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SOME INTERESTING FACTS ABOUT PROFIT SHARING TRUSTS

9,000 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 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 100PPER 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

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IT SHOULD BE EMPHASIZED that the actuarial reports and valuations required in connection with pension plans approved by the Internal Revenue Service are **"solely for the purpose of determining whether the employer's claimed deduction exceeds the statutory limitations"**, Justin F. Winkle, assistant commissioner (technical) of the IRS, pointed out in a letter to the New York state insurance department.

> "There is a serious question as to whether the Internal Revenue Service would have the authority, even if it were practicable to assume the responsibility, to inquire into and attempt to assure the actuarial soundness of pension and welfare funds generally", Mr. Winkle stated.

Although there is no generally acceptable definition as to what constitutes "actuarial soundness", the answer lies in the question: **Is a sufficient amount being contributed to the fund in order to pay the benefits which are being promised to the employees?**

The answer can't be precise for several reasons. No one can accurately predict investment earnings and losses over a long period of years, how many participants will stay with the company until retirement, and how long they will live after retirement. Each of those questions has subdivisions. For example, how many of the employees who drop out before retirement age will die, become totally disabled or be employed long enough to become entitled to partial benefits?

We can eliminate many of these uncertainties in devising a pension plan for your organization. However, we feel that Mr. Winkle's observations are particularly pertinent since they indicate that "approval" by the Internal Revenue Service has only a limited value in determining the soundness of a particular plan.

Insured Pensions

Qualified Retirement Plans Provide "Political Protection"

Every business man who reads Washington reports on proposals for reductions in income taxes recognizes that politicians have an eye on votes and that it is improbable that those in high income tax brackets will gain much relief.

One of the reasons why an increasing number of small business men are establishing retirement plans is that it is one way they can defer income taxes and furthermore it tends to be a method safe from a political strategy standpoint since the estimated 13,000,000 participants in such plans represent a considerable segment of the voting population.

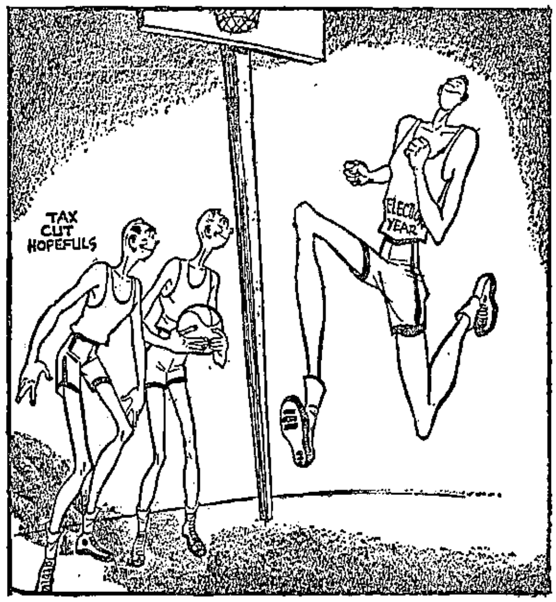
Matter of Public Policy

Congress has established recognized procedures for setting up pension and profit-sharing plans. It is a matter of public policy and it has a strong political basis, as evidenced by the fact that social security expansion measures have encountered little political opposition in recent years. The plight of the aged makes a powerful political theme. Consequently, it is highly improbable that the present favorable ground rules in regard to the income tax status of retirement plans will be curtailed in the future.

As an executive with above average earnings, what does this mean for you?

Net Less and Less

In the first place, increases in direct compensation net less and less under the progressive income tax rates. Consequently, the alternative is to defer receipt of compensation when your tax rates are high and to elect to receive that income after you are retired and you and your wife are subject to the double personal exemptions after age 65. After that age all medical expenses are deductible so that it is likely that you can receive nearly \$5,000 a year, *including* the maximum husband and wife social security benefit, without paying any income tax. At present tax rates, your next \$4,000 of income



"THEIR STAR RECRUIT"
MORRIS, A. P. Newsfeatures

over that amount after 65 will be subject to only a 20% tax on a joint return and the next \$4,000 is taxable at 22%.

Advantages Readily Apparent

When you compare those figures with your present top income tax rates, you can readily see the advantage of deferring receipt of income until after you retire. Furthermore, even if you can save money at current tax rates, you have to pay a tax on the income from your investments, thus making it difficult to accumulate old age reserves.

In contrast under a qualified pension or profit-sharing plan, the investment earnings on your retirement income reserve accumulate income tax free. Coupled with the fact that you pay no income tax on amounts paid to the fund on your behalf by your corporation the tax free status of your investment income means that you can accumulate a much higher amount under a qualified pension or profit-sharing plan than you can under a personal investment program financed by your direct earnings.

What Happens to $4,000 Raise?

The advantage of such a plan increases in proportion with an executive's income tax rate. What does this mean in case of a man filing a joint return who has the choice of deferring $4,000 income or taking it in cash?

Assume that the tax on an additional $4,000 in taxable income is 38%; that means an executive nets only 62% on the dollar. If he earns 3% on his $2,480 net after taxes, his investment return is cut down to 1.86% (at the same tax rate). In contrast if the $4,000 is credited to his account in a pension or profit-sharing plan, he pays no income tax and he is credited with the full $4,000. Furthermore, his interest earnings are based on the $4,000, not on 62% of $4,000 and his investment return credit is the full 3%, not 62% of 3%.

