in small manufacturing operations where nearly everyone is doing the same kind of work. In a big company the end-results are often so far removed from an employe's efforts that the incentive factor in profit sharing is lost," says Joel Goldblatt, president of Goldblatt Bros., Inc., Chicago department store chain that shares its profits.

Employers find employes often put a little extra effort when they realize they are part of a team. Because profit sharing has spurred productivity, L. E. Messinger, president of Canadian Line Materials says, "Our shipping room costs are from 5% to 20% lower than any of our competitors."

G. E. Mekemson, personnel director of W. A. Sheaffer Pen Co. of Fort Madison, Iowa, points to a 340% increase in worker output per hour since the company installed profit sharing 20 years ago. "Although most of the efficiency increase can be attributed to improvements in production techniques and working conditions, our management is convinced profit sharing also has been a strong factor," he says.

Harold Myers, a buyer for the E. G. Shinner & Co. chain of meat markets, says: "I realized how profit sharing works when I got in a jam. I over-ordered on some smoked hams. When I realized what had happened I confessed to our sales clerks. By extra selling efforts they got me out of my inventory muddle in three days."

Although a "cash" plan is generally supposed to create more immediate returns to the employer in the form of greater incentives and higher productivity, more and more companies are preferring to put the money in the sock of deferred plans, thus helping the employe save against retirement.

Council Secretary Joseph B. Meier reports that 42% of its member companies have deferred plans, 41% cash and 17% combined plans. A year ago 50% were cash plans, 40% were deferred and 10% were combined.

In several Internal Revenue Districts, the number of profit sharing plan applications now exceeds those for the more conventional straight penson plans, where the employer sets aside a fixed cash amount each year for employe retirement purposes. Under profit sharing, with a fixed percentage of the before-tax profits used as a base instead, the contribution to the employe fund may vary widely from year to year.

How the money in trust is invested has an important bearing on the success or failure of a pension plan. Sears Roebuck has had a fairly conservative setaside over most of its history; at present it's 10% a year. Yet by investing mainly in Sears common stock, the fund has pyramided through stock splits and the rise in market value, until fabulous retirement payoffs have been achieved. One sales clerk, whose peak annual income was $3,660, retired with a nest egg of 1,761 shares, worth $115,517 at the time and providing her an annual dividend income of $4,843.

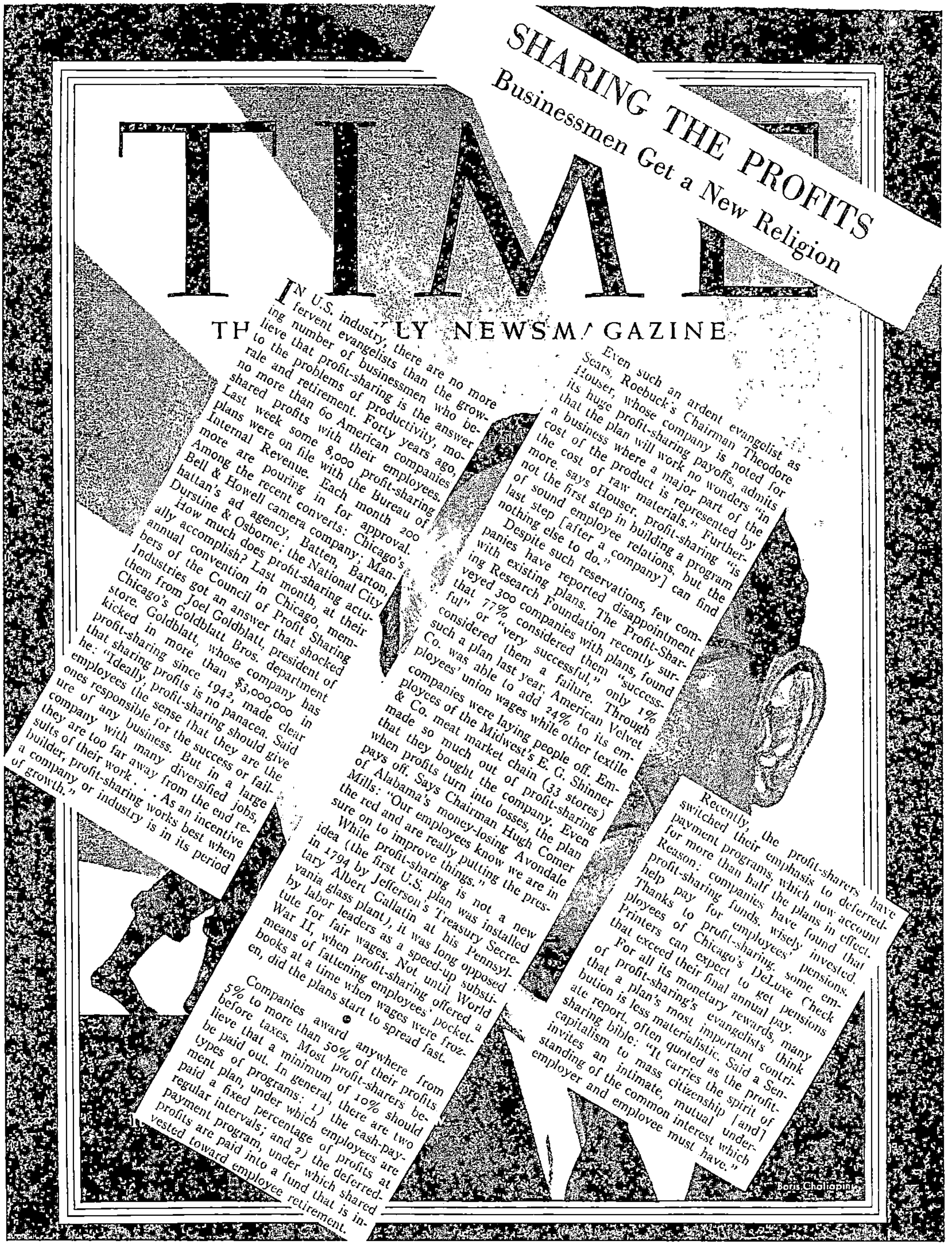
"Yet just think how different it would have been if the Sears fund had been invested in Montgomery Ward stock, which has gone down 64% since 1929," a critic of single-company investment points out.

Mr. Houser of Sears thinks profit sharing is important as a means for businessmen to exercise leadership.

"It seems to me that the average businessman has been in a dilemma for some 20 years," Mr. Houser says. "He has felt he should be functioning as a leader, but in performance he has run a poor third to Government and labor leaders, each claiming leadership for the improvement of the well-being of the average citizen. He has disagreed with many of the proposed actions, and thus finds himself defending a social system which he knows to be the best that ever existed and yet he cannot find even a good descriptive name for it."

