

Available data would suggest that the probability of plan termination is fairly small, at least in periods of economic prosperity and among plans that have been in operation for several years. Since most plans that terminate are small, the potential losses to benefit claimants is an insignificant percentage of the total exposure.

The latest and most comprehensive study of plan terminations was carried out by the Bureau of Labor Statistics, in cooperation with the Internal Revenue Service.¹⁰ The study encompassed the years 1955-65. During that period, there were 4,259 pension plan terminations, 30 percent of which were due to mergers. Almost half of the terminations involved plans in effect for 5 years or less, and two-thirds of the terminating plans covered fewer than 25 employees. An average of 20,000 employees per year were affected by terminations, about one-tenth of 1 percent of the number exposed to loss.¹¹ In many cases, no accrued benefits were lost and in other cases the losses were less than total.

The rate of plan termination, and resulting benefit forfeitures, would undoubtedly increase sharply during a period of depressed business activity. Also, the very existence of a guaranty scheme might increase the risk of plan termination. On balance, however, it would appear that a pension guaranty fund would stand up fairly well against this criterion.

SIGNIFICANCE OF LOSS

The loss suffered by the insured from the occurrence of the event against which insurance is arranged, should be large enough to constitute an economic burden. Otherwise, the expense of maintaining the insurance mechanism and settling claims might exceed the value of the loss payment. This principle is given effect in private insurance operations through the use of so-called deductibles, which cause the insured to bear the first portion or layer of any loss.

The aggregate loss of accrued benefits occasioned by the termination of a pension plan is likely to be sizable enough to satisfy this criterion. The loss to some of the participants, however, may not be. This suggests that the protection of a pension guaranty fund might properly be limited to individuals having some minimum amount of benefit accruals or having participated in the plan for a specified period of years.

ABSENCE OF CATASTROPHE HAZARD

Under an ideal insurance arrangement, the hazard insured against should not be capable of producing a catastrophic loss to the insuring agency out of one event or occurrence. In reality, many hazards that are regarded as readily insurable can, under certain circumstances, produce losses in the catastrophic area. The problem has been overcome through the use of exclusion clauses and reinsurance facilities.

It is conceivable that in a period of extended economic distress, pension plan terminations could confront a guaranty fund with claims of such magnitude that the solvency of the program would be threatened. At such a time, the financial condition of many firms might be

¹⁰ Emerson H. Beler, "Terminations of Pension Plans: 11 Years' Experience," *Monthly Labor Review*, June 1967, pp. 26-30.

¹¹ *Ibid.*, p. 26.