The advantages of a deferred compensation plan are fairly obvious when you consider what happens to a direct compensation increase. The next step is do something about it. *How do you do it?*

Procedure Appears Complicated

If you get a copy of the Internal Revenue Code and start reading over Sections 401 to 404 which specifically cover the qualification, the tax status of benefits and the amounts employers can deduct in their income tax returns for contributions, you may conclude that it is too complicated a program for you.

Actually, you don't have to worry about such details. We have devised several methods for meeting the requirements which are set forth in the Code, the regulations issued by the Internal Revenue Service and various rulings which amplify the regulations. We need a few details from you but we can devise an acceptable program and if a trust agreement is needed we can advise your attorney on points to cover in drafting it.

Factors to Consider

There are several factors which you have to consider. In the first place, the Internal Revenue Service tends to place emphasis on what it calls discrimination. Its bark is usually worse than its bite. "Discrimination" for your purposes can be boiled down to the fact that all permanent employees should be included under the plan if the benefits are based on total pay. If the benefits are based on pay in excess of $4,200 (social security maximum), you can exclude those who do not receive that amount although those excluded now will have to become eligible in event their incomes increase to over that amount.

"Permanent" Construed Broadly

The word "permanent" can be construed rather broadly since you can require up to five years of service under the basic rules before an employee starts participating in the plan. Generally, employers find it more advisable from an employees' relation standpoint to require a lesser period of service. However, you can eliminate the younger women in your organization who will leave to become homemakers and other short-term employees.

In establishing benefits it is generally recognized that earnings, service and age can be recognized so that executives generally receive higher credits for those reasons. In smaller firms we are generally able to qualify a plan based on a percentage of earnings alone. The cost of financing the benefits is obviously higher for those of older ages since the accumulation period prior to age 65 is shorter. Thus the contributions by the corporation for you and other executives will generally be proportionately higher than for average employees.

After we have analyzed your data on age, service, earnings, etc., and have taken into your account your specific ideas on eligibility requirements, and benefits, costs, etc. it is necessary to review the program from the standpoint of discrimination again. In other words, although we attempt to eliminate "discrimination" in establishing the preliminary details, the over-all effect has to be considered.

As we have had considerable experience with the local revenue agents, we are able to make adjustments which are necessary to comply on that point. Revenue agents tend to vary by locality on their attitudes since there are judgment factors involved. There are several relative factors which have to be taken into account and resolved so that it is necessary to develop a "fourth sense" in this regard. In other words there are no general precise rules which can be explained on a point by point basis without reference to a particular set of facts. Since it is advisable to design each plan to meet the particular need of the employer and his employees, there are a wide number of possible variations which must be taken into account.

Obviously, it is to your advantage to get all the details as to the plan and its approval worked out with care. It takes considerable time to work out a program. Some of the time is just "waiting time" since the Internal Revenue Service representatives are busy and it is necessary to take that factor into account. Thus, it is advisable for you to start thinking and talking about your new plan as far ahead as possible from the end of your tax year. Actually, the first quarter of the year is one of the best times to get your discussions under way since the peak load on pensions and profit-sharing plans from the standpoint of the technicians and the Internal Revenue Service tends to snow-ball as the tax year draws to a close. For this reason, we suggest that we arrange a preliminary interview at this time so that a carefully thought out plan can be devised to meet your particular needs without having to hastily compromise on details because of lack of time.

Must Watch Severance Factor

The capital gain treatment accorded employees receiving benefits under a profit-sharing trust is contingent on severance of employment. In drafting deferred compensation contracts which supplement benefits payable under approved pension and profit-sharing plans it is necessary to include sufficient contingencies so that the value of the contract will not be taxable to the employee under the constructive receipt of income doctrine.

One of the "contingencies" commonly introduced in such contracts is that the retired employee must be willing to consult with the employer. From the standpoint of being an effective contingency such a provision has obvious merit, since the willingness to consult can't be determined until the time the employee starts receiving the income. However, will such a contingency defeat the severance of employment requirement in order to be eligible for capital gains treatment in connection with lump sum payments from a profit-sharing contract?

On page 1 of the December issue under Point 2 a typographical error stated that an employer on a calendar year accrual accounting basis doesn't have to complete his first year contribution to a fund until March 31, 1956. This should have been March 15, 1956, which is 75 days after the end of the tax year.

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IF AN EMPLOYER ON A CALENDAR YEAR accounting basis (tax year ends Dec. 31) is expecting to establish a pension or profit-sharing plan, he will do well to keep in mind:

1. If he is on a **cash accounting basis** the plan must be established and the first year contribution must be made before Dec. 31.

2. If he is on an **accrual accounting basis** the plan must be established and he must make a token deposit before Dec. 31 but he doesn't have to make his first year contribution before March 31, 1956.

To be a **valid and existing trust,** the trust must have a corpus, according to Mimeograph 5985, C.B. 1946-1,72. This means a token deposit has to be made by the employer on an accrual accounting basis when he establishes his trust prior to the end of the tax year if he subsequently is going to be able to deduct contributions to the trust after the end of the tax year.

In Revenue Ruling 55-640, I.R.B. 1955-43,8 the Internal Revenue Service makes an exception. It states that no token deposit is necessary to qualify the trust as an existing trust providing that under the local (usually state) law "a promise executed under seal is binding without other consideration." Such a promise "of an employer to make contributions to the trustees of a profit-sharing trust may constitute the corpus of a valid trust."

