

determining the premium base, the actuarial liability of the accrued benefits would be computed on the basis of annuity rates (reflecting mortality, interest, and expense assumptions) provided by the guarantee fund. These rates should bear a reasonable relationship to the nonparticipating rates for deferred and immediate annuities being quoted on a plan closeout basis by the principal group annuity companies. The assets would be valued at market, the certification being made by a public or independent accountant. Account would be taken of only those assets allocable to guaranteed benefits.

The premium rate should be based upon the best statistical evidence as to the probable rate of termination among the plans covered by the guaranty and the magnitude of the losses that would be sustained by the guaranty mechanism. Technically, there should be rate differentials based upon the age and financial strength of the sponsoring firm but for all practical purposes it would seem appropriate to charge a uniform rate. It might be necessary to have a different rate (or rates) for multiemployer plans if the modifications suggested earlier are made applicable to them. As a general proposition the rate, or rates, should be set at the lowest justifiable level, with the understanding that assessments would be levied to make up any deficits. There should be a limit on the amount of assessments that could be levied in any one year, such as five times the annual premium. The premium rate should be subject to upward or downward adjustment as experience with the program develops.

The guaranty fund should have borrowing authority sufficient to absorb any deficits that might arise in the short run. Deficits of considerable magnitude could develop in the course of a severe depression. If the claims against the funds should reach catastrophic proportions—out of reach of even the assessment authority of the administering agency—the Government should assume an appropriate share of the total burden in recognition of the fundamental nature of the risk.

SUMMARY

Within the last few years, strong interest has developed within certain quarters in some type of cooperative arrangement that would assure the fulfillment of legitimate benefit expectations under private pension plans, irrespective of the financial status of the plans or their sponsors. The concept has found its way into various legislative proposals, some of which are currently pending before Congress.

The Setting

The need for a guaranty arrangement must be evaluated against the background of the limitations on the employer's undertaking in respect of a pension plan. The employer may undertake, unilaterally or pursuant to the terms of a collective-bargaining agreement, to set aside funds on a specified basis, such as an amount per man-hour or man-day of work, without formal reference to the scale of benefits that can be provided by such contributions. The employer's obligation to the plan is completely fulfilled when he pays over the appropriate sums to a funding agency, even though the assets of the plan eventually prove insufficient to provide the level of benefits projected on the basis of the anticipated contributions. On the other hand, the