

manufacture some parts previously purchased could wipe out business and jobs at a supplier firm. Even the Federal Government, by shifting contracts from one firm to another, may cause dislocations involving hundreds or thousands of workers and shutdowns of the firms employing them.

This uncertainty that affects practically every employment group is one of the factors that will make it quite difficult for the program to be manipulated—as its critics anticipate—for the benefit of some plans. Senator Hartke's proposal included a minimum period which would have to elapse before the protection became effective; no employer can be certain his business situation will continue for at least that long without substantial change. Furthermore, to the extent that an employer does deliberately terminate a pension plan, it is his employees' benefits that are protected. Thus, this is comparable to the workmen's compensation program in which the employer has some control over the contingency involved, but the benefits go to the employees. By the use of maximum limits on the benefits guaranteed, administrative or judicial review to disqualify those situations in which the employer clearly has acted only for his personal benefit, and similar techniques, abuse of the program can be held to a minimum.

There have been several other lines of criticism with respect to the reinsurance proposal which, in my opinion, do not face up to the major issues involved.

For example, fears have been expressed that a reinsurance program would reduce the incentive to fund private plans, and that this in turn might result in an ever increasing cost for the program. Our studies indicate that the effect upon incentives to fund are unpredictable. A firm which continued in business for a long period of time would actually find it less expensive to fund for its liabilities, thus reducing its reinsurance premium, than to continually pay that premium.

It has even been suggested that new funding requirements beyond those now imposed by the Internal Revenue Code would be a satisfactory alternative to the reinsurance program. I shall discuss later on the desirability of funding private plans; however, it clearly would not provide the protection needed. Even if every private program undertook to fund at the maximum rate permitted for tax deduction purposes (and no one has supported even that fast a rate of funding as a required standard), there would still exist the very real risk to plan participants that their benefit expectations might be defeated as the result of premature plan termination. As a practical matter, it is highly unlikely that many plans ever will have sufficient assets to meet their benefit commitments because of the need to periodically up-date the plans. In the automobile industry, for example, new or additional benefits have been negotiated approximately every 3 years. Therefore, even though these plans include a negotiated contractual funding schedule which has been in effect for almost 17 years, they are far from being completely funded.

There have been other forecasts that the reinsurance program would have undesirable "side effects," such as influencing whether or not plans are established or improved, or encouraging employer decisions to close facilities. This is the kind of speculation that is produced every time a new Government program is considered. For example, when the