

employer may undertake, voluntarily or in response to union demands, to contribute whatever sums are necessary to provide a fixed scale of benefits set forth in the plan. The benefit formula of such a plan usually recognizes, and gives credit for, some or all of an employee's service performed for the employer in question prior to the inception of the plan, and subsequent benefit liberalizations are frequently given retrospective effect, both practices giving rise to an unfunded accrued liability that would be the primary source of loss to any guaranty arrangement. Except for collectively bargained plans, the employer reserves the right to alter, modify, or terminate the plan at any time and to suspend, reduce, or discontinue contributions whether or not previous contributions have been sufficient to provide all benefits credited to date. It is also customary for the plan to state that the employer's obligation, in the event of plan termination, shall be limited to contributions already made to the plan. In other words, the participants and pensioners must look to the accumulated assets of the plan for the satisfaction of their claims.

In order to meet the benefit commitments, explicit or implicit, generated under a pension plan, the employer generally sets aside funds with a bank or insurance company in amounts and at times roughly commensurate with the rate at which the pension costs accrue, a practice known as *funding*. Under a modification of this practice called *terminal funding* only the benefits of retired employees are funded. In a relatively few cases, the employer pays the benefits directly to retired employees, a method of financing known as current disbursement or pay-as-you-go. Under existing law, an employer is under no legal obligation to fund his accruing pension costs, but if the plan is to enjoy the tax treatment accorded a "qualified" status under IRS regulations, he must as a minimum fund the normal cost of the plan plus interest on the initial supplemental liability. Moreover, under a rule recently adopted by the public accounting profession, the employer must charge to expense his annual pension cost accrual and to the extent that he does not hereafter fund the expense charges, he must reflect in his balance sheet the cumulative excess of charges over funding contributions.

The pattern of accounting charges and funding payments is based upon estimates of future costs prepared by actuaries who make assumptions as to mortality, investment earnings, disability, nonvested withdrawals, salary scales, and retirement ages. It is assumed that normal costs, as determined by so-called actuarial cost methods, will be funded currently and that supplemental costs, if any, will be funded—if at all—over an extended period of time, usually ranging from 12 to 40 years. As of any given time, the assets of a pension plan may be less than the actuarial value of the accrued benefits because of inaccurate estimates of cost, failure of the employer to undertake a funding program that would ultimately meet all costs, lack of time for the completion of a realistic funding objective, or loss of asset values through realized or unrealized capital losses. A pension guaranty fund would be designed to deal with an insufficiency of assets, as respects covered benefits, at time of plan termination or under other specified circumstances.