

Upon termination of a covered plan, the guarantor should take title to the assets in possession of the funding agency assumed to be available for the satisfaction of the guaranteed benefits. It should then discharge its obligation by the purchase of nonparticipating insurance or annuity contracts from a pool of life insurers for the full amount of guaranteed benefits. This would fix immediately and irrevocably the amount of funds needed to underwrite the guaranty and, hence, the amount of assets that would have to be transferred from the funding agency. In order to minimize liquidation losses, the funding agency should be permitted to spread the transfer of assets over a period of time.

The guaranty system should be supported by contributions from employers whose pension plans fall within the scope of the program, with the objective of making the program self-supporting as to both benefit obligations and administrative expenses. The primary source of support should be annual premiums levied on the basis of the unfunded accrued liability for guaranteed benefits. For the purpose of 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 guaranty fund. There should be provision for assessments, within stipulated limits, to meet costs not covered by the regular premiums. The guaranty fund should have borrowing authority sufficient to absorb shortrun deficits and should be empowered to assume an appropriate share of the total burden on a continuing basis if claims should reach a level beyond that which could be supported by reasonable contributions from the participating firms.