Revenue rulings are generally issued to apply to a specific set of facts. Although Revenue Ruling 55-640 specifically refers to a profit-sharing trust, it probably can be assumed that it would also apply to a pension trust or to a master contract plan in the case of a taxpayer on an accrual basis. Except for the "red tape" aspects and the fact that the employer must comply to the procedure involved, the token deposit method may be the best course to follow since it is not necessary in such a situation to verify whether "a seal imports consideration" under the state law. The ruling doesn't indicate what states have such laws. We'll be glad to provide additional details.

Insured Pensions

How Much Pension Income Do Your Employees Need?

Social security benefits and the double personal exemptions accorded those over 65 under the income tax laws make it possible for employers to provide fairly adequate pensions without too much cost.

Assuming that an employee is married and his wife is also over 65, the amount of income needed to bring his total retirement income up to his pre-retirement take-home pay prior to age 65 is as follows:

Gross pay prior to 65	$4,200
Tax (short form)*	512
Net take home pay	3,688
Social security*	1,953
Income needed	1,735

* * * *

Gross pay prior to 65	$3,600
Tax (short form)*	404
Net take home pay	3,196
Social security	1,773
Income needed	1,423

* * * *

Gross pay prior to 65	$3,000
Tax (short form)*	298
Net take home pay	2,702
Social security	1,693
Income needed	1,009

*Two personal exemptions, joint return, 1955 income tax rates.

Since the "income needed," which is the pre-age 65 "take home pay" less social security payable to a man and his wife both over 65, is less than $2,400 in all three cases, the pensioner who receives the equivalent of the income needed will pay no income tax if he and his wife are both over 65 and entitled to double personal exemptions.

Gross Requirements

Thus, a pension based on 41.4% of gross pay will provide a $4,200 a year employee with 100% of his pre-retirement take-home pay. In the case of a $3,600 a year man, 40% is needed, and a $3,000 a year employee needs 33.5% of gross pre-retirement pay to bring his total retirement income up to his pre-retirement take-home pay.

Since the net effect of the double personal exemptions and the social security benefits becomes less favorable as an employee's income increases over $4,200, the result for a $10,000 a year man with the same assumptions as used above is as follows:

Gross pay prior to 65	$10,000
Tax ($1,000 ded.)	1,636
Net take home pay	8,364
Social security	1,953
Income needed	6,411

Inasmuch as an income tax will have to be paid by the $10,000 a year man before he can net $6,411, he will have to have an income of around $7,250 before taxes or about 72.5% of his gross pay prior to retirement to equal his pre-retirement take-home pay.

Personal Savings Factor

In determining the amount of pension which should be paid under an employer's plan, it is assumed that the employee will provide some of his retirement income from his personal savings and that he will not actually need as much income as he did prior to retirement.

Assuming that the employer's plan provides the following percentage of gross pre-retirement pay, this would reduce the difference between the income needed as follows:

		Reduction in Pre-Retirement Take Home Pay Under a		
	Income needed	20%* Pension	25%* Pension	30%* Pension
$ 3,000	33.5%	13.5%	8.5%	3.5%
4,000	40.	20.	15.	10.
4,200	41.4	21.4	16.4	11.4
10,000	72.5	52.5	47.5	42.5

*Percentage of gross pre-retirement pay.

Integration Permitted

In establishing employer pension plans it is possible to take into account social security benefits. Under this procedure it is possible to pay a higher benefit on earnings over $4,200 than is paid on earnings less than $4,200. Many plans now in effect pay higher benefits over $3,000 or $3,600, the maximum wage base on which social security was determined when the plan was placed in effect.

Under the integration rules the social security income is based on the primary amount received by the employee (wife's benefit excluded) and the effect of income taxes is not taken into account. The rules applying to the social security changes which became effective Sept. 1, 1954, permit employees earning over $4,200 to be paid a pension approximately 30% higher on earnings in excess of $4,200 under the type of benefits we usually suggest.

Need of Executives Shown

In comparing the above figures an employer can readily see how a modest percentage of pay pension can help in providing a satisfactory retirement income for average employees. At the same time the comparison shows the great need of doing something to improve the retirement income results for the employees who earn over $4,200 a year.

"Annuity" Is Defined by Internal Revenue Service

An "annuity," within the meaning of Section 402 or 403 of the 1954 Internal Revenue Code (sections covering tax status of benefits) is defined under Revenue Ruling 55-639, I.R.B. 1955-43,8 as:

> A contract which provides primarily for periodic installment payments to the annuitant named therein, and under which death benefits at any time cannot exceed the larger of the reserve or the total premiums paid for the annuity benefits. Thus, in any annuity contract, there is no pure insurance protection at any time.

The fact that the contract may provide for the return of total premiums paid in case of death, and such total premiums may exceed the reserve in the early years, *will not be considered as providing insurance protection.*

The ruling also notes that a non-trusteed plan which uses annuity contracts as a medium of funding and providing benefits must also be qualified under Section 401 (a).

* * *

The maximum amount deductible by an employer for contributions to a pension and a profit-sharing plan which have common beneficiaries (same participants) is 25% in a single year or 30% if there is an unused carryover from the preceding year. However, in qualifying a deduction under the combined limitation, the deduction to the pension plan must first meet the basic actuarial cost limitations and the deduction to the profit-sharing plan must satisfy the 15% limitation rule, the U.S. District Court held in *Parker Pen Co. v. Kuhl et al.* (E.D. Wis. No. 5326). If the tests for the individual plans did not have to be satisfied first, the 15% rule "would be robbed of any vitality," the court held.

