

ciently large and homogeneous to permit the development of sound rating procedures. A corollary to this concept is that the insurance program must attract a representative cross section of the risks exposed to the hazard, since otherwise the premium rate will be so high as to discourage voluntary participation by all except the worst risks.

There is obviously a sufficiently large number of pension plans subject to the hazard of termination to satisfy this first criterion. The risks are not homogeneous, however, in the sense that they are subject to approximately the same probability of termination. Unless the premium rate is adjusted to the probability of termination—or is so small as to be inconsequential—the better-than-average risks could be expected to shun the arrangement. Even with an equitable and realistic rating structure, pension plan administrators might find the scheme unattractive, since it would involve an added element of cost. It would appear that participation would have to be compulsory to obtain a random selection of risks.

OBJECTIVE DETERMINATION OF OCCURRENCE AND AMOUNT OF LOSS

For an insurance arrangement to be feasible, it must be possible to determine beyond reasonable doubt that the event insured against has occurred, and the amount of loss sustained should be susceptible to fairly precise determination.

This aspect of an insurable risk could prove to be very troublesome for a pension guaranty fund. The basic difficulty would be to define the event insured against. It is an open question as to whether all plan terminations should be covered or only those originating in certain causes. Some would argue, for example, that the guaranty should be restricted to those plan terminations that occurred because the employer went out of business, while others would regard it as immaterial that the employer continues to operate in one form or the other. Varying attitudes are taken toward mergers, cessation of operations in one plant or locality, and so forth. Special problems exist with respect to multiemployer plans. Questions would arise as to whether a discontinuance of employer contributions is merely a suspension, discontinuance, or termination, as those terms are defined in IRS regulations. Presumably, a pension guaranty program could adopt its own definition (or definitions) of the risk insured against, as contrasted with the views of the Internal Revenue Service, but unless the insured event were carefully delineated, complex problems of interpretation would be involved in determining whether a particular event or transaction fell within the prescribed limits.

The determination of the amount of loss would involve potential difficulties. Plans that provide for a specific unit of benefit for each year of credited service would present no difficulties if the annual accrual were a flat amount or based on current earnings. There would be complications with respect to plans that base the benefit on the employee's compensation during the years immediately preceding retirement or provide a basic benefit geared to career average earnings, subject to a minimum benefit related to final average salary. The minimum benefit—which may be financed through an auxiliary (or side) fund, a terminal funding arrangement, or on a current disbursement