Pension Plans: HOW DO THEY AFFECT CLUB'S TAXES?

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EDITOR'S NOTE: *Over the past year,* GOLFDOM *has been bringing to light the deplorable lack of employee pension plans and other fringe benefits in the club and course industry. On the one hand, many clubs complain that they are unable to get and hold competent help, but on the other hand, they are not offering benefits that enable them to compete with other industries for high caliber personnel.* GOLFDOM *is well aware of the financial straits in which many clubs find themselves today and that the implementation of an employee benefit program will mean an additional burden. However, it is well known in the business world that continual "turn over" of personnel and dissatisfaction among existing personnel can, over the long haul, cost more than the programs that would alleviate these problems.*

Ken Emerson, here, briefly outlines some of the ramifications of a pension plan and shows that such a program may not be quite as costly as club committees may think. We do urge any club official who is considering a pension plan to seek advice from the Internal Revenue Service, club legal and financial counsels and insurance company experts in the field of employee benefits.

Golf clubs, by tradition, have long-service employees who are not the best paid workers in the hospitality industry. Pension plans are often suggested as one means by which these workers can be compensated.

With the uncertain and increasingly difficult financial management of today's clubs, the hardpressed club owner or manager must ask—and answer— two important questions before reaching any decision on an employee pension plan: 1) It is a business expense; can I get a tax deduction? 2) What are the rules?

The answer to the first question is yes. The cost of a pension program is a business expense and will reduce taxable profits of "for-profit" non-exempt clubs. For the tax-exempt club, pension costs are a normal expense of operations and a proportionate part of the pension costs are charged off to non-exempt business as overhead and administration or payroll costs.

Past service costs, the biggest single item in installing a pension program, may be written off over a minimum of 10 years or a maximum of 40 years.

The question of "rules" is a far more sensitive matter, however. Pension experts note that many of the rules of pension programs have been changed in the last 18 to 24 months and many more can be expected to change when the United States Senate passes its pending pension legislation. The Senate version, H.R. 4200 and the House version, H.R. 2 have both passed the appropriate bodies and are now going into conference. It would be unwise to predict what the Conference Committee in its wisdom will decide, but both their activities must be kept in mind in considering any pension proposals today.

One of the leading developers of club pension programs, Whitney Associates of Orange, N.J., notes, however, that some basic rules can probably be expected to continue.

First, the plan must be non-discriminatory: that is, the club cannot pick and choose which employees or which department of the club will be insured. If a pension program is to be developed for the club, it must be available to all employees within the guidelines and restrictions developed.

Second, no pension program is any good until the IRS has given its stamp of approval.

Third, the choices are so vast that a club should seek the services of a professional consultant at the outset.

Pensions can run a gambit from life insurance programs to variable annuity plans to "limited employment retirement accounts," which provide a maximum of $1,500 or 20 per cent of total compensation, to be set aside in a trust.

The principle advantage of the best plans is that the employee is able to set aside tax free funds, which do not become taxable to him until after his retirement, when the rate will be much smaller. □

What 'Big Business' Says about Employee Benefits

GOLFDOM asked several executives of major firms to express their views on the importance of employee benefits, medical insurance and retirement income. Here's what they had to say on the subject:

Lloyd Whitfield, manager of public affairs for the DuPont de Nemours Corp., whose area of concern includes employee benefits, pension plans and so on, recently told us, "DuPont, of course, pioneered pension plans way back in 1904. We recently revised our plan where 40 per cent of the income may now be paid to the former employee's survivor. I would say pension and benefit plans are definitely needed to attract good employees. If you don't have attractive benefits, potential talent will just go next door where they can be found."

A spokesman in employee relations at the Radio Corporation of America, who preferred not to be identified, maintains that a strong, financially-

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