Eliminating the Sinister

Another big profit sharer puts it this way "The word 'wages' is a very respectable word in our vocabulary, signifying good things and something to be desired. 'Profits,' on the other hand, has all sorts of sinister connotations. Profit sharing plans help to demonstrate in a concrete fashion that 'profits' are beneficial, too."



SHARING THE PROFITS
Businessmen Get a New Religion

IN U.S. industry, there are no more fervent evangelists than the growing number of businessmen who believe that profit-sharing is the answer to the problems of productivity, morale and retirement. Forty years ago, no more than 60 American companies shared profits with their employees. Last week some 8,000 profit-sharing plans were on file with the Bureau of Internal Revenue. Each month 200 more are pouring in for approval. Among the recent converts: Chicago's Bell & Howell camera company; Manhattan's ad agency, Batten, Barton, Durstine & Osborne; the National City.

How much does profit-sharing actually accomplish? Last month, at their annual convention in Chicago, members of the Council of Profit Sharing Industries got an answer that shocked them from Joel Goldblatt, president of Chicago's Goldblatt Bros. department store. Goldblatt, whose company has kicked in more than $3,000,000 in profit-sharing since 1942, made clear that sharing profits is no panacea. Said he: "Ideally, profit-sharing should give employees the sense that they are the ones responsible for the success or failure of any business. But in a large company with many diversified jobs, they are too far away from the end results of their work . . . As an incentive builder, profit-sharing works best when a company or industry is in its period of growth."

Even such an ardent evangelist as Sears, Roebuck's Chairman Theodore Houser, whose company is noted for its huge profit-sharing payoffs, admits that the plan will work no wonders "in a business where a major part of the cost of the product is represented by the cost of raw materials." Furthermore, says Houser, profit-sharing "is not the first step in building a program of sound employee relations, but the last step [after a company] can find nothing else to do."

Despite such reservations, few companies have reported disappointment with existing plans. The Profit-Sharing Research Foundation recently surveyed 300 companies with plans, found that 77% considered them "successful" or "very successful," only 1% considered them a failure. Through such a plan last year, American Velvet Co. was able to add 24% to its employees' union wages while other textile companies were laying people off. Employees of the Midwest's E. G. Shinner & Co. meat market chain (33 stores) made so much out of profit-sharing that they bought the company. Even when profits turn into losses, the plan pays off. Says Chairman Hugh Comer of Alabama's money-losing Avondale Mills: "Our employees know we are in the red and are really putting the pressure on to improve things."

While profit-sharing is not a new idea (the first U.S. plan was installed in 1794 by Jefferson's Treasury Secretary Albert Gallatin at his Pennsylvania glass plant), it was long opposed by labor leaders as a speed-up substitute for fair wages. Not until World War II, when profit-sharing offered a means of fattening employees' pocketbooks at a time when wages were frozen, did the plans start to spread fast.

Recently, the profit-sharers have switched their emphasis to deferred-payment programs, which now account for more than half the plans in effect. Reason: companies have found that profit-sharing funds, wisely invested, help pay for employees' pensions. Thanks to profit-sharing, some employees of Chicago's DeLuxe Check Printers can expect to get pensions that exceed their final annual pay.

For all its monetary rewards, many of profit-sharing's evangelists think that a plan's most important contribution is less materialistic. Said a Senate report, often quoted as the profit-sharing bible: "It carries the spirit of capitalism to mass citizenship [and] invites an intimate, mutual understanding of the common interest which employer and employee must have."

Companies award anywhere from 5% to more than 50% of their profits before taxes. Most profit-sharers believe that a minimum of 10% should be paid out. In general, there are two types of programs: 1) the cash-payment plan, under which employees are paid a fixed percentage of profits at regular intervals; and 2) the deferred-payment program, under which shared profits are paid into a fund that is invested toward employee retirement.

KEY ADVANTAGES

- Contributions are deductible before corporate taxes
- Contributions are geared to corporate earnings
- Contributions are made only in profitable years
- Contributions are not currently taxed to the employees
- Earnings on the trust funds are income tax free
- Death benefits are income tax free
- Retirement pensions provided for all employees

TAX ADVANTAGES

in Profit Sharing Trust

E. F. WHITE & ASSOCIATES
1511 Bryan Street
DALLAS, TEXAS

(Corporation NOT Subject to Excess-Profits Tax)

TOP $1,000 OF YOUR COMPANY'S PROFIT THRU PRESENT CHANNELS

Top Bracket of Corporate Income	$1,000.00
Normal Tax (30%) plus Surtax (22%) on Top $1,000.00 of Corporate Income	520.00
Available for Distribution as Dividends	480.00
Individual Income Tax (50% Rate Assumed)	240.00
Remainder, for Investment @ 3%	240.00
Income over 20 Years ($240.00 at 3% compounded annually for 20 Years, but interest subject to 50% individual rate)	83.00
Total Net to You ($240.00 plus $83.00)	$ 323.00

TOP $1,000 OF YOUR COMPANY'S PROFIT THRU PROFIT SHARING TRUST

Top Bracket Corporate Income Contributed to Trust	$1,000.00
Increase if Invested @ 3% for 20 Years (compounded)	800.00
Available for Distribution after 20 Years	1,800.00
26% Capital Gains Tax on Distribution	468.00
Total Net Available to You	$1,332.00

You and your fellow employee stockholders will make a *NET GAIN* of $1,009.00 on this plan.

(Corporation pays no Dividends—Earnings paid out in Salaries and Bonuses)

TOP $1,000 OF YOUR COMPANY'S PROFIT THRU PRESENT CHANNELS

Top Bracket of Corporate Income	$1,000.00
Individual Income Tax (50% Rate Assumed)	500.00
Remainder, for Investment @ 3%	500.00
Income over 20 Years ($500.00 at 3% compounded annually for 20 years, but interest subject to 50% individual rate)	173.00
Total Net to You	$ 673.00

TOP $1,000 OF YOUR COMPANY'S PROFIT THRU PROFIT SHARING TRUST

Top Bracket Corporate Income Contributed to Trust	$1,000.00
Increase if Invested @ 3% for 20 Years (compounded)	800.00
Available for Distribution after 20 Years	1,800.00
26% Capital Gains Tax on Distribution	468.00
Total Net to You	$1,332.00

You and your fellow employee stockholders will make a *NET GAIN* of $659.00 on this plan.

SOME INTERESTING FACTS ABOUT PROFIT SHARING TRUSTS

~~9,000~~ 27,000 corporations have been granted Government permission to set up a powerful tax-exempt arrangement - - and the Government is now granting this permission to corporations at the rate of ~~150~~ 200 a month.

