

IMPLEMENTATION OF THE GUARANTY

The implementation of the guaranty would involve two basic issues: (1) determination of the amount of the PGF's liability and (2) manner in which the guaranty would function.²⁴

Determination of the Guarantor's Liability.—The determination of the guarantor's liability would be divided into three steps. The first step would be to ascertain in terms of prospective monthly income the dollar amount of covered benefits accrued as of the date of plan termination. This could present difficulties if the benefits covered by the guaranty are not carefully defined. However, it is assumed for the purpose at hand that the guaranty would be limited to *vested* benefits, including those vested on a voluntary basis. It is further assumed that plans will be required by law to state precisely what benefits are vested, the conditions under which they vest, and how the amount of vested benefits are computed. There should be no distinction between the benefits vested upon termination of employment and those vested upon plan termination except as may be necessary to meet the Treasury requirement that all accrued benefits vest on plan termination to the extent that they are funded. Otherwise inequities may be created as between employees who are laid off in anticipation of the winding up of a business and those who are still employed at the point of technical termination of the plan.

The second step would be to derive the actuarial value of the guaranteed benefits. Procedurally, this would be simple if only basic retirement benefits are vested. Their valuation would involve only mortality and interest (and possibly expense) assumptions. If any ancillary benefits are vested, additional factors might have to be considered. The basic question here would be whether to use the assumptions that had guided the employer's funding policy or the assumptions that would be applied by the agency that would have final responsibility for payment of the benefits—the residual risk bearer. The decision would be influenced or perhaps controlled by the payment mechanism adopted, to be discussed in the next section.

The final step would be to compare the actuarial liability derived in step 2 with the value of the assets considered to be available for the satisfaction of the guaranteed benefits. The law might state that all unallocated assets are to be applied on a first-priority basis to the payment of guaranteed benefits. Presumably it would not direct the recapture of assets used to purchase nonvested benefits from an insurance company or reallocate assets needed to honor benefit commitments to persons in a retired status even when the benefits do not qualify for the guaranty. It might recognize the priorities established in the plan document for the allocation of uncommitted assets in the event of plan termination. Conceivably it might recognize no priorities and thus assume that guaranteed benefits are entitled to only their pro rata

²⁴ It is assumed for purposes of this discussion that the PGF's obligation would be to assure payment of the guaranteed benefits. If its obligation were limited to the completion of a projected funding program, the amount of its liability would be determined on a basis different from that described herein, but its obligation could be carried out under any of the approaches outlined.