

The funding agency could retain the assets allocable to the covered benefits, meeting benefit claims as they come due until the assets are exhausted, with the guarantor then assuming responsibility for payment of the remaining guaranteed benefits. Second, the funding agency could pay that portion of each employee's total guaranteed benefit that could be provided by the assets in its possession, with the guarantor concurrently paying the remaining portion. Third, the guarantor might transfer to the funding agency the additional sums actuarially estimated to be needed to pay guaranteed benefits, the funding agencies providing only investment and disbursement services. Finally, the funding agency might transfer to the guarantor a sum equal to the assets deemed to stand behind the guaranteed benefits, with the guarantor assuming responsibility for the payment in full of all covered benefits. This it could do by paying the benefits directly to the claimants as they come due or by purchasing nonparticipating annuities in the proper amount and form from individual life insurers or a pool of insurers formed for that purpose. Any of the foregoing approaches could be used, with modifications, to discharge a guaranty expressed in terms of a funding objective.

The basic issue in the financing realm is whether the guarantee fund would be supported by advance premiums, assessments, or a combination of the two. The use of the advance premium approach would necessitate estimates of future claims and the accumulation of substantial reserves. The assessment method would avoid these complications but would have offsetting disadvantages. Under both approaches, it would be necessary to establish a base against which to levy premiums or assessments and decide whether to create a number of risk classifications. The need for reinsurance facilities would also have to be considered under either approach.

A Minimum Program

A pension guaranty arrangement would be technically feasible if certain conditions were satisfied and adequate safeguards were built into the system. Some of the conditions and safeguards would involve regulatory controls that employers, unions, and other elements of the pension establishment have in general opposed as being potentially detrimental to the continued sound growth of the private pension movement. They would also limit the scope of the arrangement to such narrow bounds that the social objectives underlying the proposal might be frustrated in large part.

Resolution of the fundamental question of whether a properly structured and delimited guaranty scheme would be established is beyond the purview of this paper. If such a program should be deemed to be in the public interest, it is suggested that it be structured initially along the lines set forth hereafter, with the thought that extensions and liberalizations could be introduced as experience with the system indicates the wisdom of such action.

The program should be administered by a federal agency with the necessary enforcement powers and the authority to serve as residual risk-bearer if circumstances demand it.

The guaranty should extend only to benefit claims arising out of complete plan terminations, being further limited to those situations in which the sponsoring firm goes out of business. The lack of pro-