This tax-exempt arrangement can perform "miracles" - - it permits the top men in the corporation to increase their personal capital up to five times as fast as they can without it - - any corporation, regardless of size, can now apply for permission to set up this special tax-exempt arrangement.

Let us see how this exciting tax-exempt arrangement works: - -

> The corporation sets aside in a special fund for employees a percentage of each year's profits. The amount so set aside is a tax deduction for the corporation. The top men can personally participate in this fund.
>
> The fund enjoys a special tax status. The income and gains of the fund are entirely free of tax until the end of the accumulation period.
>
> Then one's personal share of the money amassed in the fund can come to him upon retirement as a long-term capital gain. If he should die his entire share goes to his beneficiary as a long-term capital gain.
>
> If any participant in the fund leaves the corporation's employ, his non-vested share of the fund reverts to the people who remain.

These four provisions can produce unbelievable results. They can speed up capital accumulation in large amounts.

> Most top men in smaller corporations are stockholders as well as employees. Their gain from the plan can be even greater because company profits placed in the fund escape entirely the corporate tax, while the dividends they receive must of course come from company profits that have first been hit by the corporate tax.

The stockholder executive can build up a personal estate up to five times as fast through using the plan as he can without it.

1. Under it, one can draw a portion of his personal share of the fund almost from the start rather than waiting for the full long-range benefits --- if he so prefers. (In that case withdrawals are taxable as ordinary income rather than as long-term capital gain.)
2. If the corporation has a profitless year there is no obligation to put money into the fund.
3. It enables the corporation to provide (partly with dollars that would otherwise go into taxes) what are now considered basic benefits for employees.
4. It can boost employee production to a point where profits are substantially increased.

All these benefits are made possible through the use of a tax-exempt, deferred Profit-Sharing Plan. This special kind of plan must not be confused with the ordinary profit sharing arrangement. It is in the tax-exempt features of this plan that its miracle performing possibilities are found.

This giant force is now powerfully on the move throughout the business world. It is transforming the very existence of corporation after corporation - it is dramatically changing the financial lives of the men who ran them.

It has, in fact, proved such a powerful business builder for the corporation as a whole - - and has at the same time, so sharply increased the rate at which the top men can accumulate personal capital that its enthusiastic adoption by virtually every corporation now seems inevitable.

* A REPORT ON FIVE YEARS OF PROFIT - SHARING - BY JOSEPH M. NAAB

VICE PRESIDENT AND TREASURER, LESLIE CO., LYNDHURST, N. J.

BOTH A CURRENT-PAYMENT INCENTIVE PLAN (WHICH HAS A STILL LONGER HISTORY) AND A DEFERRED-PAYMENT RETIREMENT PLAN MORE PARTICULARLY DEALT WITH IN THIS ARTICLE, ARE IN OPERATION IN THE AUTHOR'S COMPANY. IT IS INDICATED THAT THE EXCEPTIONAL RESULTS OBTAINED ARE NORMAL FOR WELL-DEVISED PLANS ADOPTED BY AN INCENTIVE-MINDED MANAGEMENT.

* * * * * * * * * *

OUR DYNAMIC AMERICAN ECONOMY IS CHARACTERIZED BY A NEVER-ENDING SEARCH FOR NEW IDEAS WHICH WILL LEAD TO GREATER PRODUCTION AT LOWER COST. CERTAIN FUNDAMENTAL PRINCIPLES MUST BE ACKNOWLEDGED AS FORMING THE FIRM FOUNDATION UPON WHICH OUR FREE ENTERPRISE SYSTEM THRIVES, AND WITHOUT WHICH IT COULD NOT SURVIVE. AMONG THEM ARE THE FOLLOWING:

1. BUSINESS IS ENTITLED TO A FAIR PROFIT AS A RETURN UPON ITS INVESTMENT.

2. LABOR IS WORTHY OF ITS HIRE, AND REASONABLE INCENTIVES TO INCREASE WORKERS' PRODUCTIVITY AND THEIR EARNING CAPACITY ARE ESSENTIAL TO BUSINESS PROGRESS.

3. MANAGEMENT AND LABOR MUST COOPERATE FULLY AND FAIRLY TO ACHIEVE GOOD OUTPUT, QUALITY OF PRODUCTS, WITH RESULTING CONFIDENCE OF CUSTOMERS AND REPETITION OF ORDERS.

4. THE HEALTH AND SECURITY OF ITS EMPLOYEES IS AN INESCAPABLE RESPONSIBILITY OF MANAGEMENT, WHICH MUST BE EFFECTIVELY DISCHARGED.

MANAGEMENT IS OF, FOR, AND BY INDIVIDUALS:

THE DEGREE OF SUCCESS WHICH ANY BUSINESS ACHIEVES IS READILY MEASURABLE BY THE EXTENT TO WHICH IT UNDERSTANDS AND ACCEPTS THE OPPORTUNITIES AND RESPONSIBILITIES SUGGESTED IN THE FOREGOING BRIEF RESUME OF BUSINESS IDEALS. IN THE TRIUMVIRATE OF MANAGEMENT, LABOR, AND CAPITAL, WHICH ARE THE KEY FACTORS IN OUR PROSPERITY, EACH HAS AN EQUALLY IMPORTANT FUNCTION TO PERFORM.

THE MOST UNPREDICTABLE FACTOR IS LABOR, AND VERY NATURALLY SO, BECAUSE OF THE VARYING AND VARIABLE PERSONALITY AND INDIVIDUALITY OF EACH LIVING BEING WHICH IS A PART OF IT. PSYCHOLOGISTS TELLS US THAT NO MAN ORDINARILY DEVELOPS MORE THAN FIFTY PER CENT OF HIS LATENT ABILITY WITHOUT SOME POWERFUL MOTIVATING STIMULANT. WE CALL THIS THE INCENTIVE WHICH DEVELOPS IN THE WORKERS THE INITIATIVE FOR EFFICIENT OPERATION. PEOPLE --- THE MEN AND WOMEN OF INDUSTRY --- THEREFORE CONTINUE TO BE THE BIGGEST POTENTIAL VALUE IN ANY BUSINESS. THEIR INHERENT MAXIMUM WORTH STILL REMAINS AN UNKNOWN QUANTITY, UNEXPLORED AND INCALCULABLE. THEIR DEVELOPMENT WILL BRING ABOUT THE GREAT PROGRESS OF THE FUTURE BECAUSE THE POSSIBILITIES OF MAN ARE UNLIMITED." (INCENTIVE MANAGEMENT, J.F. LINCOLN, LINCOLN ELECTRIC CO., CLEVELAND 17, OHIO, 1951).

