

to the payment of benefits (and attendant expenses) in accordance with the terms of the plan. Thus, broadly speaking, any factor or circumstance that interferes with the accumulation of plan assets at approximately the same pace as the benefits accrue is a threat to the ultimate fulfillment of benefit expectations. A deficiency in plan assets as of any given time may be the result of inadequate past contributions or the shrinkage of asset accumulations through unfortunate investments, decline in market value of sound investments, or, in rare cases, misappropriation.

Past contributions may be insufficient to support the current structure of accrued benefits for a number of reasons. First of all, the projected cost of benefits and expenses may have been inaccurate. Cost projections reflect assumptions as to mortality among the participating employees and their beneficiaries; investment earnings on plan assets; employee withdrawals without vested benefits, the pattern of retirement; and the expenses of operation. If benefits are based on compensation, especially earnings during the years immediately preceding retirement, future compensation levels must be predicted. These cost projections are normally prepared by actuaries after consultation with the employer and other interested parties. Wide areas of judgment exist with respect to most of these cost factors and actuaries of unquestioned professional skill, judgment, and integrity can come up with sharply different answers even when working with the same basic data.

The rate at which the total estimated costs are assumed to accrue is determined by the actuarial cost method employed by the actuary. There are several basic actuarial cost methods, with numerous variations and refinements. One family of methods assumes that the cost of the plan accrues at precisely the same rate as the benefits accrue, the cost per \$1 of benefit with respect to any particular individual increasing year by year as the employee nears retirement. The other family of methods projects the total cost of benefits for the covered group, individually or collectively, and assumes that the cost is spread evenly over the total employment period or the remaining years to retirement. Under each of these two basic approaches, the cost of benefits associated with years of service prior to inception of the plan (referred to hereafter as supplemental cost) may be separately calculated and accrued at a rate different from that applicable to the normal cost. These cost methods have no influence on the ultimate true cost of the plan (other than their impact on investment earnings), but they have a significant effect on the rate at which pension costs are charged and presumably funded.

Any of the commonly accepted actuarial cost methods, when employed as a guide to funding policy, can, under the right conditions, and in time, lead to the accumulation of assets equal to or in excess of the actuarial value of accrued benefits. Most employers do pattern their funding contributions after one of the commonly recognized actuarial cost methods and undertake as a minimum to meet the normal cost of the plan plus interest on the initial supplemental cost, if any. There is no legal compulsion to fund the supplemental cost of the plan, and if the cost method in use produces a supplemental cost, the employer may decide not to fund it. In that event, the accumulated as-