

be that it would not accumulate sufficient funds to meet the claims generated by a severe and prolonged depression. The assessment rate would have to be increased at the very time that the covered firms, as a group, would have the least capacity to respond to the assessment. Some firms might default on their assessment, causing a heavier burden to be placed on the other firms. The financial crisis might be so acute that in order to shift a greater proportion of the claims to the stronger firms, the administering agency might levy assessments on a basis other than unfunded liabilities (for guaranteed benefits). There would also be a question as to whether the amount of the assessments would be determined by the timing of plan terminations, the retirement of the individuals affected, or the actual payment of benefits. If either of the latter two events should serve as the basis for assessments, the wrong generation of plans would bear the burden of past plan failures. Finally, it is argued by some that the assessment approach is wrong in principle, in that the plans that create the losses for the guaranty fund (and by inference were the poorest risks from the beginning) bear the smallest share of the aggregate burden. The plans that terminate the first year, for example, would pay only the initial assessment. It would appear, however, that the same objection could be made to an advance premium plan of insurance to the extent that accumulated reserves do not meet all claims.

A compromise approach would be to charge annual premiums at a minimum level, using the assessment authority to make up any deficits that might arise.

If an advance premium were to be charged, it should reflect the best estimate as to the rate at which claims will occur over a future period encompassing all phases of the business cycle. A study of past business failures should be helpful in this regard. If the analysis indicates that the guaranty fund could be sustained by premiums that would be regarded by the business community as inconsequential, a uniform premium rate should be developed. If the burden would appear to be consequential, it would be desirable to consider a rating structure that would differentiate as to (1) age of firm, (2) size of firm as measured by the most significant indices, and (3) period during which the pension plan has been in operation. The purpose would be to predict, and to reflect in the premium rate classifications, the probability of plan termination among the various business firms covered by the program. It would probably be necessary to place an upper limit on the premium rate for the most hazardous classifications in order not to place an intolerable burden on financially insecure firms.

Finally, it would be necessary to consider a reinsurance arrangement if the guaranty fund were to operate under private auspices. The Government would be the logical reinsurer, and it would be appropriate for the fund to pay a premium for this service. The reinsurance premium might be absorbed out of the regular premium paid by the participating firms or it could be the basis of a separate levy. The program should be self-supporting in the long run even if the fund operates under governmental auspices, but the borrowing power of the Government should be used to meet a short-run excess of claims over accumulated resources.