

sponsors. The idea was given great impetus and a measure of respectability when the President's Committee on Corporate Pension Funds suggested that serious study should be given to the possibility of establishing "a system of insurance which, in the event of certain types of termination, would assure plan participants credit for accrued benefits."¹ Later the National Commission on Technology, Automation, and Economic Progress, in its report to the President and the Congress, under the heading, "Protecting the Earned Benefit Rights of Displaced Employees," stated that:

We favor whatever legislative or administrative measures may be necessary to promote greater equity and security in the establishment and administration of private pension plans. Specifically, we recommend that careful study be given to a legislative system of reinsurance for private pension plans similar to the reinsurance [sic] of bank deposits through the Federal Deposit Insurance Corporation.

More recently, Nelson McClung and his fellow staff economists prepared a document for the Joint Economic Committee of Congress in which they espoused the cause of a pension guaranty fund, not only in the interest of benefit security but as a means of accommodating a lower level of funding.²

The concept has been embodied in various legislative proposals, the earliest of which was a bill introduced by Senator Vance Hartke of Indiana, in 1964, and reintroduced with minor modifications in each subsequent session of Congress. It is contained in the omnibus bill, S. 1103, introduced by Senator Javits during the current session of Congress.

This proposition cannot be evaluated without at least a skeletal description of the milieu in which private pension plans operate.

THE SETTING

The primary purpose of a pension plan is to provide old-age income to retired workers and their widows, the income to continue throughout the remaining lifetime of the individuals involved. The plan may, and frequently does, provide benefits in the event of the employee's death, extended disability, or voluntary withdrawal from the working force prior to retirement. Under a noncontributory plan, the employer (or group of employers, in the case of a multiemployer plan) assumes sole responsibility for providing the benefits contemplated under the plan, although some or all of the cost of the plan may ultimately be shifted³ to the employees (through lower wages), the consumers (through higher prices), or the tax-paying public (through tax deductions). Even under a contributory plan, the employer generally assumes the principal burden of financing the benefit structure. Thus, for the sake of simplicity, the objectives envisioned for the pension plan will be referred to as the *employer's* undertaking, even though the covered employees may share in the financing of the plan and participate (through their elected representatives) in its administration.

¹ "Public Policy and Private Pension Programs", *Report to the President on Private Employee Retirement Plans* (Washington, D.C.: Government Printing Office, January 1965), p. 80.

² *Old-Age Income Assurance: An Outline of Issues and Alternatives*, 89th Cong., 2d sess., 1966, pp. 29-30.

³ It may be argued that under a collectively bargained plan, the employees consciously absorb the estimated cost of the plan by accepting lower cash wages. By the same line of reasoning, one could assert that these employees would bear the cost of a guaranty program.