

have to define the risks to be insured with great precision and prescribe methods of limiting those risks.

CONCLUSIONS AS TO FUNDING

The Bell System companies have long favored advance funding of pensions, and have themselves been doing so since 1927.

However, funding involves questions of practicality for individual plans at various times. Legal requirements for rapid funding are likely to do more harm than good, by inhibiting establishment of new plans and liberalizing amendments of existing plans. It cannot be assumed that the result of new funding requirements would simply be more funding. Part of the result may be fewer or less adequate plans.

CONCLUSIONS AS TO REINSURANCE

While recognizing the appeal of spreading the risk of pension plan failure, the Bell System companies believe that "reinsurance" may well be impracticable of attainment without seriously limiting the desirable flexibility and variability of pension plans, both as to their terms and as to funding. The likelihood of harm to the private pension system due to ill advised and too hasty action along these lines is so great that much more study of the need and of possible consequences is desirable.

The results of the joint Bureau of Labor Statistics—Internal Revenue Service study of terminal pension plans, published in the Monthly Labor Review for June 1967, indicate that the need for this type of protection is minimal. One important factor is the short existence of a large proportion of the terminated plans. It is, on the one hand, difficult to see that employees have established much of a moral equity by working where there was a plan for only a few years. On the other hand, it is easy to conceive that an employer with a declining business, or one which he desired to terminate, might adopt a plan for a short time as a way of providing something for a few long-service employees, and if there were insurance to assure payment of full benefits to them, the temptation to do so would be much greater. Other factors noted in the study are that some of the terminated plans were no doubt fully funded and still others involved no loss to employees when their companies were merged into others having equivalent or better plans.

The humanitarian desire to assure that under no circumstances should employee expectations for pensions be unfulfilled would be more compelling if there were no social security system and if private pension coverage were virtually universal. As matters stand, however, the private pension system functions extremely well and lives up to expectations for the overwhelming majority of those intended to be provided for. And, as pointed out in explaining the business purpose of private plans, their existence does not impose an economic burden on the large segment of the population who do not receive pensions.

As to the probable effects of a reinsurance arrangement, insurance necessarily requires definition and limitation of the risks involved, which, in turn, requires rather precise funding standards, thereby decreasing desirable flexibility. It also would involve extra costs of