GOOD MANAGEMENT HAS EARNED ITS RATING DURING OUR GENERATION PRINCIPALLY BY THE MEASURE OF SUCCESS IT HAS ENJOYED IN IMPROVING EMPLOYEE PRODUCTIVITY THROUGH WELL-DESIGNED, MUTUALLY SATISFACTORY INCENTIVE PLANS. SUCH PLANS ARE SUCCESSFUL ONLY TO THE EXTENT THAT THE WORKERS WHOLE-HEARTEDLY ACCEPT THE CHALLENGE AND SPONTANEOUSLY RESPOND WITH A VOLUNTARY DESIRE TO IMPROVE THEIR PRODUCTION. SINGULARLY ENOUGH, MANY WELL-INTENTIONED INCENTIVE PLANS, INITIATED WITH HIGH PROMISE OF FRUITFUL IMPROVEMENT IN EFFORT AND OUTPUT, HAVE ENJOYED BUT LIMITED AND SHORT-LIVED EXISTENCE IN LARGE NUMBERS OF BUSINESS ESTABLISHMENTS, MOSTLY FOR REASONS ALL TOO WELL KNOWN TO COST ACCOUNTANTS. PASSING MENTION MIGHT BE MADE HERE OF SUCH ABUSES AS LACK OF CARE, REASONABLENESS, AND ACCURACY IN SETTING STANDARDS; UNFAIR ADJUSTMENTS AND "CORRECTIONS" ARBITRARILY REDUCING THE EARNING OF THE WORKERS; SELFISH, ARROGANT, AND PICAYUNE ATTITUDES OF SUPERVISORS TOWARD EMPLOYEES, ETC.

FIRST - - A SATISFACTORY CURRENT PAYMENT INCENTIVE PLAN:

BECAUSE WE HAVE JUST COMPLETED FIVE YEARS' OPERATION OF A DEFERRED PAYMENT PROFIT-SHARING PLAN, IT IS BELIEVED THAT OUR COMPANY'S EXPERIENCE WILL SUPPLY SOME IMPRESSIVE FACTS AND FIGURES AS TO IMPROVED RESULTS ATTRIBUTABLE TO SUCH A PLAN. TO BEGIN WITH,

*REPRINTED FROM COST ACCOUNTANTS' MAGAZINE.

IT IS OUR CONVICTION THAT THERE SHOULD FIRST BE A BASIC WAGE INCENTIVE PLAN, MEASURING PRODUCTION AGAINST STANDARDS, AND REWARDING THE WORKERS FOR PREMIUM PERFORMANCE, AS A FUNDAMENTAL REQUIREMENT FOR INCREASING OUTPUT AND REDUCING UNIT COSTS. WE ALSO BELIEVE THAT SUCH A PLAN, TAILORED TO THE PARTICULAR NEEDS OF THE INDIVIDUAL BUSINESS, SHOULD SEEK TO PROMOTE TEAM-WORK AMONG ALL EMPLOYEES AND WITH MANAGEMENT AND, THEREFORE, SHOULD REWARD SUPERVISORY EMPLOYEES AND INDIRECT AND CLERICAL LABOR, AS WELL AS DIRECT PRODUCTIVE LABOR, ON COMPARABLE TERMS, ALWAYS COMMENSURATE WITH CONTRIBUTION TO THE OVERALL RESULTS. TO THIS END WE SET UP SUPERVISORY, CLERICAL, AND INDIRECT LABOR STANDARD RATIOS AND BUDGETS, BASED UPON DIRECT LABOR PRODUCTION AND WE PAY A PREMIUM OR WEEKLY INCENTIVE BONUS FOR EFFICIENCY ACHIEVED.

MOST MANAGEMENTS WHICH REACH THIS POINT STOP AT IT AND SAY THAT THIS IS ENOUGH SHARING OF PROFITS. WE FEEL IT IS ONLY THE BEGINNING. BY MAKING ALL GRADES OF WORKERS AND SUPERVISORS (SHORT ONLY OF TOP MANAGEMENT OFFICIALS) SHARERS IN THE WEEKLY WAGE INCENTIVVE BONUS, WE HAVE ESTABLISHED A BASE FROM WHICH TO DEVELOP REAL COST SAVINGS. ONLY IMAGINATION AND VISION OF MANAGEMENT ARE NECESSARY TO PROJECT THE POSSIBLE FURTHER PRODUCTION GAINS AND COST SAVINGS INTO THE CATEGORY OF THE MIRACULOUS. OUR INCENTIVE BONUS PAYMENTS INCREASED FROM 5 PER CENT TO 25 PER CENT IN THE FIRST TWO YEARS AND WENT TO 40 PER CENT BY THE END OF THE FIFTH YEAR OF THE PLAN. IT WAS THEN GENERALLY FELT THAT THIS WAS A MAXIMUM ATTAINABLE IN THIS WAY, SO WE PROPOSED, AT THIS POINT, THAT THE ADDITIONAL PROFITS RESULTING FROM THE INCENTIVE PRODUCTION BE FURTHER SHARED WITH OUR EMPLOYEES BY PAYING 15 PER CENT OF ALL PROFITS BEFORE TAXES (AFTER A NOMINAL CONTINGENCY RESERVE AND A STANDARD DIVIDEND PAYMENT) INTO AN EMPLOYEES' PROFIT SHARING AND RETIREMENT FUND.

SETTING UP THE PROFIT-SHARING RETIREMENT PLAN

UP TO THIS TIME, IN DECEMBER, 1948, WE DID NOT HAVE A RETIREMENT PLAN AS SUCH, NOR HAD WE SET ASIDE FUNDS FOR THE RETIREMENT OR PENSIONING OF INCAPACITATED AND/OR OLD AGE EMPLOYEES. IT HAD BEEN OUR POLICY TO CARRY RETIRED EMPLOYEES ON A CURRENT PENSION PAYROLL AS PART OF GENERAL OVERHEAD COSTS. THE AMOUNT PAID TO EACH INDIVIDUAL WAS, IN EACH CASE, DECIDED UPON ITS MERITS --- FULL CONSIDERATION BEING GIVEN TO THE LENGTH OF SERVICE, POSITIONS HELD, AND SPECIAL NEEDS OF THE RETIRING EMPLOYEE. IN MOST CASES THE ALLOWANCE PAID APPROXIMATED THE AMOUNT OF MONEY THE PENSIONER WOULD BE ELIGIBLE TO RECEIVE THROUGH GOVERNMENT SOCIAL SECURITY BENEFITS.