Successful Plan Calls for Coordinated Solutions

In considering the installation of a retirement plan, an employer's natural reaction is to feel that the legal aspects are the most complicated of the problems which have to be solved. This is especially true if he reads over the Internal Revenue Code provisions covering retirement plans for the first time. If he installs a pension plan, he has to deal with a consultant and he soon learns that there are a number of non-legal questions to be answered.

Eliminate Potential Problems

In the case of a profit-sharing trust, it is possible to establish such a plan without the services of a consultant. However, in such a case, many of the problems which may arise to plague the employer once the plan is in effect could have been alleviated or eliminated if a competent consultant has either designed the plan or at least reviewed the proposal before it was finally effected.

There are at least four aspects in establishing either a pension or profit-sharing plan:

1. Legal (including tax).
2. Financial.
3. Practical procedures.
4. Human relationships.

All four are inter-related, inasmuch as it may not be possible to solve a human relationship problem based on determining an equitable benefit without considering the cost and whether such a benefit will meet the qualification rules of the Internal Revenue Service. As consultants, we coordinate the inter-related problems since we are used to working with attorneys and we have to be familiar with the legal aspects, but at the same time we are able to explain the procedures to employers and their employees in simple terms.

Status of Death Proceeds

Under a plan which purchases retirement income, endowment or ordinary life insurance on the lives of the participants the amount payable upon death *less the cash value* of the policy at the end of the particular tax year is considered "current life insurance protection" if the death proceeds are payable to a beneficiary of the participant. This is also true if under the terms of the plan the death proceeds are payable to the trust but the trustee is required to pay over all of such proceeds to a beneficiary of the employee participant, according to the proposed regulations. Death proceeds paid on the "current life insurance protection" are excludable from the beneficiary's gross income.

Union Attitudes on Pensions

Even where union demands are not of immediate concern to employers, they tend to have a strong influence on what is an acceptable pension. Under plans voluntarily installed by employers it is a usual practice to take the amount of the employee's earnings into account in establishing retirement income benefits.

Owner Fares Well

In the case of a small corporation, the owner's share of the benefits as an employee under the corporation's pension plan is apt to be a fairly high percentage of the total. Under the corporation's pension plan recognition can be given for earnings, length of service with the corporation and closeness to retirement age. We will be glad to provide an estimate as to approximately what percentage of the corporation's total contributions for pensions will be credited to the owner if he will provide us with the essential facts involved.

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SPECIAL ISSUE, 1955

IN ESTABLISHING A NEW RETIREMENT PLAN it is wise for an employer to consider his general or preliminary objectives and then have a qualified consultant make an exploratory estimate on probable costs to determine if the objectives are in line with the employer's ability to pay the costs.

Three general objectives or problems are involved:

1. To establish a plan which will be acceptable to the employees and gain a favorable reaction from them.
2. To keep the costs of the plan within the employer's ability to assume them.
3. To qualify the plan under federal income tax laws in order to gain the maximum benefit for the employees and the lowest possible net cost to the employer.

There are a number of decisions which have to be made in regard to the benefits to be provided. By adjusting these, costs can often be brought in line, or, if costs are under the amount the employer is willing to invest, benefits can be increased.

The final decision is how can these costs be paid. There are three general types of methods used: 1. A pension trust. 2. A profit-sharing trust. 3. A master contract insured plan. All have favorable points so it is necessary to elect the method best fitted to your situation and objectives.

Under a trust plan the trustees invest in insurance contracts or in other types of investments. When the trustees invest in life insurance contracts they buy what might be termed a "package plan" since the company estimates the costs, invests the money and carries out the terms of the program. There are various types of insured plans available so there is sufficient flexibility of choice. Under a self-funded plan the trustees or an actuary or a corporate trustee selected by the trustees perform the various functions which the insurance company performs.

Insured Pensions

In this monthly letter we review various points involved in the procedures outlined above and will be glad to discuss specific questions which you may have from time to time.

Three Main Steps in Establishing a Retirement Plan

1. Reasons For A Formal Employee Retirement Plan

Efficient employees who have an interest in the business and their jobs are the most valuable assets a firm possesses. To gain the right type of employee in the first place and retain him (or her) it is necessary to compete with other firms. In looking for a job an employee wants good pay, an opportunity for the future and good working conditions. This is also true of employees already with the firm.

Double Value

Although a retirement plan is just one of many factors which make a firm a "good place to work," it has both *direct* and *indirect* values. Employees desire job security and the fact that the employer has a retirement plan in which they participate makes them feel that they have a future with the firm. This is true whether the employee is 30 or 60.

From the employer's standpoint, he knows from experience that there comes a time when there is a question of efficiency among older workers. Even when the employer has no pension plan and he has to continue the employee on the inactive payroll, he finds it more economical in the long run to replace certain older workers.

2. First Steps to Take in Establishing a Plan

Assuming that an employer recognizes the need for a retirement plan, what is his next step? He has heard about the General Motors Corporation's pension plan or the Sears, Roebuck & Company's profit-sharing plan, and since they are both successful firms he may feel that their plans are worth investigating. He may have been exposed to some of the advocates of profit-sharing plans and he may have been attracted to such a plan on the grounds that it serves a double purpose of stimulating an employee and that there is no fixed cost to the employer.

