

TABLE 1.—PORTFOLIO COMPOSITION OF NONINSURED PENSION FUNDS, 1966 (PERCENTAGE OF BOOK VALUE)

	Dec. 31, 1966		Fiscal year 1966, State and local government
	Corporate	Nonprofit and multiemployer	
Total assets (billions of dollars).....	\$58.7	\$5.8	\$35.2
	Percent	Percent	Percent
Cash and deposits.....	1.1	4.0	0.9
U.S. Government securities.....	3.7	7.7	19.9
State and local governments.....	0	0	7.1
Corporate bonds.....	38.2	37.1	50.3
Corporate stock.....	46.7	30.1	5.1
Mortgages.....	4.9	16.3	11.6
Other assets.....	5.4	4.8	5.1
Total.....	100.0	100.0	100.0

Source: U.S. Securities and Exchange Commission, "Private Noninsured Pension Funds, 1966," release No. 2219. Bureau of the Census, U.S. Department of Commerce.

port shows that average annual rates of return for 20 corporate noninsured funds ranged from 5.4 to 9.6 percent with the median return 6.7 percent for the 5-year period, 1959–63. If one looks at the annual returns of common stock investments in these same portfolios the rates range from 8.1 to 15.3 percent with a median of 9.4 percent. The same report indicates median annual common stock returns of 22.3 percent for the 5-year period, 1954–58, and a median stock return of 16.1 percent for the period 1954–63.

II. REINSURANCE

Among the most interesting suggestions now before the Congress of the United States are various proposals for reinsuring pension plans. Although a complete analysis of reinsurance is beyond the scope of this paper, we would like to examine the effect on pension fund investment of various forms reinsurance might logically be expected to take.

It is vital to recognize that on a total basis reinsurance premiums cannot pay pension benefits. Benefits can only be paid out of the assets of the plans. Therefore, in the long run, funding provides the best method for covering the costs of pensions from the employers point of view as well as providing greater security for the employee. The now well-known *Studebaker* case is usually cited as an example of the need for reinsurance. Had the UAW and the employer insisted on more adequate funding in relation to promised benefits, the Studebaker difficulties would have been less serious. Undoubtedly, one of the great dangers of the reinsurance concept is that it may be relied on to provide security for an ill-conceived or deliberately underfunded pension plan. For example, some companies may consider the funding of a given level of benefits as more costly than the premiums for reinsurance of the same benefits, and, therefore, minimize funding. To the extent that reinsurance is used in place of sound funding, the security of private pension promises will be weakened.

The practical problems involved in the development of a reinsurance system are many. Two of the most difficult, the problems of which risks are to be insured and the question of an equitable premium rate structure are directly related to investment management.