From the standpoint of being able to afford benefit plans, Brake Shoe is not as fortunate as are many companies, since our payroll costs run around 30% of our selling price. In some companies, such as the chemicals and oils, payroll costs run as low as 10% of the sale price. Obviously, this means that any flat percentage increase in our payroll costs has a much greater impact on us than on these other companies. Therefore, if we are to remain competitive, our payroll costs must be carefully controlled and any dollars spent must necessarily be spent where they will do the most good for the greatest number of our people. I can't overemphasize the importance of this as each of our plans and the benefits they provide have been developed with that basic principle in mind.

Now let's briefly review our plans.

Group Life was installed back in 1932, well ahead of most of the industrial companies. Through the years it has been liberalized from time to time and at present its benefits compare very favorably to those of other companies. The total and permanent disability feature, to the best of our knowledge, is no longer provided by most insurance companies. The amount of insurance carried on our retired employees is very generous.

I think you might be interested in knowing that Group Life Insuranc is not insurance as most of us consider it. Usually, we think of insurance as covering a large unknown risk, the cost of which is shared by a number of people, each paying a small premium for their individual protection. This is so in Group Life Insurance as far as the individual is concerned, since each employee in Brake Shoe pays 50¢ a month per $1,000 of coverage. However, Brake Shoe is, in effect, the carrier. Large group policies like ours are on a "cost plus basis" with Brake Shoe paying the actual claims plus the insurance company's profit and cost of administration. The premium we are charged represents an amount which the insurance company has found over years of experience will approximately equal our claims. In our case it ranges from 50¢ a month per $1,000 for a 20 year old employee to as high as $32.00 a month for on in the 90s. If claims during the year are lower than the insurance company estimated, Brake Shoe will receive a dividend. On the other hand, if they are on the high side, we will not receive a dividend and, in addition, any loss will be counted in future years' experience. If losses continue, the company's premium rate would be increased and obviously the company or the employees would then have to assume the increased cost or else the benefits would have to be reduced. The same situation holds true for our C.I.P. plan and the Retirement System. The Retirement System is not an insured plan as will be explained to you later, but nevertheless it does provide fixed benefits, and if the cost factors such as members living longer, fewer separations than expected, etc. are unfavorable, someone must make up the increased costs. To date the Company has assumed all the additional costs resulting from unfavorable experience in the plans and these amounts have been substantial. How long it can continue to absorb them, of course, depends on future developments.

C.I.P. began in February of 1948. A great deal of thought and effort went into determining the benefits which this plan was to provide, since there is such a great variety available. In the final stage the benefits selected were those, as pointed out earlier, which seemed to be most needed by the majority of our employees at a cost we could afford. It was recognized that they would not be adequate in some areas; but if high benefits were provided the man in the big city, it would mean that