No Single Answer

The needs and situation of each employer vary to some extent so there is no single answer to your particular problem. The nature of the business, the characteristics of the employees and the financial status of the firm differ. In approaching your problem a trained consultant will generally ascertain your problem by analyzing the age, the length of service and the earnings of your employees in order to determine approximately what a retirement plan will cost. He also wants to get some idea of what the employer thinks is an adequate retirement income and his attitude about certain "plus" benefits, etc.

Accumulate Sufficient Funds

The objective under a retirement plan is to accumulate sufficient capital by the time the employee retires so that there will be enough money to pay him a fixed monthly sum for the rest of his life. Interest earnings on accumulated funds before they are paid out, the mortality among employees both before and after retirement age, and average turnover among employees must be taken into account in determining how much money has to be contributed to the fund.

The above factors which influence the cost of retirement plans vary considerably among small groups of employees. In case there are not a sufficient number of employees and dollars involved to gain a workable average, it is generally desirable for small and medium sized firms to provide retirement income by purchasing annuity and insurance contracts. It is easier to determine maximum costs by the purchase of such contracts and most of the costs are guaranteed by the insurance company so the employer doesn't have to take the chance of guessing right.

Guarantee Cost After Retirement

When your retirement plan invests in annuity and insurance contracts, you know for certain that starting at retirement age the employee is guaranteed a retirement income by the insurance company as long as he lives. Thus, you don't have to worry about whether or not there will be sufficient money in your retirement fund to pay the employee who lives 20 or 25 years after retirement as contrasted to the present average of 14½ years for those who retire at 65.

If all employees who participate in the plan continue with your firm and live until retirement age, your maximum cost is guaranteed under an insured plan when you buy specific contracts covering each participant. Since there may be considerable difference between your net cost and your maximum cost, it is safer to base your calculated costs on the maximum and be certain.

Other Possible Savings

There is an obvious saving to the employer if all participants do not live to reach retirement age or if they do not stay with the firm until that time. This is true under both an insured plan and a self-insured plan. However, under a self-insured plan it is customary to guess on such savings while under an insured plan such savings in cost usually are not taken into account until they have been actually realized. Under both types of plans the *final net cost* will be based on actual experience so that a low guess under a self-insured plan may prove to be only a delusion.

3. Benefit Provisions Which Are Reflected in Costs

With information in regard to the age, length of service, the retirement age, the sex of the employees and earnings, it is possible to estimate the maximum cost of an insured retirement plan without too much trouble.

The prime benefit under a retirement plan is the amount of income paid the employee starting at retirement for the rest of his life. This was the only benefit provided under most of the original pension plans. However, certain inequities developed under such a single age benefit plan. If an employee dies when he is 64 and the retirement age is 65, his widow gets nothing except the return of his contributions. If he dies when he is 66, it is customary to subtract the amount of his retirement income already paid him from his contributions and pay it to his heirs. Then there are even rare cases where an employee is discharged as he nears retirement age.

Correct Shortcomings

Obviously such circumstances detract from the plus value of a pension plan. To correct such shortcomings of a single age benefit plan, it has become customary to include provisions to meet the problem of death before and after retirement.

To provide a widow's pension prior to employee's scheduled retirement, a plan invests in a retirement income contract instead of an annuity. Where $1,000 of life insurance is provided for each $10 of monthly income it is possible to guarantee that a widow will receive one-half the monthly retirement income which would have been payable to her husband for a minimum of 20 years. The maximum period over which the widow's monthly income is paid depends upon her age at the time of her husband's death prior to retirement.

Several Provisions for Widows

If the husband dies after retirement there are several types of provision for widows. Most insured retirement plans provide that if a pensioner dies prior to the time he receives 120 monthly payments, his widow or beneficiary will receive the balance of the unpaid monthly payments. If the employee is willing to accept a lesser amount of retirement income, he can elect to receive his income as long as either he or his wife (or another survivor) lives.

Both the pre-retirement and 10 year guarantee post-retirement death benefit add to the employer's costs in providing retirement benefits. It is important to keep this in mind in case costs are compared, since a plan without such benefits will cost less. The joint and survivor benefit doesn't cost the employer anything as its cost is paid by reducing the employee's retirement benefit.

Vesting Provisions

The amount of severance benefit paid an employee leaving prior to retirement is usually called *vesting* as the employee has a vested interest in the contributions the employer has contributed to the plan on his behalf.

There are numerous methods of vesting, such as 5%, 10% or 20% for each year of participation, starting either the first year, fifth year, 10th year, etc. Some plans provide for 100% vesting after a certain age, such as 50 or 55, either with or without graded vesting based on service.

Vesting adds considerably to the net cost of a retirement plan. However, employees naturally favor liberal vesting so that in the final analysis it is a question of cost versus employee reaction.

Eligibility and Vesting Related

Eligibility for participation in the retirement plan and vesting are closely related. If there is a short eligibility period, then vesting provisions can be less liberal. On the other hand the longer the eligibility period, the earlier vesting can start.