HOWEVER, THERE HAD BEEN FOR SOME TIME THE REALIZATION OF THE NEED FOR A SOUND, YET MORE GENEROUS, PENSION PLAN WHICH WOULD PROVIDE A REASONABLE AND FAIR COMPETENCE FOR THE EMPLOYEE IN OLD AGE, AS A REWARD FOR LONG-TIME FAITHFUL SERVICE. ABOUT 1946, MANAGEMENT HAD DECIDED TO MEET ITS OBLIGATION IN THIS RESPECT AS SOON AS POSSIBLE. AN INTENSIVE STUDY OF VARIOUS TYPES OF PENSION RETIREMENT PLANS FOLLOWED. WE WERE NECESSARILY COMMITTED TO A CONSERVATIVE WORKING CAPITAL POLICY, DUE TO SUBSTANTIAL SHRINKAGE IN POST-WAR SALES VOLUME AND RESULTING NEED FOR AN AGGRESSIVE NEW PRODUCT DEVELOPMENT PROGRAM TO EFFECT AN EARLY RECOVERY OF LOST VOLUME. THE PROSPECTIVE BURDEN OF HEAVY FIXED CHARGES RESULTING FROM A COMBINATION OF A LARGE ANNUAL INSURANCE PREMIUM OR ANNUITY COST AND FUNDING OF PAST SERVICE CREDIT FOR EMPLOYEES WITH A LONG SERVICE RECORD, LOOMED AS A LARGE AND INSURMOUNTABLE OBSTACLE. A DEFERRED-PAYMENT PROFIT SHARING PLAN ALONE SEEMED TO OFFER A PRACTICAL SOLUTION. OUR EFFORTS WENT INTO FORMULATING A PLAN OF THIS TYPE.

HIGHLIGHTS OF THE RESULTING PLAN, CALLED "EMPLOYEES PROFIT SHARING AND RETIREMENT FUND OF LESLIE CO." AND UNANIMOUSLY ACCEPTED BY ALL THOSE ELIGIBLE.

1. ANNUAL CONTRIBUTION BY THE COMPANY OF 15 PER CENT (LATER INCREASED TO 25 PER CENT) OF ITS PROFITS BEFORE TAXES, AFTER PROVISIONS FOR A NOMINAL CONTINGENCY RESERVE AND A DIVIDEND OF ONE DOLLAR PER SHARE ON OUTSTANDING COMMON STOCK.

2. A CURRENT CONTRIBUTION BY EMPLOYEES, THROUGH PAYROLL DEDUCTIONS, OF 3 PER CENT OF THEIR EARNINGS UP TO A MAXIMUM PAYMENT OF $300 PER ANNUM.

3. COMPANY CONTRIBUTIONS AND FUND EARNINGS ALLOCATED TO MEMBERS ON A POINT SYSTEM --- TWO POINTS FOR EACH YEAR OF CONTINUOUS SERVICE AND ONE POINT FOR EACH $100 OF GROSS PAY OR EARNINGS PER YEAR, UP TO A MAXIMUM OF $10,000 ANNUAL INCOME.

4. PARTICIPANTS' SHARES SUBJECT TO VESTING AT THE RATE OF 5 PER CENT PER YEAR, THUS INSURING 100PER CENT IRREVOCABLE INTEREST AFTER 20 YEARS.

5. ALL PAYMENTS UNDER THE PLAN TO BE ACCUMULATED IN A TRUST FUND MANAGED BY AN ADVISORY COMMITTEE CONSISTING OF THE COMPANY PRESIDENT AS IRREVOCABLE TRUSTEE AND TWO REPRESENTATIVES EACH OF MANAGEMENT (APPOINTED BY THE COMPANY'S BOARD OF DIRECTORS) AND OF EMPLOYEES (ELECTED BY THE MAJORITY OF ALL MEMBERS OF THE PLAN.

6. ADVISORY BOARD MEMBERS TO SERVE TWO YEARS, BEGINNING ON ALTERNATE ANNIVERSARIES OF ORGANIZATION DATE.

7. RETIREMENT AGE SET AT 65 YEARS BUT FURTHER EMPLOYMENT AND SHARING OF PROFITS BEYOND THAT AGE OPTIONAL IF THE EMPLOYEE IS ABLE AND WILLING TO CONTINUE WORKING. UPON RETIREMENT, THE EMPLOYEE'S INTEREST IN THE FUND IS PAID EITHER IN A LUMP SUM OR IN PERIODIC INSTALLMENTS, AS MUTUALLY AGREED UPON AT THE OPTION OF THE ADVISORY BOARD.

TO ACCENTUATE THE FACT THAT A NEW PROFIT-SHARING PLAN HAD BEEN BORN, THE COMPANY MADE ITS INITIAL CONTRIBUTION IN DECEMBER, 1948, FOR THE FULL AMOUNT DUE FOR THAT YEAR, EVEN THOUGH EMPLOYEE CONTRIBUTIONS WERE NOT BEGUN UNTIL JAN. 1ST, 1949. THE RESULTS OF THIS ACTION WERE ELECTRIFYING. THE ENTIRE BODY OF EMPLOYEES SENSED A NEW BOND OF INTEREST IN THEIR BUSINESS. THEY HAD A REAL STAKE IN THE FUTURE OF THE COMPANY FOR WHICH THEY WERE WORKING. THE INITIAL CONTRIBUTION OF THE COMPANY WAS THEIR EXCLUSIVE SHARE IN THE PAST YEAR'S PROFITS AND THEY INDICATED VERY FRANKLY THEIR HOPE AND INTENT OF MAKING THIS A SIZEABLE, WORTHWHILE "CUSHION" FOR THE FUTURE DAY OF RETIREMENT.

FOR THE FIRST TIME, THE EMPLOYEES GAVE EVIDENCE OF FEELING THAT, AT LAST, THEY HAD BECOME PARTNERS WITH MANAGEMENT IN A BUSINESS TO WHICH THEY BELONGED AND IN WHICH THEY HAD A REAL INTEREST. THE EMPLOYEES BECAME TRULY PROFIT CONSCIOUS, WHICH REALLY MEANS COST CONSCIOUS. THEY IMMEDIATELY SET ABOUT TO DO THEIR PART IN AVOIDING WASTE, IMPROVING EFFICIENCY, AND REDUCING ALL ELEMENTS OF COST. IT WAS IN THE SECOND YEAR OF OPERATION OF THE EMPLOYEES' PROFIT SHARING RETIREMENT FUND THAT THE SHARE OF PROFITS CONTRIBUTED ANNUALLY BY THE COMPANY WAS INCREASED FROM 15 PERCENT TO 25 PER CENT, SUBJECT TO THE SAME CONDITIONS AS AT THE INITIATION OF THE PLAN.

