

benefits. Any benefits already purchased from an insurer would be subtracted from both sides of the equation.²⁶ The true measure of the obligation would be what it would cost the guarantor to purchase the guaranteed benefits from an insurer or to pay the benefits directly to the eligible recipients.

Stating the guarantor's obligation in terms of benefit fulfillment would suggest that the system should underwrite the entire asset deficiency, whatever the cause. It would surely be appropriate to absorb any deficit arising out of actuarial losses since the guarantor would be dictating the assumptions. The underwriting of capital losses would be a little more debatable if there were no restrictions on investment policy. On balance, however, and in the interest of simplicity, it would seem desirable for the system to cover capital losses also. A deficiency arising out of a retrospective benefit increase or other type of plan liberalization would also be covered so long as the benefits involved come under the guaranty.

In accordance with an earlier recommendation, the guaranty fund would have no recourse against the assets of a liquidating firm, except for delinquent funding payments.

PLANS COVERED

Participation in the guaranty scheme should be compulsory for all eligible plans. Compulsion would be necessary to get adequate participation and to protect the guaranty fund against adverse selection. Eligibility should be limited to plans that "qualify" under IRS regulations, which unfortunately would rule out pay-as-you-go plans whose participants would have the most to gain from a benefit guaranty. There would be little danger to the system in admitting any plan that would voluntarily subject itself to the funding requirements and other features of the system.

Multiemployer plans should be required to participate with whatever modifications might be necessary to fit their particular circumstances. The basic modifications that might be appropriate have been indicated above. Many of these plans could be expected to object to the proposed minimum standards of funding, as well as minimum vesting provisions, but it is highly desirable that these plans meet the same funding and vesting standards as single employer plans.

Plans should be eligible for coverage only after they have been in operation for a minimum of 5 years and presumably should not be forced into membership until they have benefits subject to the guaranty, which could involve a period as long as 10 years. This would greatly reduce the cost of the system and discourage the establishment of plans for the sole purpose of enjoying the benefit guaranty. Almost half of the terminations studied by BLS occurred among plans that had been in operation for 5 years or less. Only a fourth of the plans had been in existence for more than 10 years.

Conventional insurance theory would suggest that all eligible plans should be expected to make application for coverage and demonstrate

²⁶ It would be reasonable to require the insurer to amend its contract to provide that future dividends or experience refunds in respect of guaranteed benefits would be payable to the guaranty fund.