In establishing eligibility provisions, three factors are involved:

1. Employee reaction.
2. Cost to the employer.
3. Provisions necessary to qualify the the plan for tax exemption.

Under the tax law governing retirement plans, eligibility for participation cannot exceed five years of service or age 35. In establishing satisfactory eligibility requirements within those limits, it is generally desirable to include what might be called permanent employees. The definition of "permanent" in such a case depends upon the firm's and the employees' attitude. From a cost and nuisance standpoint it is advisable to establish requirements which will tend to eliminate such classes of emloyees who generally stay only a few months or years. This is especially true of younger women who work until they get married and start raising a family. Part-time help can be automatically excluded. Area employment conditions and the availability of help are factors to be considered. Employee reaction is obviously a key point.

Offset by Stricter Vesting

In general, early eligibility requirements increase the cost of a retirement plan, although, as has been pointed out, some of the cost can be offset by more stringent vesting requirements.

To qualify an employees' trust or annuity plan for tax exemption, it is necessary to include a certain percentage of the employees. In the case of a small firm it may be necessary to lower eligibility requirements accordingly.

As you can see, there are numerous factors which have to be taken into account in determining retirement plan costs. Costs can be minimized to meet the employer's ability to pay or a plan can be made more favorable, if more funds are available. It is at this point where a decision can be made regarding how the costs can be financed.

We will be glad to provide further details in regard to any of the points enumerated in this brief explanation.

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 asiae 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."

You may have read or heard about the new profit-sharing plan at The Champion Paper and Fibre Company. As neighbors, we thought you might like to know more about it. Perhaps you know that this "New Idea" provides that 15% of profits, before taxes, will be set aside for all our working partners, subject to U.S. Treasury Department approval of the plan.

THE BACKGROUND OF OUR NEW PARTNERSHIP

This profit-sharing plan was adopted only after virtually unanimous approval by all of us who work together at Champion. And it has the overwhelming approval of our shareholders.

We all know that the money Champion takes in comes from the work we do, the products that we make and our customers buy. This is our only way to get money for wages, equipment, buildings, pulpwood and all the things that keep the Company going. And profits are the only source for insurance and retirement benefits. So no matter how we look at it, the security for all Champions and their families depends on Champion making money. If we can't build security this way, we can't build it any other way.

EMPLOYEE BENEFITS ARE NOT NEW TO CHAMPION

For many years, Champion has offered life insurance, health and accident, hospital, surgical and medical benefits as well as retirement income. But employees had to pay part of the bill, although the smaller part. Under our new profit-sharing plan, our working partners pay nothing even though the benefits have been improved.

TRUST FUND FOR PARTNERS

Under the "New Idea," the balance of the 15% remaining after paying the cost of our various insurance benefits goes into a trust fund in which each Champion has an individual account. This account can be used to provide more life insurance or a bigger retirement income or to provide financial aid in the event of emergency.

BUILDERS OF SUCCESS NOW SHARE SUCCESS . . .

We have been working toward this profit-sharing plan with our 9,000 partners for some years.

In a real sense, the men and women of Champion have always been partners in our enterprise. They have helped build Champion into the industry it is today. Their skill, their interest, their pride in good products have contributed greatly to Champion's success. We believe it is sound for them to share in profits because they make profits possible.

The amount of money that will be available for benefits, and to build each partner's account in the trust fund, will depend upon the Company's profits in the years to come. It's up to all of us at Champion, working together, to build together—*as partners in paper and profits.*

The Champion Paper and Fibre Company

HAMILTON, OHIO • CANTON, N. C. • PASADENA, TEXAS • SANDERSVILLE, GEORGIA

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.

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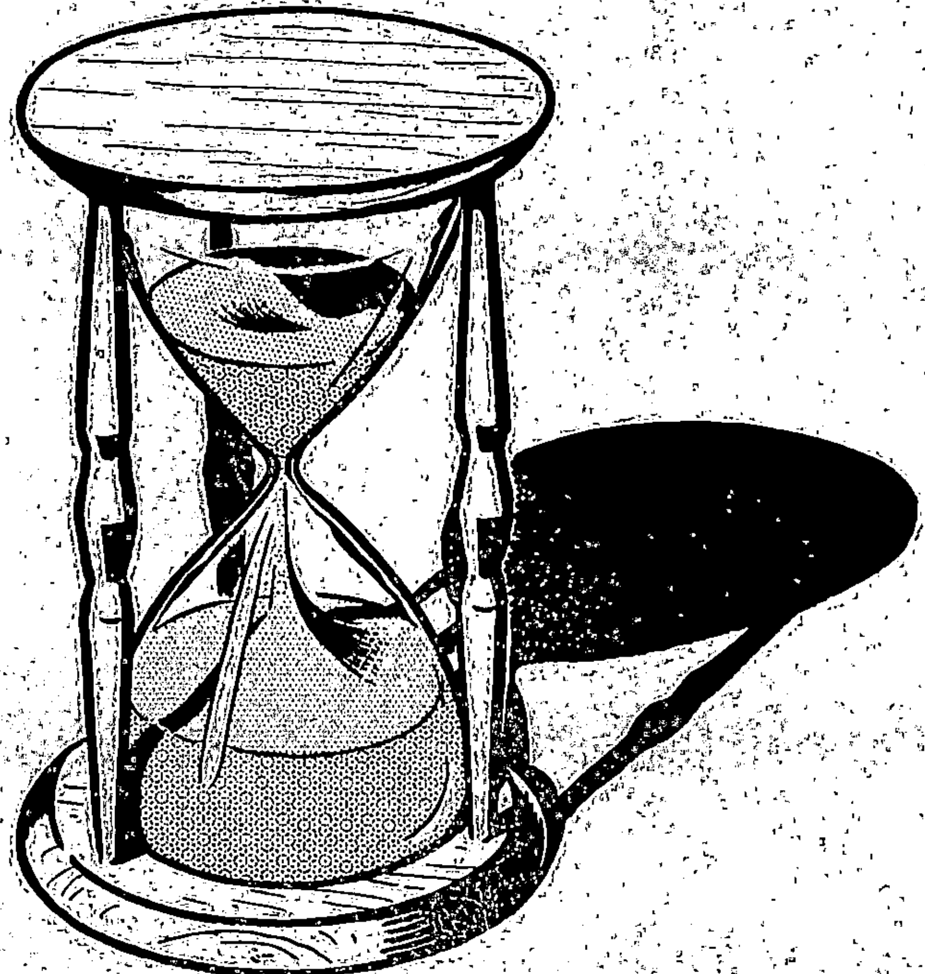
Companies award anywhere from 5% to more than 50% of their profits before taxes. Most profit-sharers believe that a minimum of 10% should be paid out. In general, there are two types of programs: 1) the cash-payment plan, under which employees are paid a fixed percentage of profits at regular intervals;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

