

The term vested liabilities is more readily definable by actuaries than unfunded liabilities. However, even when attempting to define unfunded vested liabilities, a determination must be made of the assets in the fund. Here, two choices are readily apparent: book value of assets or market value.

Given this choice, market values are clearly preferable. Book value may have no relationship to the economic value of the fund. At the end of 1966 the market value of the assets of private noninsured pension funds was \$6.4 billion (or 10 percent) greater than book value. To use book value would generally punish those trusts that had done the most effective investment job. Moreover, only admitting book values would lead to putting a premium on fixed-income rather than equity investment. This would tend to reduce return on investment over the long run and increase pension costs.

The choice of market values is not without problems. In the first place, market values tend to fluctuate so that the amount of insurance to cover unfunded vested liabilities would fluctuate, and generally be greatest when losses are high. Secondly, valuing assets at market values could lead to unnecessary investment speculation by unprincipled fund managers. For example, assume a pension plan in which vested liabilities are far greater than admitted assets. The plan could be fully insured by the use of reinsurance schemes. Meanwhile risky investments could be made in the expectation of rapidly increasing asset values without the normal contributions needed to properly fund the plan. If the investments worked out, this would be fine, but if not, the reinsurer is left holding the bag.

Although the concept of reinsurance might be politically attractive, it introduces unnecessary economic problems in the private pension field. First, the problem of preventing potential abuses has been pointed out. Secondly, there is the problem of defining liabilities and assets. Third is the potential adverse effect such a system would have on the investment practices of pension trust. Finally, there is the question of setting equitable premiums. More than likely, the best financed plans will need little or no insurance. New and poorly financed plans would need the most reinsurance. These are exactly the plans that need to be insured, so the system will run great risks of adverse selection and could easily become bankrupt unless soundly financed plans are inequitably "taxed" to pay for defaults. In the absence of irrefutable evidence that reinsurance is necessary and practical, national policy demands that we strengthen funding requirements rather than adopt a reinsurance system.

III. THE PRESENT FINANCIAL MANAGEMENT SYSTEM

In this discussion of financial management we assume that in the foreseeable future there will be no major changes in the financing of private pension plans. That is, like today, each will invest its own funds with only general rules imposed as to the disclosure of assets. In this sense then we strongly support the conclusions of the President's Committee on Corporate Pension Funds that, "in view of the wide legitimate differences regarding the most advantageous balance of retirement funds investments, the committee does not believe it