WHAT PROFIT-SHARING HAS DONE IN OUR COMPANY:

THE FIRST QUESTION THAT NATURALLY ARISES, WITH REGARD TO SUCH AN IMPORTANT INNOVATION IN ANY BUSINESS, IS WHETHER OR NOT THE RESULTS HAVE JUSTIFIED THE COMPANY'S ACTION, I.E., WHETHER OR NOT THE COMPANY HAS BEEN SUFFICIENTLY BENEFITED TO WARRANT THE GENEROSITY OF ITS CONTRIBUTIONS FOR THE FUTURE WELL-BEING OF ITS EMPLOYEES. THE ANSWER IS UNCONDITIONALLY AFFIRMATIVE. CRITICAL APPRAISAL OF THE FACTS WHICH FOLLOW MAY WELL BE CONVINCING, TAKING THEM AS FORMING A SINGLE PICTURE:

1. ANNUAL SALES INCREASED 80 PER CENT FROM 1948 TO 1952.

2. NUMBER OF EMPLOYEES INCREASED ONLY 43 PER CENT DURING THE SAME PERIOD, INDICATING AN INCREASE OF 26 PER CENT IN DOLLAR-VALUE OUTPUT PER EMPLOYEE.

3. INDIVIDUAL EMPLOYEE PRODUCTIVITY IMPROVED PROGRESSIVELY FROM YEAR TO YEAR, AS MEASURED AGAINST TIME STUDY STANDARDS FOR CALCULATION OF WEEKLY INCENTIVE BONUS PAID. FROM AN AVERAGE ANNUAL RATE OF 40.5 PER CENT IN 1948, THIS INCENTIVE BONUS INCREASED TO 43.8 PER CENT IN 1950 AND REACHED AN ALL-TIME HIGH OF 54 PER CENT IN 1953. THESE RESULTS ACTUALLY PRODUCED A 12 PER CENT INCREASED EMPLOYEE PRODUCTIVITY FROM 1948 TO 1950, AND A 48 PER CENT INCREASE AT MAXIMUM PRODUCTIVITY RATE IN 1953 OVER 1948.

4. EXTENSIVE SAVINGS IN MATERIAL COSTS RESULTED DIRECTLY FROM PROFIT-SHARING. NOT ONLY WERE SCRAP AND WASTE REDUCED BECAUSE OF THE GREATER ATTENTION PAID TO THESE ELEMENTS BY THE WORKERS BUT, ALSO, WHEN MADE AWARE OF THE COST OF THESE ITEMS FOR THE FIRST TIME, WORKERS OFTEN CAME UP WITH SURPRISINGLY EFFECTIVE SUGGESTIONS TO REDUCE THE COST AND USE OF MATERIALS.

5. IN FIVE YEARS, APPROXIMATELY $315,000 IN CONTRIBUTIONS WAS PAID BY THE COMPANY INTO THE PROFIT-SHARING RETIREMENT FUND, RESULTING IN APPROXIMATELY $165,000 OF FEDERAL INCOME TAX SAVINGS TO THE COMPANY.

6. A SATISFACTORY RATE OF NET PROFIT AFTER ALL PAYMENTS AND INCOME TAXES HAS BEEN REALIZED BY MANAGEMENT IN EACH OF THE FIVE YEARS OF OPERATION UNDER PROFIT SHARING.

EQUALLY REMARKABLE ARE THE STATISTICS AS TO THE RELATIVE VALUE OR SHARE OF THE FUND CREDITED TO THE PARTICIPATING EMPLOYEES. FOR EVERY DOLLAR PAID INTO THE FUND BY EMPLOYEES, THE COMPANY HAS CONTRIBUTED $2.25. THE FUND HAS EARNED FROM 5 PER CENT TO 6 PER CENT ANNUALLY IN INCOME FROM INVESTMENTS, RELINQUISHMENTS BY EMPLOYEES WITHDRAWING FROM THE FUND, ETC. AVERAGE EQUITY IN THE FUND PER MEMBER HAS GROWN FROM $1.58

IN 1948 TO MORE THAN $2,200 IN FIVE YEARS, AN INCREASE OF NEARLY 1300 PER CENT. THE TOTAL VALUE OF THE FUND HAS MOUNTED TO NEARLY HALF A MILLION DOLLARS. THE PSYCHOLOGICAL ASPECT OF THIS RAPIDLY PYRAMIDING NEST EGG OF SOUNDLY-INVESTED DOLLARS IS INCALCULABLE. EVERY LAST EMPLOYEE WITH A SHARE IN IT EAGERLY AWAITS THE PERIODIC PROGRESS REPORTS AND SEES HIS FUTURE SECURITY IMPROVING RAPIDLY WITH EVERY DAY OF CONTINUING EFFORT ON HIS PART. HE IS SPURRED ON TO DO HIS BEST IN THE COMMON INTEREST OF THE COMPANY, WITH ALL HIS FELLOW WORKERS. MOREOVER, THE CONTINUING INCREASE IN THE INDIVIDUAL EMPLOYEE'S EQUITY HAS RESULTED IN A NEW APPRECIATION OF THE VALUE OF THRIFT. HE HAS NOW LEARNED HOW TO APPLY THE COMPOUND INTEREST TABLE TO THE ANNUAL INCREASE IN HIS PORTION OF THE PROFIT-SHARING FUND. HERE IS AN EXAMPLE OF WHAT THE FUTURE HOLDS FOR JOHN JONES, AGE 25, IN THIS TYPE OF DEFERRED-PAYMENT PROFIT-SHARING. IF $1 A YEAR IS PUT ASIDE IN A FUND EARNING INCOME OF FOUR PER CENT (OURS HAS BEEN EARNING FIVE PER CENT TO SIX PER CENT) THERE WILL BE ON HAND:

$12.00 AFTER 10 YEARS	$41.64 AFTER 25 YEARS	$95.02 AFTER 40 YEARS
$20.02 AFTER 15 YEARS	$50.08 AFTER 30 YEARS	
$29.77 AFTER 20 YEARS	$73.65 AFTER 35 YEARS	

ABOUT $400 A YEAR PUT ASIDE FOR JONES WILL ENTITLE HIM AT RETIREMENT AGE OF 65 YEARS, TO 400 TIMES $95.02 OR $38,008. THIS IS A CONSERVATIVE EXAMPLE.