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."



NOW IS THE TIME

E. F. WHITE & ASSOCIATES

Consultants on Pension and Profit Sharing Plans

1511 BRYAN STREET

DALLAS, TEXAS

FEBRUARY 14TH, 1956

MR. J. HUGH LIEDTKE
ZAPATA PETROLEUM CORPORATION
MIDLAND, TEXAS

DEAR MR. LIEDTKE:

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 A NATURAL FOR YOUR ORGANIZATION BECAUSE, AS I UNDERSTAND IT, ALL OF YOUR STOCKHOLDERS ARE ALSO SALARIED EMPLOYEES AND CAN THEREFORE BE TOP DIRECT PARTICIPANTS AS WELL AS INDIRECT PARTICIPANTS THROUGH THE IMPROVEMENT IN MORALE AND PRODUCTION WHICH THE INSTALLATION OF THESE PLANS ALWAYS BRINGS.

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 REINVESTED 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 SUGGESTED MANNER:

> IF HE SEPARATES IN LESS THAN FIVE YEARS IN THE PLAN - - NOTHING, OTHER THAN A RETURN OF HIS OWN MONEY WITHOUT INTEREST. AT THE END OF FIVE YEARS HE GETS A 25% VESTED INTEREST IN THE MONEY YOUR COMPANY HAS PUT IN FOR HIM, 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 ANNUALLY AMONG THE REMAINING PARTICIPANTS AND CREDITED TO THEIR ACCOUNTS IN THE TRUST.

TO ILLUSTRATE HOW THE PLAN WILL WORK LET'S TAKE THE CASE OF NUMBER 10. HE WOULD PUT IN 5% OF HIS SALARY OR $360.00 YEARLY. THIS WOULD BUY HIM $ 15,727.00 OF IMMEDIATE LIFE INSURANCE PAYABLE TO HIS FAMILY. THIS INSURANCE WOULD HAVE A CASH VALUE AT HIS AGE 65 OF $7,454.00.

THEN THE COMPANY WOULD PUT INTO THE SELF-ADMINISTERED TRUST 10% OF HIS SALARY EACH YEAR, WHICH IS $720.00. THIS IMPROVED AT 3% INTEREST AND ASSUMING 3% GAIN FROM HIS SHARE IN FORFEITURES ARISING WHEN EMPLOYEES LEAVE YOU WITHOUT EARNING A FULL INTEREST IN BENEFITS PUT IN FOR THEM WOULD AMOUNT TO A TOTAL OF $45,148.00 AT HIS AGE 65. WITH THE LIFE INSURANCE CASH VALUE HE WOULD HAVE TOTAL CASH AVAILABLE AT 65 OF $ 52,602.00. 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 $235.90 AND WOULD STILL HAVE LEFT OVER AFTER THAT CONVERSION $ 17,453.00 IN CASH. WITH SOCIAL SECURITY HIS MONTHLY INCOME FOR LIFE WOULD BE $344.40.

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 VERY BEST WISHES, I AM

CORDIALLY,

E. F. White

CONSULTANT

EFW/DHA

P/S -1 THE NATIONAL CITY BANK OF NEW YORK SAID "BY OFFERING OUR EMPLOYEES AN OPPORTUNITY TO CREATE AN ESTATE IN THE BANK, WE HAVE BEEN ABLE TO GET AND KEEP THE KIND OF EMPLOYEES ANY INSTITUTION NEEDS FOR GROWTH AND STABILITY."

P/S -2 HERE IS WHAT ERLE WHITE OF WHITE'S AUTO STORES SAYS ABOUT THEIR PROFIT SHARING PLAN WHICH HAS BEEN IN OPERATION ABOUT TEN YEARS: - - "THE SUCCESS OF ANY BUSINESS DEPENDS, IN LARGE MEASURE, UPON THE ATTITUDE OF ITS EMPLOYEES, THE DEGREE OF THEIR FEELINGS OF LOYALTY TO THE COMPANY, AND THE AMOUNT OF SATISFACTION THEY DERIVE FROM THE CONDITIONS OF THEIR EMPLOYMENT.

