Applicability of Insurance Concepts

Such an arrangement would be based upon insurance principles, and its feasibility should be tested against the criteria of an insurable hazard. There are (1) large number of homogeneous risks; (2) objective determination of the occurrence and amount of loss; (3) randomness of loss; (4) low probability of loss; (5) significance of loss; and (6) absence of catastrophe hazard. The first criterion would be met if all eligible plans were compelled to participate. The second would be satisfied only if the contingency insured against were clearly—and perhaps narrowly—defined and the benefits to be insured were precisely articulated. Losses would not occur in random fashion unless many safeguards were built into the system. The fourth and fifth criteria would be fulfilled to a reasonable degree, as would the sixth. Losses of catastrophic dimensions could occur during depressed economic conditions but the problem would be minimized by the fact that most of the claims would represent deferred obligations and would not have to be fully offset by assets in the guaranty fund at any point in time. In any event, a temporary shortage of assets could be met by a governmental subvention or loan.

Additional insights into the feasibility of a pension guaranty fund can be gained by examining the essential elements of existing insurance arrangements that fail in one or more important respects to satisfy the conventional concepts of a sound insurance program. Lessons can be learned from the Federal Deposit Insurance Corporation; the various Federal mortgage insurance funds; State guaranty funds to insure payment of automobile, workmen's compensation, and life insurance claims; and State unsatisfied judgment funds to protect against financially irresponsible motorists. In the private sector, credit insurance and performance bonds provide protection against the unwillingness or financial inability of business organizations to meet their obligations, a risk greatly influenced by the economic climate. Then there are a number of insurance programs that involve a partnership of some type between the Federal Government and private insurance agencies. In some of these programs, the private agencies are the sole risk bearers, the Government playing a strictly administrative role. In others, the private agencies furnish only fiscal and claims services, the Government assuming the entire risk. In still other cases, the Federal Government and private insurance agencies have entered into a joint *underwriting* venture under which the Government assumes that portion of the total risk considered to be uninsurable by private agencies. Finally, the Swedish pension guaranty fund, which has been in operation since 1960, provides actual experience with a pension guaranty undertaking.

Issues

Many issues would have to be resolved if a pension guaranty fund were to be established in the United States. The first would be whether the fund, hereinafter referred to as the PGF or the guarantor, would be established and operated under the auspices of a Federal agency, a private agency, or a combination Government-private instrumentality. Any of these approaches would seem to be feasible, the choice depending in part on political philosophies and in part on the financial mechanism envisaged.