

share of the assets. Whatever the concept applied, the theoretical liability of the guarantor would be measured by the difference between the actuarial value of the guaranteed benefits and the value, at book or market, of the assets applicable to those benefits. The actual liability would depend upon the manner in which the guarantor discharges its obligation.

*Manner in Which the Guaranty Would Function.*—The guarantor could discharge its responsibility in a number of ways, the choice depending to some extent on the nature of the guarantor and to some extent on the manner in which the funded benefits are to be paid out.

It would seem logical that responsibility for the payment of benefits *purchased* from an insurer prior to termination of a covered plan would be retained by the insurer, with future dividends or experience refunds going to the PGF. Legal complications would ensue if any other course of action were to be attempted. Thus, the problem reduces to the procedure to be followed when the plan assets are held in trust or in an unallocated fund with a life insurance company.

One approach would be for the funding agency to retain the assets, paying benefits pursuant to the terms of the plan until the assets are exhausted, with the guarantor then assuming responsibility for payment of the remaining guaranteed benefits. If the guaranty program were to give guaranteed benefits first claim to available assets, distributions would have to be limited to those persons whose benefit rights were protected by the program, unless the assets appeared to be more than sufficient to meet the priority claims. In the latter event, it would be necessary to divide the assets into two accounts, one being held for guaranteed benefits and the other for nonguaranteed benefits.

This approach would have a number of virtues. The guarantor's liability would be determined on the basis of actual, emerging experience; competitive relationships between and among banks and insurance companies would not be distorted (as might happen under other approaches); it would not be necessary to transfer funds to the guarantor, thus avoiding the risk of liquidation losses and minimizing the asset accumulation of the guarantor—an especially desirable objective if the latter is a governmental agency; and (a minor point) the pensioner would receive only one check per month rather than one from the funding agency and another from the guarantor.

On the negative side, this approach would not lend itself as well as some others to an employee guaranty of an asset deficiency, however it might be formulated. The true deficiency would not be known for many years, by which time the employer might have gone out of business. It would be possible, of course, for the guarantor to levy an assessment on the employer at the time of plan termination in an amount equal to the actuarially estimated deficit. Secondly, potential complications would be involved if it became necessary to divide the accumulated assets between guaranteed and nonguaranteed benefits. The present value of the guaranteed benefits would have to be actuarially estimated and only by sheer coincidence would the estimated and ultimately realized costs be the same. Theoretically, the guarantor should incur no liability but if the cost estimate proves to be too low, it would have to assume the deficit. On the other hand, if the estimate were too high, individuals with nonguaranteed claims would have