

basis—may vest at a different rate than the basic benefit and may in fact be subject to its own set of eligibility requirements. Money purchase plans, especially those involving split funding arrangements, would require special consideration; as would plans that provide a composite benefit, subject only to a minimum period of service. Ancillary benefits, such as those payable for the employee's death or disability prior to retirement, would complicate matters, along with special (nonactuarial) early retirement allowances, annuity options of unequal actuarial value, and social security offsets. These problems, formidable as they may appear, could be overcome by a precise definition of the benefits covered, excluding those that would unduly complicate the administration of the program.

Once the aggregate value of covered benefits was determined at point of plan termination, there would still be a question as to what portion of the liability should be transferred to the guaranty fund and when. This question will be considered in detail at a later point.

RANDOMNESS OF LOSS

The occurrence of loss among the risks exposed to it should be random and beyond the control of the person receiving reimbursement for (or benefiting in any other way from) the loss and any person or firm who would otherwise be liable for the payment. Since this condition is seldom met in practice, the objective is sometimes restated as follows: where the occurrence of the loss may be influenced by the actions of the individuals purchasing the insurance or receiving the claim payment, the benefits payable should be such that the occurrence of the loss is always less advantageous financially than the nonoccurrence of the loss.

In the absence of proper safeguards, this prerequisite would not be satisfied by a pension guaranty fund. There are so many ways that the fund could be abused that many persons believe the whole guaranty idea is unrealistic. If not prohibited, an employer could increase benefits retrospectively just before terminating his plan and let the guaranty fund make up the deficiency in plan assets. Or he might discontinue contributions to the plan in anticipation of formal termination. If an employer could terminate his plan at any time and for any reason, with no one having any recourse against him for the unfunded accrued liability, his willingness to continue his plan through periods of adverse economic conditions could be seriously undermined. Most of the opportunities for abuse could be eliminated or minimized by appropriate limitations in the undertaking, but some of the restrictions might produce an arrangement quite different from that envisioned by sponsors of the idea.

LOW PROBABILITY OF LOSS

The probability that any particular exposure-unit will incur a loss during any given year should be relatively low. If losses occur with high frequency, it will generally be more economical for the person or firm exposed to the risk to budget for the losses outside of an insurance mechanism which, of necessity, involves some administrative expense.