guaranty fund should have borrowing authority sufficient to absorb short-run deficits and should be empowered to assume an appropriate share of the total burden on a continuing basis if claims should reach a level beyond that which could be supported by reasonable contributions from the participating firms.

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AN ANALYSIS OF PROPOSALS FOR IMPROVING THE FUNDING AND FINANCIAL MANAGEMENT OF PRIVATE PENSION FUNDS

The recent report "Old Age Income Assurance: An Outline of Issues and Alternatives," prepared for the Joint Economic Committee, puts forth several suggestions which, if adopted, would greatly influence the funding and investment management of private pension funds. The particular suggestions we have reference to are those regarding removal of public incentives for funding of private pension plans, revision of funding requirements, government sponsored reinsurance of plans, and regulation of fund managers and their investment decisions. Our own preference is for a vigorous private component in a mixed public-private retirement system; nevertheless, there are still important considerations as to how the present system might be improved through public policy.

A major question raised is whether or not present funding arrangements for private plans should be changed. Some observers propose an increase in funding requirements, while others question the necessity for the current level of funding in the majority of plans. Which of these views should national policy encourage? It is true that there is little need to fund a tax supported plan such as OASDI. The same thing might be said for private plans taken as a whole. Theoretically, it is surely correct that there is little need for funding beyond a small liquidity reserve for plans sponsored by growing industries and companies. Under such circumstances, pensions can be paid out of future earnings. On the other hand, declining industries and firms should have fully funded plans. Funding protects retirement income of workers several decades way and it would unwise to base a funding policy on the presently anticipated growth of individual firms or industries. Therefore, all plans should be as fully funded as financial resources permit unless there is a universal reinsurance program for all liabilities. Such a reinsurance program, we believe, is undesirable.

It has been argued that full funding leads to excessive saving in the economy and overly conservative investment policies. To suggest that the economy is subject to oversavings is to take a very narrow view. Worldwide needs for capital are undoubtedly far in excess of savings. The problem is not one of excessive savings but rather one of developing effective channels of investment.

The question remains as to whether or not the funding of pension plans will lead to more efficient allocation of capital than would occur with a pension system financed primarily on a pay-as-you-go basis with reinsurance. The funding of pension plans places retirement