

percent, especially at market value. Apart from the inherent risks associated with common stock holdings and the unlikely possibility of forced liquidation of assets, pension plan assets, in general, appear to be relatively well protected against investment risks.

Accumulated pension assets may also be lost through the fraudulent or dishonest behavior of plan administrators. Fortunately, there has been little evidence of this type of behavior thus far, and loss of assets from this source has been infinitesimal. Moreover, a number of bills now before Congress would impose a fiduciary status on all persons exercising control over pension assets and would vest in designated Federal agencies certain investigative and enforcement powers designed to protect pension funds against mismanagement.

If the employer pursues a policy of paying the pension plan benefits directly to the eligible claimants, without using a funding agency, the security of the benefits rests entirely on the ability and willingness of the employer to continue his support of the program. The fulfillment of benefit expectations is subject to all the economic vicissitudes that beset the business enterprise itself. The participants can look to no fund of assets insulated from the hazards of the business. Under the action of the American Institute of C.P.A., to which earlier reference was made, the employer must set up a balance sheet reserve equal to the assumed value of the benefits accruing hereafter. Irrespective of whether the proper amounts are credited to the reserve, the assets offsetting the account are not earmarked for the exclusive benefit of the plan participants and their beneficiaries. If the employer should decide to discontinue the payment of retirement benefits, the pensioners and active employees would have no claim against the assets representing the reserves, unless a court were to hold that in the light of all the circumstances the employer had in effect guaranteed the payment of pension benefits. In that event, the pension claims would not necessarily be limited to the value of the pension reserve. On the other hand, if the employer should become insolvent or bankrupt, the accrued pension rights of employees and participants would be given no preference in the allocation of assets and might not be recognized at all.

APPLICABILITY OF INSURANCE CONCEPTS TO A PENSION GUARANTY FUND

A mechanism to assure the payment of accrued benefits under private pension plans is, in essence, an insurance arrangement, and its feasibility must be tested against the criteria of an insurable hazard.

LARGE NUMBER OF HOMOGENEOUS RISKS

A sound insurance program must encompass a large number of risks in order that losses may be predicted in accordance with the laws of probability, with reasonable assurance that actual results will conform closely to predicted experience. The risks should be homogeneous in order that an equitable rating structure can be developed. In other words, the losses should be spread among the participating risks in an equitable manner. If the total body of risks is not sufficiently homogeneous to permit the charging of a uniform premium rate, it should be possible to classify the risks into subgroups suffi-