

ment, accounting for two-thirds of the salaried employees of firms engaged in manufacturing and commerce. The internal funds of these employers were holding \$452 million in employer promissory notes, with the volume expected to increase by \$100 million annually over the next few years. FPG was holding reserves of \$3,450,000, which constituted 0.76 percent of its liabilities, as measured by the employer promissory notes. The company's objective is to accumulate a reserve of 2 percent of its liabilities by the year 1980. Through June 30, 1967, the company has had to make good on its guaranty in only six cases (three arising during the first 6 months of this year), involving slightly more than \$200,000 (\$180,000 in 1967) in "claim" payments. The company has terminated the insurance coverage of nine firms, advancing \$320,000 in loans to these employers for the purchase of insurance from SPP.¹⁸

This credit insurance arrangement bears a surface similarity to the proposed guaranty of pension obligations in this country in that the basic risk is the insolvency of the employer. There is a fundamental difference, however, in that under the Swedish arrangement all accrued benefits are fully offset at all times by legally enforceable promissory notes of the employer,¹⁹ and the only risk involved is the probability that because of the employer's bankruptcy the notes would not be paid off in full. The Swedish scheme limits the coverage to those employers who can qualify, forcing the remaining employers to purchase benefits from the pension insurance company. Pension plans in this country are too diverse to be adapted to the Swedish scheme, but certain elements of the scheme such as prescribed levels of funding, assumption by employers of legal liability for the payment of pension benefits, and limiting the credit guaranty to those that earn it, deserve serious study.

ISSUES

Many issues would have to be resolved if a pension guaranty fund were to be established in the United States.²⁰ This section analyzes the issues and points to the various courses of action, without attempting to reach final solutions.

¹⁸ The foregoing operating statistics were made available by Mr. Sven O. Hydén, managing director, Pension Guarantee Mutual Insurance (FPG) in a letter to the author dated July 21, 1967.

¹⁹ In Sweden all pension benefits are funded on a level cost basis and the concept of an unfunded pension liability (i.e., a supplemental cost) is not recognized.

²⁰ This presupposes an earlier decision to use a guaranty fund mechanism rather than a suretyship arrangement such as that employed in Sweden. In theory the objectives of the current proposals for a pension guaranty could be achieved by requiring employers to undergird their pension promises by the purchase of a performance bond from a surety company. In the event of a default on pension obligations, the surety company would be expected to make good on the benefit promises through the purchase of annuities from life insurance companies, with recourse against the employer for its net outlays. Among other advantages, this approach would permit the charging of a premium rate commensurate with the individual risk involved. Some supervisory agency would have to determine that the mandatory performance bond was purchased and maintained in force and that employee rights were protected in the event of plan termination. There would also have to be some mechanism, similar to assigned risks pools in automobile and workmen's compensation insurance, to provide coverage to employers who could not purchase the required insurance through regular channels. Since purchase of insurance would be mandatory, the rates charged by the surety companies would have to come under public surveillance. Despite the flexibility of this approach, its feasibility would be completely dependent upon the response of a group of private insurers to a new and hazardous type of coverage. Of course, a new surety company could be established for the sole purpose of writing this coverage, but it is doubtful that such a mechanism would offer any real advantages over the type of guaranty fund described hereafter in this paper.