

*A Minimum Program*

A pension guaranty arrangement would be technically feasible if certain conditions were satisfied and adequate safeguards were built into the system. Some of the conditions and safeguards would involve regulatory controls that employers, unions, and other elements of the pension establishment have in general opposed as being potentially detrimental to the continued sound growth of the private pension movement. They would also limit the scope of the arrangement to such narrow bounds that the social objectives underlying the proposal might be frustrated in large part.

Resolution of the fundamental question of whether a properly structured and delimited guaranty scheme should be established is beyond the purview of this paper. If such a program should be deemed to be in the public interest, it is suggested that it be structured initially along the lines set forth hereafter, with the thought that extensions and liberalizations could be introduced as experience with the system indicates the wisdom of such action.

The program should be administered by a Federal agency with the necessary enforcement powers and the authority to serve as residual risk-bearer if circumstances demand it.

The guaranty should extend only to benefit claims arising out of complete plan terminations, being further limited to those situations in which the sponsoring firm goes out of business. The lack of protection for benefit rights in terminated plans of employers who continue in business should be rectified by requiring the employer to continue funding contributions in respect of the benefits that would become the obligation of the guaranty fund in the event that the employer should go out of business.

The fund should undertake to assure payment of all guaranteed benefits, irrespective of the source of the asset deficiency. However, this obligation should be protected by a legal requirement that all covered plans be funded at a rate sufficient to meet the currently accruing cost of all benefits (whether or not guaranteed) and to have all guaranteed benefits fully funded within 20 years after the effective date of the coverage. Firms that terminate their plans before completing this funding objective would be expected to continue their funding payments until their funding commitment is fulfilled.

Participation in the program would be limited to "qualified" plans, which would be compelled to come under the program as a condition for qualification. Plans should be eligible for coverage only after they have been in operation for a minimum of 5 years, but there should be no other underwriting requirements. Specifically, there should be no minimum size requirement. Multiemployer plans should be expected to participate, subject to appropriate modifications in the definition of the insured event and possibly the premium rate.

The guaranty should be limited to benefits that have vested under the terms of the plan but the law should require both single-employer and multiemployer plans to provide a minimum degree of vesting. Vested benefits created through a retrospective liberalization of the plan should not be eligible for the guaranty until 5 years after the guaranty. There should be a limit on the amount of monthly income that would be guaranteed in respect of any one individual, the amount being defined in terms of payment at an age specified in the law.