OBVIOUSLY, WITH SUCH RESULTS DIRECTLY ATTRIBUTABLE TO PROFIT-SHARING, THERE ARE MANY SPECIFIC RELATED PROBLEMS SOLVED FOR MANAGEMENT OR COMPLETELY ERASED FROM ITS SLATE, AS FOR EXAMPLE:

1. EMPLOYEE TURNOVER IS MINIMIZED. THERE ARE VERY FEW AVOIDABLE SEVERANCES.

2. ABSENTEEISM AND TARDINESS ARE PRACTICALLY NON-EXISTENT.

3. EMPLOYEE ATTITUDE IS ONE OF INTEREST IN JOB, PERSONAL CONTENTMENT, COOPERATIVE FRIENDLINESS, AND GENERAL GOOD WILL. ALL THESE ARE POTENT FACTORS TOWARD BETTER PRODUCTION AND TEAM-WORK THROUGHOUT THE PLANT.

4. RELATIONSHIP BETWEEN DEPARTMENTS IS IN TERMS OF FRIENDLY COMPETITION AND TEAM-WORK, RATHER THAN JEALOUSY AND RIVALRY.

5. GRIEVANCES AND COMPLAINTS OF ALL KINDS ARE MINOR AND INFREQUENT, AS EMPLOYEES ARE TOO BUSY ATTENDING TO THEIR WORK TO BE LOOKING FOR TROUBLE.

6. SENSE OF PRIDE IN WORK RESULTS IN LOWERED WASTE AND SPOILAGE AND BETTER CARE OF ALL COMPANY PROPERTY AND EQUIPMENT.

7. COST REDUCTION IS A NATURAL RESULT OF ESPECIALLY HARMONIOUS COOPERATION BETWEEN LABOR AND MANAGEMENT.

THE PAST DECADE HAS WITNESSED GREAT STRIDES IN OUR ECONOMY, TO NEW HIGH RECORD LEVELS OF PRODUCTION. THE FURTHER PROGRESS TO BE MADE IN THE NEAR AND DISTANT FUTURE IS UNLIMITED AND INCALCULABLE. AT THE MOMENT, WE ARE IN AN ERA OF KEEN COMPETITION - - OF ITSELF A GREAT IMPETUS FOR IMPROVED PERFORMANCE BY THE WORKER WHO DIRECTLY SHARES IN HIS COMPANY'S PROFITS. THERE WILL BE SOME UNFAVORABLE DEVIATIONS IN THE BUSINESS CURVE FROM TIME TO TIME. SUCH OCCURRENCES WILL BE OCCASIONS FOR A SORT OF HOUSE CLEANING, WEEDING OUT OF COMPANIES WITHOUT FORESIGHTED LEADERSHIP, AND SEASONING AND STRENGTHENING THOSE THAT ARE WELL ESTABLISHED WITH A PROGRESSIVE MANAGEMENT OF TESTED AND PROVEN ABILITY.

COMPETENT MANAGEMENT WILL NOT OVERLOOK THE POTENTIAL USEFULNESS OF A FUNDED PROFIT-SHARING PLAN IN THE NEW BUSINESS WORLD OF TOMORROW. AS A POSSIBLE SOURCE OF CASH WORKING CAPITAL, IT CAN PROVIDE CONSIDERABLE ASSISTANCE TO THE COMPANY THROUGH LENDING UNINVESTED FUNDS. INTEREST PAID ON SUCH BORROWING, INSTEAD OF GOING TO THE BANKS, ADDS INCOME TO THE EARNINGS OF THE FUND. THIS DIRECTLY BENEFITS ALL PARTICIPANTS IN THE PROFIT SHARING PLAN.

NEW CAPITAL CAN BE PROVIDED FOR THE COMPANY BY SALE OF STOCK TO THE PROFIT-SHARING FUND, THUS AGAIN RETURNING DIVIDENDS ON THE COMPANY STOCK AS FURTHER DIRECT EARNINGS TO THE FUND, FOR THE BENEFIT AND ENCOURAGEMENT OF THE PROFIT-SHARING EMPLOYEES. INVESTMENT IN COMPANY STOCK BY THE PROFIT-SHARING FUND MAKES THE EMPLOYEES DIRECT PART OWNERS OF THE BUSINESS THEY ARE WORKING FOR. AS THEY PERSONALLY, THEREBY, ENJOY THE BENEFIT OF ITS FURTHER PROFIT DISTRIBUTIONS IN THE FORM OFDIVIDENDS, THEY WILL BECOME INTERESTED TO AN EVEN GREATER DEGREE THAN BEFORE TO PRODUCE AND SAVE, SO THAT BOTH PROFIT-SHARING CONTRIBUTIONS AND DIVIDENDS PAID BY THE COMPANY WILL BE GREATER. IT CAN HAPPEN THAT THIS STOCK OWNERSHIP BY THE PROFIT SHARING FUND WILL EVENTUALLY RESULT IN MAJORITY CONTROL OF THE BUSINESS BY THE FUND, THUS PREVENTING THE PASSING OF OWNERSHIP TO OUTSIDE FINANCIAL INTERESTS, WITH POSSIBLE DISADVANTAGE TO THE EMPLOYEES WHOSE DIRECT EFFORTS PROVIDE THE RETURN UPON THE OWNERS' INVESTMENT IN THE FORM OF PAID DIVIDENDS AND RETAINED PROFITS.

The guaranteed annual wage looms large upon the horizon. In cases in which it is adopted, the supplementary payments making up the difference between earnings on the job and mutually agreed upon guaranteed annual wages, may well be borrowed from the profit-sharing fund as a short-term, guaranteed loan by the company and may even be accumulated by the employees over a specified period of actual work, through their personal contribution account, so that the payroll department may have the extra money available for payment if and when actually required.

In this paper we have not attempted to deal with differences in profit-sharing plans or with specific benefits to employees involved. All of the various forms of profit-sharing have unique features to meet needs of individual companies and employee groups. Our attention has been on the general picture. It is pertiment to suggest a study of the phenomenal growth in the number of applications for new profit-sharing plans filed and processed by the Bureau of Internal Revenue during the past five years. According to its figures, there were 21,825 qualified profit sharing and pension plans in operation as of October 31, 1953. The figures also disclose an increase of 3,657 in new plans for the year ending June 30th, 1953, as against 2,347 the previous year, with an additional 1,349 plans awaiting approval as of June 30th, 1953. Certainly, there could be no better proof that profit-sharing is being widely accepted as a distinctive better business philosophy designed to promote good labor-management relations. In my opinion profit-sharing is destined during the next decade to become, in the fullest sense of the word, the keystone of industrial peace.

JOHN R. BRAUÉ
INSURANCE BROKER

ROOM 201, EDWARDS BUILDING
206 NORTH MAIN
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NOVEMBER 4TH, 1954

Mr. John Doe, President,
John Doe Distributing Company
Houston, Texas

Dear Mr. Doe:

As you know, taxes, corporate and personal, make it difficult to rapidly build an estate today. There is a device that is perfectly legal that will enable you and your key personnel to wholly escape both taxes while building an estate. It is a Profit Sharing Retirement Plan. This is an absolute natural for your organization because all of your stockholders are also salaried employees.

