

PROFIT SHARING AND OLD AGE INCOME ASSURANCE

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Since we specialize in incentive compensation: Both cash types and profit sharing, thrift, and stock purchase plans, and are not actuaries, I shall concentrate on deferred profit sharing and not on private pension plans nor on the social security system.

The Joint Economic Committee report on "Old Age Income Assurance—An Outline of Issue and Alternatives," confined itself to the "public interest in provision of old-age income assurance for consumption." Since "consumption" was not defined, I surmise that it was meant not only to distinguish from savings and investments by older people, but to connote a scale of material living albeit related to the older person's compensation when active yet somewhat more modest.

My contention is that deferred profit sharing to a very substantial degree does not fall into the purview of this report. In many deferred profit-sharing plans the shares result from and are a deferred reward for a level of productivity and harmony of labor relations in excess of the quality of efficiency and labor harmony which would result from payment of the prevailing rate of pay without any profit sharing. Incidentally, few profit-sharing firms, because of profit sharing, are desirous of or able to attract and hold satisfactory employees while paying below competitive rates of pay.

On the other hand, in many deferred profit-sharing plans such a productivity incentive is either not actively sought or is not realized, and either the prime motivation for these plans is close ownership's magnanimity or, far more often, the prime objective is the provision of retirement and other benefits.

As to how the total of deferred profit-sharing plans divides between plans which provide deferred incentive compensation and those which provide deferred benefits, it is necessary to conjecture because of the uncertainty of statistics which deal with management motivations and with company estimates of the incentive power of their plans (which amount to estimating how much less their profits would have been if they did not have a profit-sharing plan). My guess is that retirement (and termination) benefits constitute the prime result in something over half of all the deferred profit-sharing plans, and that incentive compensation is the predominant result in something less than half of all such plans. Even in the incentive category, of course, there is usually strong concern for the potentialities of deferral: not only for retirement benefits but for the full versatility of benefits which occur in deferred profit-sharing plans.

Now many plans with incentive realization, and likewise many without, embody a versatility of benefits beyond the pension objectives of old-age income assurance alone. Though these benefits were provided

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