

effectively applied to areas which are more sensitive to temporary influences. In their application, however, recognition should be given to the secular changes brought about by the maturing pension structure.

V. THE IMPACT OF PENSIONS ON THE CAPITAL MARKET: PRIVATE FUNDS

The impact of pension fund operations on the capital market depends upon the investment policies followed by portfolio managers. Our concern is primarily with differential effects. What difference does it make when funds flow through these financial intermediaries, rather than through other channels? This chapter provides some answers to this question in the case of pension plans for employees of business firms and nonprofit institutions. Governmental plans of all kinds are dealt with in chapter VI.

INSURED PLANS

Growth Trends

When pension commitments are funded by premium payments to, or deposits with, a life insurance company, they are described as being insured. The form of the contract is not material to our consideration. Suffice it to say, the insurance company is seeking to provide as good a return on the fund as possible within the statutes governing investments after allowance for adequate reserves for possible losses. The actual process involves a mingling of the funds with all others available for employment in the capital market.¹

Thus, we can think of insured pension funds as a portion of life insurance loans and investments. In general, it is valid to assume that receipts are invested across the whole range of assets, enhancing the companies' ability to lend and invest but not changing it in any material respect. The reserve liabilities of a life insurer under a group annuity contract are different from those created by an equivalent premium volume from, say, ordinary life insurance; but, it is not clear that this fact affects the investment policies of the company. The objective of earning a high, stable rate of return is similar, if not identical, in both cases.

The growth of pension programs has added materially to the assets of life insurance companies, as indicated in table V-1. At the end of 1965, assets balancing insured pension reserves of \$27.3 billion were equal to 17 percent of total assets of all life insurance companies in the United States and 19 percent of invested assets (excluding cash, policy loans, home office buildings, and premiums due). The proportions have increased over the years because assets attributable to pension plans have grown more rapidly than assets employed in other areas of the business. In 1950, both proportions were only 9 percent. Over the period 1940-55, life insurance assets grew at a compound annual rate of 7.4 percent, but the growth rate slowed down in the mid-1950's and was only 5.8 percent in 1955-65. This slackening occurred in spite of a generally rising growth rate for life insurance in force. The latter rate increased from 7.8 percent in 1940-55 to 9 percent in 1955-65. The change in growth patterns is shown in table V-2.

¹ Certain qualifications to this general statement are discussed below.