

sets as of any given time would under many circumstances be less than the actuarial value of accrued benefits.⁹

Even if the employer should undertake to fund the supplemental cost (usually associated with past service benefits or retrospective benefit increases), he will usually spread the funding over an extended period of time, possibly as long as 40 years. He is unlikely to fund more than one-tenth of the supplemental cost in any one year, since he would be unable to deduct currently any greater sum for income tax purposes. Retrospective benefits increases and other plan liberalizations add to the supplemental cost and usually prolong the period needed to achieve a fully funded status. In fact, many plans will never achieve a fully funded condition purely because of periodic plan liberalizations. Clearly, as long as any portion of the cost of accrued benefits under the plan remains unfunded, a termination of the plan will result in the loss of benefits by some participants.

The achievement of a fully funded status does not assure the payment of all benefits in full, even if the plan terminates while that condition exists. The cost estimates of many plans take into account anticipated withdrawals among the employee group and the funding payments are reduced by the amount of estimated nonvested withdrawals. Allowance may also be made for retirements expected to take place beyond the normal retirement age. However, when a plan terminates, these cost reducing factors become inoperative and the benefits that have been credited to that point in time may well exceed the assets that have been accumulated.

The contributions to a pension plan are invested by the funding agency and exposed to the hazards of the capital market. If the funding agency is a life insurance company, the funds must be invested in accordance with the standards set forth in applicable investment statutes. These statutes severely limit the amount of common stock that can be held in the general investment account of an insurer but the limitations are not applicable to special (or separate) accounts set up under group deposit administration annuity contracts. Banks and individual trustees are nominally subject to fiduciary investment statutes, which can be very restrictive, but the instrument creating the trust can and generally does grant broader investment powers to the trustee than those provided by applicable State law, especially in respect to common stock holdings. At the present time the Federal Government imposes no standards of investment conduct, apart from the prohibition against certain types of transactions that would improperly benefit the employer. Legislation now pending before Congress would impose additional standards. Pension funds administered through the general investment accounts of life insurance companies are invested predominantly in high-grade corporate securities and real estate mortgages, while the funds held in separate accounts are invested largely, if not wholly, in common stocks. Funds held by trustees are invested mainly in high-grade corporate securities and common stocks, the proportion of common stocks in some portfolios being well over 50

⁹ When the participant group is immature and growing (or even stationary), and a projected benefit cost method is used, the funding of normal cost plus interest on the unfunded actuarial liability, augmented with actuarial gains, can lead to the accumulation of assets equal to or in excess of the value of all accrued benefits, including those attributable to past service and retrospective benefit increases.