

so precarious that they could not absorb the additional burden of support that would be required. The problems would be alleviated to some extent by the fact that most of the claims against the guaranty fund would represent deferred obligations, which would not have to be fully offset by assets at any point in time. In an extreme emergency, funds could be made available by the Federal Government either in the form of a loan, a direct subsidy, or indemnity payments under a formal reinsurance scheme.

RELEVANT PRECEDENTS

Additional insights into the feasibility of a pension guaranty fund can be gained by examining the essential elements of existing insurance arrangements that fail in one or more important respects to satisfy the conventional concepts of a sound insurance program. Some of these programs are operated under governmental auspices, some under private auspices, some under joint governmental-private auspices, and one—a pension guaranty fund—under the aegis of a foreign government.

GOVERNMENTAL PROGRAMS

The governmental program that is most frequently cited as a precedent for a pension guaranty fund is the Federal Deposit Insurance Corporation. This agency was established in 1933 to restore confidence in the commercial banking system and to prevent another debacle such as that which occurred between 1929-33 and wiped out the savings of millions of American families. Participation in the program is compulsory for banks that belong to the Federal Reserve System but is optional for all other banks. The original act provided only \$2,500 of insurance per covered deposit account, but the maximum protection was later increased to \$5,000, \$10,000, and then \$15,000, where it now stands. The program is supported by annual assessments on member banks at the statutory rate of one-twelfth of 1 percent of aggregate deposit liabilities (not just the amounts protected by insurance) but because of credits for favorable loss and expense experience, the effective assessment rate in recent years has been about one thirty-first of 1 percent of average deposit liabilities. The assessment *rate* is the same for all banks, irrespective of age, size, or quality of management. This feature of the system was severely criticized in the beginning on the grounds that strong, conservatively managed banks would be required to subsidize the weaker, less conservative banks. The argument is no longer heard today, probably because the assessment rate is so low. There were also allegations that deposit insurance would encourage reckless lending and investment practices on the part of insured banks, but these fears proved to be unfounded. While the system has never been tested by a major depression, there is general agreement that deposit insurance has become a permanent feature of this country's financial structure. It is such an essential element of economic stability that the system would be maintained even if a temporary governmental subvention should become necessary.

While there are certain similarities between deposit insurance and the proposed guaranty fund for pension benefits, there are dissimilarities that largely invalidate analogies between the two schemes. From