

commensurate with the rate at which the pension costs accrue, a practice known as *funding*. Under a modification of this practice called *terminal funding* only the benefits of retired employees are funded. In a relatively few cases, the employer pays the benefits directly to retired employees, a method of financing known as current disbursement or pay-as-you-go. Under existing law, an employer is under no legal obligation to fund his accruing pension costs, but if the plan is to enjoy the tax treatment accorded a "qualified" status under IRS regulations, he must as a minimum fund the normal cost of the plan plus interest on the initial supplemental liability. Moreover, under a rule recently adopted by the public accounting profession, the employer must charge to expense his annual pension cost accrual and to the extent that he does not thereafter fund the expense charges, he must reflect in his balance sheet the cumulative excess of charges over funding contributions.

The pattern of accounting charges and funding payments is based upon estimates of future costs prepared by actuaries who make assumptions as to mortality, investment earnings, disability, nonvested withdrawals, salary scales, and retirement ages. It is assumed that normal costs, as determined by so-called actuarial cost methods, will be funded currently and that supplemental costs, if any, will be funded—if at all—over an extended period of time, usually ranging from 12 to 40 years. As of any given time, the assets of a pension plan may be less than the actuarial value of the accrued benefits because of inaccurate estimates of cost, failure of the employer to undertake a funding program that would ultimately meet all costs, lack of time for the completion of a realistic funding objective, or loss of asset values through realized or unrealized capital losses. A pension guarantee fund would be designed to deal with an insufficiency of assets, as respects covered benefits, at time of plan termination or under other specified circumstances.

Applicability of Insurance Concepts

Such an arrangement would be based upon insurance principles, and its feasibility should be tested against the criteria of an insurable hazard. There are (1) large number of homogeneous risks; (2) objective determination of the occurrence and amount of loss; (3) randomness of loss; (4) low probability of loss; (5) significance of loss; and (6) absence of catastrophe hazard. The first criterion would be met if all eligible plans were compelled to participate. The second would be satisfied only if the contingency insured against were clearly—and perhaps narrowly—defined and the benefits to be insured were precisely articulated. Losses would not occur in random fashion unless many safeguards were built into the system. The fourth and fifth criteria would be fulfilled to a reasonable degree, as would the sixth. Losses of catastrophic dimensions could occur during depressed economic conditions but the problem would be minimized by the fact that most of the claims would represent deferred obligations and would not have to be fully offset by assets in the guarantee fund at any point in time. In any event, a temporary shortage of assets could be met by a governmental subvention or loan.

Additional insights into the feasibility of a pension guarantee fund can be gained by examining the essential elements of existing insurance