

ance companies. The industry has obtained relief from taxation which formerly applied to insured pension plans and has taken a series of steps to be more competitive. The first was to promote split funding. In this arrangement, the insurance company managed the fixed-income portion of the fund, while a bank would handle the remainder committed to common stock investments. By offering a return based on the earnings on new money, instead of the average portfolio earnings rate, this type of contract has been an important competitive weapon. Since new money has been invested largely in corporate direct placements and conventional mortgages, the highest yielding classes of assets, the rate offered in recent years has been relatively attractive.

The most recent step taken by life insurance companies to improve their competitive position has been to secure authority to manage "separate accounts" in which insured pension funds can participate. These separate accounts enable a company to offer an equity investment facility outside of the usual range of guarantee and valuation problems. This development is too recent (only \$580 million in separate accounts at the end of 1966) to determine whether it will be of major competitive assistance, but it is evidence that in the future life insurance companies will be more effectively competitive in the pension field. It is equally clear that the field of equity investment will become of greater importance to life insurance company portfolio managers.

TRUSTEED PLANS

Evolution of Investment Management

As previously indicated, trustee pension funds have been one of the most rapidly growing financial intermediaries, especially since the end of World War II. Projected growth, as discussed in chapter II, assures them of a prominent place among major participants in the capital markets. Starting from a relatively small base prior to World War II, these funds have passed through a complete evolutionary development of investment management policy.

Initially, the restricted size and scope of noninsured plans influenced their investment along traditional trust lines. It was customary to invest in publicly issued bonds of high quality. Indeed the largest aggregation of funds, those of the Bell System, were largely funded through the issuance of 4 percent company notes from the start of the plan in 1913, until the late 1930's. The transition of the combined pension, trusts of the American Telephone & Telegraph Co. and its subsidiaries is shown in table V-4.

TABLE V-4.—BELL SYSTEM PENSION TRUSTS, 1935-50

[Book value of assets in millions of dollars at yearend]

Assets	1935	1940	1945	1950
4 percent demand and 1-year notes.....	125.4	103.8	5.1	-----
Bonds of Bell System companies.....	22.5	45.9	45.7	200.9
U.S. Government securities.....	2.1	30.7	277.5	362.0
Other corporate bonds.....	-----	32.9	102.7	646.6
Other investments.....	-----	-----	-----	10.1
Cash and accrued interest.....	2.0	11.9	12.4	11.7
Total.....	152.1	225.2	443.3	1,231.3

Source: American Telephone & Telegraph Co. annual reports.