IF AN EMPLOYEE CAN FEEL SECURE, SO LONG AS HE PERFORMS HIS DUTIES WELL, IF HE KNOWS THAT THE REWARDS FOR HIS EFFORTS ARE IN LINE WITH THE NATURE OF HIS JOB, IF HE KNOWS THAT HE HAS AMPLE OPPORTUNITY FOR ADVANCEMENT WITHIN THE ORGANIZATION AND IF HE IS AWARE OF THE FACT THAT HIS COMPANY ENCOURAGES HIM TO PROGRESS AND, AT THE SAME TIME, MAKES GENEROUS PROVISIONS FOR HIS OWN AND HIS FAMILY'S FUTURE SECURITY --- THEN THAT EMPLOYEE BECOMES AN ASSET TO HIS EMPLOYER. AS AN INDIVIDUAL, HE WILL CONTRIBUTE EVERYTHING IN HIS POWER TO THE SUCCESS OF "HIS" COMPANY."

April 1, 1956

[illegible]
Midland, Texas
Profit Sharing Retirement Plan

Age & Sex	EMPLOYEE	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
45M	11	24,000.00	1,200.00	40,719	16,816	2,400.00	93,582	110,398	610.78	19,392	719.28
38M	12	9,600.00	480.00	21,838	10,547	960.00	64,826	75,373	327.57	26,566	436.07
30M	13	9,420.00	471.00	28,305	15,199	942.00	111,269	126,468	424.57	63,208	533.07
35M	14	6,000.00	300.00	15,244	7,713	600.00	50,281	57,994	228.66	23,924	337.16
30M	15	5,208.00	260.40	15,649	8,403	520.80	61,517	69,920	234.73	34,946	343.23
33M	16	7,500.00	375.00	20,391	10,582	750.00	72,257	82,839	305.86	37,266	414.36
35M	17	7,500.00	375.00	19,055	9,641	750.00	62,851	72,492	285.82	29,905	394.32
40F	18	3600.00	180.00	7,550	3,518	360.00	20,936	24,454	113.25	5,610	211.75
35M	19	5,400.00	270.00	13,719	6,941	540.00	45,252	52,193	205.78	21,532	314.28
32M	20	10,800.00	540.00	30,354	15,966	1,080.00	111,438	127,404	455.31	59,563	563.81
		89,028.00	4451.40	212,824		8,902.80					

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

E. F. WHITE & ASSOCIATES
Consultants on Pension and Profit Sharing Plans
1511 BRYAN STREET
DALLAS, TEXAS

April 1, 1956

Zapata Drilling Corporation
Midland, Texas
Profit Sharing Retirement Plan

Age & Sex	EMPLOYEE	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
* 58 M	21	12,000.00	600.00	11,238	2,944	1,200.00	16,765	19,709	141.31	——	249.8
41 M	22	8,400.00	420.00	16,894	7,703	840.00	45,246	52,949	253.41	15,191	361.9
54 M	23	8,400.00	420.00	9,554	2,484	840.00	13,330	15,814	106.11	——	214.6
32 M	24	9,000.00	450.00	25,295	13,305	900.00	92,865	106,170	379.42	49,637	487.92
33 M	25	4,800.00	240.00	13,050	6,772	480.00	46,244	53,016	195.75	23,850	304.2
30 M	26	9,000.00	450.00	27,043	14,522	900.00	106,308	120,830	405.64	60,390	514.1
46 M	27	8,400.00	420.00	13,784	5,375	840.00	30,059	35,434	206.76	4,627	315.2
47 M	28	15,000.00	750.00	23,540	8,851	1,500.00	49,140	57,991	353.10	5,380	461.60
26 F	29	4,200.00	210.00	14,237	7,944	420.00	64,580	72,524	213.55	36,990	322.05
		79,200.00	3,960.00	154,635		7,920.00					

* Retirement in 10 years

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

E. F. WHITE & ASSOCIATES
Consultants on Pension and Profit Sharing Plans
1511 BRYAN STREET
DALLAS, TEXAS

April 1, 1956

Zapata Petroleum Corporation
Midland, Texas
Profit Sharing Retirement Plan

Age & Sex	EMPLOYEE	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
34M	1	18,000.00	900.00	47,343	24,286	1,800.00	161,801	186,087	710.14	80,277	818.64
32M	2	18,000.00	900.00	50,590	26,610	1,800.00	185730	212,340	758.85	99,272	867.35
27M	3	7200.00	360.00	23,700	13,106	720.00	103722	116,828	355.50	63859	464.00
24F	4	3600.00	180.00	12,922	7,326	360.00	62,982	70,308	193.83	38,055	292.33
47M	5	7,800.00	390.00	12,241	4602	780.00	25,552	30,154	183.61	2,797	292.1
35F	6	3,600.00	180.00	9,146	4627	360.00	30,168	34,795	137.19	11,967	235.69
41M	7	4,200.00	210.00	8,447	3,851	420.00	22,623	26,474	126.70	7,596	235.2
27F	8	4,200.00	210.00	13,825	7,645	420.00	60,504	68,149	207.37	33,643	315.8
35F	9	3,600.00	180.00	9,146	4627	360.00	30,168	34,795	137.19	11,967	235.6
39M	10	7,200.00	360.00	15,727	7,454	720.00	45148	52,602	235.90	17,453	344.40
		77,400.00	3,870.00	203,087		7,740.00					

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

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JOHN R. BRAUE' P. O. BOX 967 PHONE MUTUAL 4-4842