unable to make alternative arrangements. Other employees, however, may be left with unfulfilled pension expectations.

There is currently no legal requirement for advance funding of pensions. Most companies with plans do, however, practice a degree of advance funding.

The enactment of additional legal requirements which are designed to make it more certain that the hopes of employees to receive a pension will be realized would change the nature of the promises made and by thus enlarging the financial obligations undertaken, could encourage a compensating reduction in the scale of pension benefits to be provided.

Additional funding requirements, depending on their nature, might so increase immediate financial requirements as to preclude the adoption of new plans providing adequate benefits to employees then having long service. They similarly might inhibit otherwise desirable liberalizations of existing plans.

In brief, the Bell System companies favor adequate funding, when at all practical, but rigid legal requirements to fund may, in some circumstances, have undesirable results in inhibiting the establishment or improvement of plans to a level of adequacy when, if there were no new legal requirements, the plan could be established or improved and ultimately be sound. In other words, taking the initial risk would prove beneficial, and not having taken it would, in retrospect, be recognized as harmful.

The American Institute of Certified Public Accountants has recently adopted revised standards for accounting for the costs of pension plans. These standards apply whether or not the plan is qualified under the Internal Revenue Code. They apply even if the plan is merely an informal company policy.

In essence, the new standards require that companies account for pension plan costs on an accrual basis without regard to whether or not contributions are actually made on behalf of the plan. Under these new accounting rules failure to fund adequately will result in balance sheet liabilities that may greatly disturb the stockholders. Failure to make proper charges in the income statements will result in exceptions by the public accountants that undoubtedly would adversely influence the attitude of investors toward the company and its management. There are, however, no penalty clauses that would act to the detriment of the employees.

In contrast to this, all of the proposed legislation appears to eliminate the tax-exempt status of the trust in event of noncompliance. This would have the effect of reducing the security of employee pension expectations even further as a penalty for the employer's not having provided adequate security for employee pension expectations.

One of the factors which has led to the widespread adoption of private pension plans and their improvement from time to time has been the considerable flexibility of the funding methods which now are permissible. This flexibility has permitted adoption of funding and plan provisions to the very wide differences in circumstances existing from time to time among companies and industries.

If, in addition to further statutory requirements for minimum funding, there are assessments for the purchase of insurance to fill in remaining gaps in funding, it seems inevitable that the law would