

growth that they are urging government measures to stimulate such savings. The really pertinent questions about private pension savings are: In view of the fact that a very high rate of private pension saving will be sorely needed in coming years to aid in financing sound economic growth in the United States, is the Government doing enough to encourage pension saving? What further steps can be taken to strengthen the flow of pension savings? These are the significant questions to be asked as we look to the future.

DAN M. MCGILL: GUARANTY FUND FOR PRIVATE PENSION OBLIGATIONS

Within the last few years, strong interest has developed within certain quarters in some type of cooperative arrangement that would assure the fulfillment of legitimate benefit expectations under private pension plans, irrespective of the financial status of the plans or their sponsors. The concept has found its way into various legislative proposals, some of which are currently pending before Congress.

The Setting

The need for a guarantee arrangement must be evaluated against the background of the limitations on the employer's undertaking in respect of a pension plan. The employer may undertake, unilaterally or pursuant to the terms of a collective-bargaining agreement, to set aside funds on a specified basis, such as an amount per man-hour or man-day of work, without formal reference to the scale of benefits that can be provided by such contributions. The employer's obligation to the plan is completely fulfilled when he pays over the appropriate sums to a funding agency, even though the assets of the plan eventually prove insufficient to provide the level of benefits projected on the basis of the anticipated contributions. On the other hand, the employer may undertake, voluntarily or in response to union demands, to contribute whatever sums are necessary to provide a fixed scale of benefits set forth in the plan. The benefit formula of such a plan usually recognizes, and gives credit for, some or all of an employee's service performed for the employer in question prior to the inception of the plan, and subsequent benefit liberalizations are frequently given retrospective effect, both practices giving rise to an unfunded accrued liability that would be the primary source of loss to any guarantee arrangement. Except for collectively bargained plans, the employer reserves the right to alter, modify, or terminate the plan at any time and to suspend, reduce, or discontinue contributions whether or not previous contributions have been sufficient to provide all benefits credited to date. It is also customary for the plan to state that the employer's obligation, in the event of plan termination, shall be limited to contributions already made to the plan. In other words, the participants and pensioners must look to the accumulated assets of the plan for the satisfaction of their claims.

In order to meet the benefit commitments, explicit or implicit, generated under a pension plan, the employer generally sets aside funds with a bank or insurance company in amounts and at times roughly