

would be desirable on the basis of evidence to date to require conformity to a prescribed rule with respect to the proportion of stocks to other investments.”¹⁰

The question then which might be legitimately asked is whether or not the present system of private investment provides sufficient safeguards for employee-beneficiaries, and whether the invested assets are producing returns which reflect efficient management.

The great majority of plans are financed by employer and employee contributions which are invested by one or more third-party fiduciaries. This third party is variously an insurance company, bank trustee, or investment counselor. Thus a dual system has been created. This arrangement has as its major advantage the fact that the fiduciary's first responsibility is the preserving the corpus of the fund. That is, the fiduciary represents the beneficiary in assuring the financial integrity of the fund. On the other hand, the fund sponsor has the responsibility for selecting the trustee. This gives the sponsor, whether it be a corporation or joint union-management board, the right to measure investment results and the attendant right to change the trustee if the investment results are unsatisfactory. The dual system thus provides the necessary balance between the sponsor's desire to lower costs of the plan by increasing return on assets and the need to preserve the assets in the fund. The record shows that where defaults on pension promises have occurred it is due to either inadequate funding or malfeasance, not poor investment management. Such a system of dual control puts a premium on high rates of return which can be used either to reduce contributions or to increase benefits or both, without incurring excessive risks. The pressure on fiduciaries to earn adequate rates of return will assure the efficient investment of the economy's pension fund saving.

Another major advantage of the private system as it is presently structured is that each fund is an entity of its own. This provides flexibility to tailor each fund's investments to its own needs that no other system could provide.¹¹ While it is a well-known fact that most pension funds need little liquidity because contributors are greater than benefit payments, this is not so for mature or declining funds. The amount of liquidity risk which can be taken depends on the spread between contributions and benefit payments. This clearly differs among funds.

The question of what portion of the fund can be invested in variable-income assets is still a matter on which experts may disagree. However, one approach which may be used is to invest that portion of the assets needed to cover earned benefits of retired employees with secondary reserves invested in fixed income assets. The remainder could then be invested in riskier assets. Clearly these characteristics would differ from fund to fund. Since liabilities can change as plans mature or alter benefit provisions, a financing mechanism is needed which can reflect these changes. Such changes can be made much more quickly

¹⁰ "Public Policy and Private Pension Programs," President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, U.S. Government Printing Office, January 1965, p. XV.

¹¹ This is not precisely true for all insured plans. However, recent developments leading to segregation of pension fund from other insurance company assets make this flexibility more nearly attainable.