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VESTED BENEFITS

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This note presents the results of a study in regard to the amount of deferred vested benefits provided by private pension plans. A sample of 45 insured plans which became effective in 1965 or early 1966 was used and is representative of those written by three insurance companies active in the field of pension plans.

A vested benefit is provided, through a special provision in the pension plan, to an employee who terminates his employment prior to his normal or early retirement age. The amount of vested benefit is based on his full or partial accrued pension at date of termination but is not payable until he reaches normal retirement age (some plans may permit an actuarially-reduced vested benefit to commence at the age the terminated employee would have been eligible for an early-retirement benefit).

In calculating the deferred vested benefit payable under the 45 plans in this study, three cases were used. In all cases, it was assumed that the terminating employees would have entered service with the employer at age 20 and would have 10 years of participating service under the plan. The ages at termination were assumed to be 30, 40, and 50; in other words, the employees were hired at age 20 but on the effective date of the plan, one employee had just been hired, one had 10 years of prior service, and one had 20 years of prior service. These differences were used because in providing special provisions for vesting, a plan can make a distinction between participating service and total service with the employer. In addition, at the time a pension plan is set up, there can be a

smaller annual credit provided for service prior to the effective date of the plan than the annual credit provided for each year after the effective date.

Some plans contain eligibility requirements. For example, an employee may not begin to accrue any pension credits until after he has reached a certain age and/or after he has had 'n' years of service with the employer. As stated above, a vested benefit is based on the accrued pension at date of termination, so that all conditions that limit the amount of accrued pension must be considered. A termination age greater than age 50 was not studied since most plans provide an early-retirement benefit at age 55 payable immediately.

In this study, 40 out of the 45 plans, or 89%, contained a special provision for termination. It could be stated that, on the basis of this study, termination benefits are being provided in about 90% of "new" plans. The quality of the benefits provided is shown in the attached tables.

In Case I—termination at age 30 with 10 years of service—only 12 of the plans (27%) would provide a vested benefit. The average monthly benefits provided at normal retirement age for employees earning level monthly salaries of \$400, \$500, and \$600 are \$16.34, \$19.90, and \$23.62, respectively, in 9 non-contributory plans and \$34.00, \$49.33, and \$64.67, respectively, in 3 contributory plans.

In Case II—termination at age 40 with 20 years of service—21 of the plans (47%) would provide a vested benefit. The average monthly benefits

provided at normal retirement age for employees earning level monthly salaries of \$400, \$500, and \$600 are \$38.59, \$44.77, and \$51.86, respectively, in 17 non-contributory plans and \$52.50, \$71.63, and \$92.25, respectively, in 4 contributory plans.

In Case III—termination at age 50 with 30 years

of service—28 of the plans (62%) would provide a vested benefits. The average monthly benefits provided at normal retirement age for employees earning level monthly salaries of \$400, \$500, and \$600 are \$57.39, \$67.45, and \$75.18, respectively, in 23 non-contributory plans and \$70.00, \$95.10, and \$117.10, respectively, in 5 contributory plans.

CASE I

Age on effective date — 20
Age on termination — 30

Years of participating service — 10
Total years of service — 10

Number of plans in study — 45

Number of plans providing special termination benefits

Non-contributory — 31
Contributory* — 9

Number of plans providing vested benefits in Case I

Non-contributory — 9
Contributory* — 3
% providing benefits in Case I — 27

Amount of monthly deferred benefit payable at normal retirement age

<u>Level Monthly Salary</u>	<u>\$400</u>	<u>\$500</u>	<u>\$600</u>
Non-contributory plans			
Low benefit	—	\$ 1.50	\$ 4.50
High benefit	\$30.00	40.50	54.00
Average benefit	16.34	19.90	23.62
Contributory plans*			
Low benefit	\$30.00	\$45.00	\$60.00
High benefit	40.00	55.00	70.00
Average benefit	34.00	49.33	64.67

*Employee must leave his contributions in plan.

CASE II

Age on effective date — 30
Age on termination — 40

Years of participating service — 10
Total years of service — 20

Number of plans in study — 45

Number of plans providing special termination benefits

Non-contributory — 31
Contributory* — 9

Number of plans providing vested benefits in Case II

Non-contributory – 17

Contributory* – 4

% providing benefits in Case II – 47

Amount of monthly deferred benefit payable at normal retirement age

<u>Level Monthly Salary</u>	<u>\$400</u>	<u>\$500</u>	<u>\$600</u>
Non-contributory plans			
Low benefit	–	\$ 1.50	\$ 4.50
High benefit	\$80.00	80.00	92.50
Average benefit	38.59	44.77	51.86
Contributory plans*			
Low benefit	\$34.00	\$34.00	\$40.00
High benefit	60.00	90.00	120.00
Average benefit	52.50	71.63	92.25

*Employee must leave his contributions in plan.

CASE III

Age on effective date – 40

Years of participating service – 10

Age on termination – 50

Total years of service – 30

Number of plans in study – 45

Number of plans providing special termination benefits

Non-contributory – 31

Contributory* – 9

Number of plans providing vested benefits in Case III

Non-contributory – 23

Contributory* – 5

% providing benefits in Case III – 62

Amount of monthly deferred benefit payable at normal retirement age

<u>Level Monthly Salary</u>	<u>\$400</u>	<u>\$500</u>	<u>\$600</u>
Non-contributory plans			
Low benefit	–	\$ 1.50	\$ 4.50
High benefit	\$100.00	125.00	160.00
Average benefit	57.39	67.45	75.18
Contributory plans*			
Low benefit	\$ 34.00	\$ 34.00	\$ 40.00
High benefit	90.00	135.00	180.00
Average benefit	70.00	95.10	117.10

*Employee must leave his contributions in plan.