

OBLIGATION OF THE GUARANTY FUND

It goes without saying that a pension guaranty mechanism should relate only to benefits accrued to date of plan termination, however that event may be defined. Thus, the PGF should not undertake obligations with respect to benefits that would have been earned had the plan remained in operation and the employee continued in the service of the employer until normal retirement age. Moreover, it does not follow that *all* accrued benefits would be entitled to the protection of the program. Various limitations, discussed later, might be necessary or desirable. Thus, the following discussion should be understood to apply only to the benefits that would be entitled to protection.

Broadly speaking, the obligation of the guaranty fund could be expressed in one of two ways: (1) assurance of ultimate payment of the benefits covered by the program or (2) completion of the employer's funding commitment.

Assurance of Ultimate Payment of Guaranteed Benefits.—The most comprehensive approach would be for the PGF to assure ultimate payment of all covered benefits, irrespective of the amount, source, or cause of the asset deficiency. The deficiency could be caused by inaccurate estimates of cost, failure of the employer to undertake an adequate funding program, lack of time for the completion of a realistic funding objective, or loss of asset values through realized or unrealized capital losses. No minimum standards of funding would be imposed and, in fact, pay-as-you-go plans would be eligible to participate. Risk classifications would be established on the basis of probability of plan termination, and the premium paid in respect of a particular plan would be derived by multiplying the probability of termination times the actuarial value of unfunded benefits. In some cases, this combination of factors might produce a premium charge as large as, or larger than, the annual contributions under a realistic funding program. Losses incurred on liquidation of assets in connection with plan termination, the subject of special provisions in the early legislative proposals, would be blanketed in under this approach insofar as they affect the payment of guaranteed benefits. Benefits not subject to the guaranty would not be protected against liquidating losses, but, as will be noted later, it is possible to devise a claim settlement procedure that would eliminate or minimize the risk of such losses.

The advantages that would be associated with the approach are (1) eligibility of all types of plans, including those financed on a pay-as-you-go basis where the need for protection is greatest; (2) coverage of all sources of asset deficiency, including liquidating losses as they relate to covered benefits; (3) equitable allocation of costs through use of many risk classifications; and (4) absence of mandated standards of funding. All of these advantages would have offsetting disadvantages from other points of view. The approach would lend itself to great abuse because of its sweeping coverage; it might encourage highly speculative investment policies; it would be extremely difficult, if not impossible, to predict the probability of termination among various classifications of plans—which would be especially important in connection with unfunded plans; the need for a governmental subsidy would be greater than under any other approach—because of the fore-