

For purposes of speculation, let us suppose that the unfunded liability of the OASDHI funds with respect to retirement benefits is \$400 billion.² Further suppose that the various public and private funds which are run on a more or less actuarially funded basis are funded to the extent of 50 percent of their liabilities. These funds amounted to approximately \$150 billion at the end of 1966. This implies a roughly calculated \$720 billion³ as the value of household "assets" with respect to retirement benefits already "earned", and further implies a corresponding liability for the paying sectors. Pension claims would then indeed represent the second largest single financial instrument of the U.S. financial structure.⁴ We could further note, without taking the whole matter too seriously, that accrued pension obligations of the Federal Government already exceed the reported Federal debt, the upper limit of which is the subject of annual Congressional shadowboxing.

Some observers would, no doubt, object to showing an additional \$150 billion of non-OASDHI pension obligations as anyone's asset or anyone's liability. Indeed, trustee plans are not obligated to make any payments beyond those which would exhaust their assets. How, it may be asked, can they be said to have any further liability? There is, however, a growing disposition among accountants to measure liabilities as the present value of probability-weighted future payments, just as assets are treated as the present value of probability-weighted future receipts.⁵ We can hardly make any assumption about business enterprise in the aggregate other than its continued existence. We may further assume, in the aggregate, that pension promises will be largely met. We may therefore argue for the broader definition of pension liabilities since, legal obligations or no, the probability is high that pensions will be paid. Indeed, the whole tenor of much present discussion about non-OASDHI pensions is to require stricter vesting and funding practices. These measures, if enacted, would move the legal liabilities closer to the likely-future-payment concept of pension liabilities.⁶

We should also consider the relative values placed on future pension payments by households and paying sectors. It is likely that households place a smaller present value on future pension payments than do the sectors which will pay them. This is equivalent to saying that households discount them at a higher rate, or hold lower subjective estimates of the probability that they will be paid. The evidence in this

² Unpublished memorandum of the Chief Actuary, Social Security Administration, Mar. 9, 1967. The estimate is \$350 billion, or \$417 billion if the amendments before the Congress are enacted. Of the latter figure, \$10 billion would relate to the Railroad Retirement Funds, which are omitted from this study.

³ Composed as follows:

	Billions
OASI funds	\$20
Unfunded liability of same	400
Private, State, and local government, and Federal Civil Service plans	150
Unfunded liability of same	150
Total	720

⁴ The financial instrument now quantitatively the most important is common stock: the estimated aggregate value at December 31, 1965 was \$778 billion. *Federal Reserve Bulletin*, vol. 52, p. 1536. (October, 1966).

⁵ This view is explicit in the initial opinion paragraph on basic accounting methods in the American Institute of Certified Public Accountants' *Exposure Draft of Tentative Opinion: Accounting for the Cost of Pension Plans*. See *The Journal of Accountancy*, September, 1966, p. 63.

⁶ Recommendations to the effect are found, *inter alia*, in a report by the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, *Public Policy and Private Pension Programs*, Washington, 1965, especially pp. x-xvi.