

unlawful to hold out the promise of pension benefits, however the promise might be hedged, unless the anticipated benefits were funded in a prescribed manner, but the prospects of such legislation in the near future seems remote. There is the possibility, of course, that a pension guaranty mechanism might prove to be so attractive that employers would convert their nonqualified plans into qualified plans in order to take advantage of the coverage.

Some have questioned whether multiemployer plans should be compelled to participate in the guaranty scheme. The probability of termination is probably lower among multiemployer plans as a group than among single employer plans, which would lessen the need for the guaranty. On the other hand, multiemployer plans are probably funded at a lower level than single employer plans, as a class, which would suggest the need for a benefit guaranty. Many of these plans would have difficulty meeting the minimum standard of funding mentioned earlier, since a substantial percentage only pay interest on the supplemental liability rather than amortizing it. Considerable opposition to compulsory participation could be expected by multiemployer plan administrators. On balance, however, it would seem that the guaranty scheme should be applicable to all qualified plans, whether they be single employer or multiemployer plans.

In order to protect the system, a plan should not be eligible for coverage for the first few years of its existence. Otherwise, an employer, in contemplation of an event that would invoke the protection of the system, could establish a plan with liberal past service benefits and let the PGF assume most of the financial burden. The need for protecting the system against this potentiality would depend on other provisions of the program, including the definition of the event insured against and the benefits that would be entitled to the guaranty. The required length of the probationary period is strictly a matter of judgment but it should perhaps be no shorter than 3 nor longer than 10 years. It is of some significance in this regard that the BLS study of pension plan terminations cited earlier²² showed that half of the plans examined, terminated within 5 years after establishment.

A question might be raised as to the desirability of excluding from participation in the program plans covering fewer than some specified number of employees, such as 25. There is no doubt that the probability of termination is the highest among the smaller plans. The BLS study revealed that two-thirds of the terminations were accounted for by plans covering fewer than 25 employees. The issue here is whether the program should be structured in such a manner as to cover the area of greatest need or to minimize the financial burden on continuing plans. Clearly, a guaranty program could be surrounded by so many safeguards that it would cover only the most unlikely occurrences, with commensurately low cost to the participating plans. In the light of the other safeguards recommended in this paper, it would seem unnecessary—and socially undesirable—to exclude plans purely on the basis of size.

Another question of considerable moment is whether all plans falling within the eligible group would automatically be embraced in the program or whether the administering agency would have the authority

²² See footnote 10, p. 209.