You can set up a qualified Profit-Sharing Trust into which you can put any percent of corporation profits, not to exceed 15% of the salaries of your employee participants- and deduct your contributions before corporate taxes. This means that right off the reel Uncle Sam is paying 52% of the cost in your case.

Then these funds are improved at interest in the Trust, income tax free, during the whole accumulation period. Finally, at retirement time the benefits are paid to the participants as:

1. A long term capital gains, and taxes paid on that basis, or
2. As a lifetime income. In this latter case taxes are paid on an as received basis. But most people after retirement are in a much lower income tax bracket and in a much higher exemption bracket.

We have suggested in the attached calculated plan for your own organization that the 15% of salaries be contributed on the following basis: - - Benefited employees would put in 5% of salary, payable monthly beginning with the month following becoming eligible. This would be put in low cost Ordinary Life Insurance on the life of each participant payable to his beneficiary. This Life Insurance would have a wholesale rate, rather than retail, for converting into pension income at retirement time.

Then we have suggested that a percentage of corporate profits, but not to exceed 10% of salaries of participants, be invested in a self-administered Trust Fund. Three of you participants could serve as Trustees and the money could be invested in anything that a prudent man would put his money in. With proper safeguards it could be re-invested back in your business. Then at retirement time, if he so elected, each participants' share in the Trust could be used to pay up his Life Insurance into an immediate pension income for life. For younger participants there will be money left over after this conversion. The amount is shown in the next to the last column on the attached benefits sheet.

An employee's own contribution would always be fully vested in him and he could get it back without interest under all circumstances. Your company's contributions on his behalf would fully vest in an employee:

1. If he dies;
2. If he retires;
3. If he is permanently disabled - - ALL IN YOUR SERVICES.

But if he quits or gets fired company contributions for him vest in the following manner:

If he separates in less than five years in the Plan - - nothing. At the end of five years he gets a 25% vested interest, but he forfeits 75%. Each year thereafter he will have an increase vesting of 5% so that 20 more years in your service and thereafter he has a full vested interest in your contributions upon his behalf.

Forfeited benefits will be re-divided pro-rata among the remaining participants.

To illustrate how the Plan will work let's take the case of Mr. "A". He would put in 5% of his salary or $240. yearly. This would buy him $8,889.00 of immediate life insurance payable to his family. This insurance would have a cash value at his age 65 of $3,857.00.

Then the company would put into the self-administered trust 10% of his salary each year, which is $480.00. This improved at 3% and assuming 3% gain from his share in forfeitures would amount to a total of $22,077.00 at his age 65. With the Life Insurance cash value he would have total cash available at 65 of $25,934.00. He would have the right with the approval of the Trustees to have this all in cash in which event he would pay a long term capital gains tax upon the gain. Or, more probably he would want to take it as income and avoid the capital gains tax. He could convert his Life Insurance into a monthly pension income for life of $133.33 and would still have left over after that conversion $5,642.00 in cash. With Social Security his monthly income for life would be $241.83.

Similar benefits are shown for all other participants. Plans of this type will help you hold your key personnel. Benefits being laid up for other personnel not electing to stay with you will flow to you and your continuing employees. There just isn't anything else like this in the tax laws today and I am quite sure that you will find this Plan in the long range best interest of yourself, your other stockholding employees, your business itself, and your continuing employees.

With vest best wishes, I am

Cordially,

E. F. White

Consultant

EFW/dha

John Doe Distributing Co. Inc.
Houston, Texas
Profit Sharing Retirement Plan

Age & Sex	EMPL[redacted]	Annual Salary	5 % of Annual Salary	Amount Life Insurance This Provides	Insurance Cash Value at 65	10 % of Annual Salary	** 10% Salary Improved at 6 % to 65	Total Cash Available at Age 65	Amount Lifetime Pension at Age 65	Additional Cash of	Combined Income from Plan & Social Security
37M	[redacted]	3,180	159.00	7,553	3,693	318.00	23,099	26,792	113.39	9,550	204.79
43M	[redacted]	4,800	240.00	8,889	3,857	480.00	22,077	25,934	133.33	5,642	241.83
43M	[redacted]	7,500	375.00	13,889	6,027	750.00	34,496	40,523	208.33	8,816	316.83
34M	[redacted]	3,600	180.00	9,478	4,843	360.00	32,360	37,203	142.17	15,565	240.67
30M	[redacted]	3,900	195.00	11,439	6,119	390.00	46,067	52,186	171.58	26,072	275.08
36M	[redacted]	3,600	180.00	8,854	4,400	360.00	28,100	32,500	132.81	12,287	231.31
47M	[redacted]	4,800	240.00	7,552	2,824	480.00	15,724	18,548	113.28	1,307	221.78
25M	[redacted]	4,600	230.00	16,061	8,994	460.00	75,461	84,455	240.41	47,789	349.41
30M	[redacted]	3,000	150.00	9,031	4,831	300.00	35,436	40,267	135.46	19,650	223.96
52M	[redacted]	4,200	210.00	5,263	1,552	420.00	8,406	9,958	65.42	—	173.92
24M	[redacted]	3,000	150.00	10,783	6,042	300.00	52,485	58,577	161.74	33,961	250.24
36M	[redacted]	3,300	165.00	8,116	4,033	330.00	25,759	29,792	121.74	11,264	215.24
40M	[redacted]	7,500	375.00	15,756	7,295	750.00	43,617	50,912	236.34	14,942	344.84
[illegible]M	[redacted]	13,200	660.00	32,464	16,134	1,320.00	103,036	119,170	486.96	45,055	595.46
36M	[redacted]	2,400	120.00	5,902	2,933	240.00	18,733	21,666	88.53	5,192	167.03
51M	[redacted]	[illegible]	400.00	10,498	3,275	800.00	17,820	21,095	138.59	—	247.09
25M	[redacted]	4,500	225.00	15,712	8,198	450.00	73,821	82,619	235.68	46,749	344.18
28F	[redacted]	3,000	150.00	7,597	5,234	300.00	40,471	45,710	143.95	21,225	232.45
53M	[redacted]	[illegible]	[illegible]	19,138	5,301	1,600.00	28,611	33,912	222.80		331.30
37F	[redacted]	3,600	180.00	8,551	4,181	360.00	26,150	30,331	128.26	8,514	[illegible].76
		107,680	5,384.00	234,526	110,421	10,768.00	751,729	862,150			

** Includes an estimate of 3% from interest and 3% from forfeitures.

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